EUROPEAN GAS LIMITED
ABN 75 075 760 655
AND CONTROLLED ENTITIES

FINANCIAL REPORT FOR PERIOD ENDED
31 DECEMBER 2009

EUROPEAN GAS LIMITED
ABN 75 075 760 655

Suite 4, 4 Ventnor Avenue
West Perth WA 6005 Australia

T +61 8 9226 0320
F +61 8 9226 0309

www.europeangas.fr

INDEX

Directors' Report
FOR THE HALF YEAR ENDED 31 DECEMBER 2009

The directors present their report together with the consolidated financial report for the half-year ended 31 December 2009 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 Julien Moulin (Acting Managing Director - appointed 1 September 2009)

Mr Rod Bresnehan (Non-Executive Director - appointed 1 September 2009)

Mr (John) Sebastian Hempel (Non-Executive Director - appointed 1 September 2009)

Mr Gauthier De Potter (Non-Executive Director – resigned 9 February 2010)

Mr Anthony J. McClure (Managing Director – appointment terminated 25 October 2009)

Mr Alan J. Flavelle (Executive Director - resigned 1 September 2009)

Mr Terence V. Willsteed (Non-Executive Director - resigned 1 September 2009)

REVIEW AND RESULTS OF OPERATIONS

Financial

The consolidated entity recorded an operating loss after income tax for the half year ended 31 December 2009 of €3,941,459 (2008: Loss €3,483,245).

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 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.

Europe

Figure 1 European Gas Project Areas

GAZONOR

European Gas holds a 100% interest in the Gazonor project in Northern France. The Gazonor assets include the gas exploitation rights over the Poissonnière and Désirée permits, comprising a total area of 767 square kilometres (km^2) including the Poissonnière Extension (granted in January 2009). The Valenciennois research permit was granted on the 23rd October 2009.

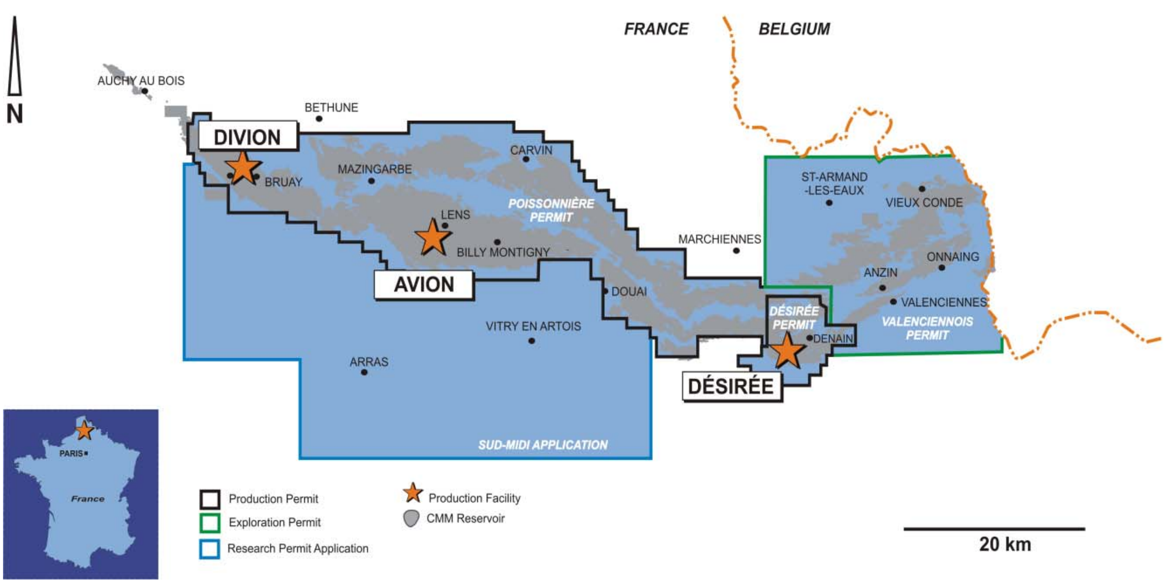

Figure 2 Gazonor Project

Reserves

Current Gazonor reserves are summarised in the following table.

Certified Reserves as at July 2008

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

** contained methane*

The estimates were carried out by independent Deutsche Montan Technologie GmbH of Essen, Germany ("DMT") on behalf of European Gas. Both deterministic and probabilistic methodology has been used to derive reserve estimates. The 2P figure is based on a lognormal relationship being in force and using the deterministic 1P and 3P estimates for control.

Contingent Resources

Estimates of CBM contingent resources within the Company's Exploration and Production interests at Gazonor were updated during the half year to include the Poissonniére Extension and the Valenciennois Permit (see Figure 2).

The resource assessments exclude the potential resources within areas influenced by mining, and the Sud Midi Permit application area.

The initial estimates were conducted by the European Gas technical group under Society of Petroleum Engineers ("SPE") and Petroleum Resource Management System ("PRMS") guidelines. The study allows for the planning and commencement of moving the contingent resources to reserve categories and the assessment of development and production options.

The contingent resources as at March 2009 are shown in the following table.

Contingent Resources as at March 2009

		Billions of Cubic Metres * Bm^3	Billions of Cubic Feet * Bcf	Petajoules PJ
Gazonor	**C1 + C2 + C3**	**231**	**8,150**	**8,642**

** contained methane*

Development

The Company continued its programs for the expansion of production at Gazonor. The current works and pre-feasibility works concentrate on two principal areas of development: expansion of gas production and sales; and the potential installation of electricity generation facilities.

Gas Sales

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

	Sales		Average Price Received	
	MWh	GJ	€/MWh	€/GJ
December Quarter	89,505	322,219	16.50	4.58
September Quarter	27,768	99,965	14.24	3.95
	117,273	**422,184**	**15.92**	**4.42**

Gas sales increased in the second quarter of the half year due to the typical seasonal variations of the winter months with higher local gas consumption.

For the months of January and February 2010, sales prices will average around €18.00 per MWh or €5.00 per GJ. Starting March 2010 and based on the renewed contract with Total, the Company estimates that pricing will average around €15.40 per MWh or €4.27 per GJ.

LORRAINE, EASTERN FRANCE

European Gas holds a 100% interest in two permits, covering a major part of the Lorraine Basin. In addition, the Company has recently submitted an application for an additional 360 km^2 (Lorraine Nord). (see Figure 3.)

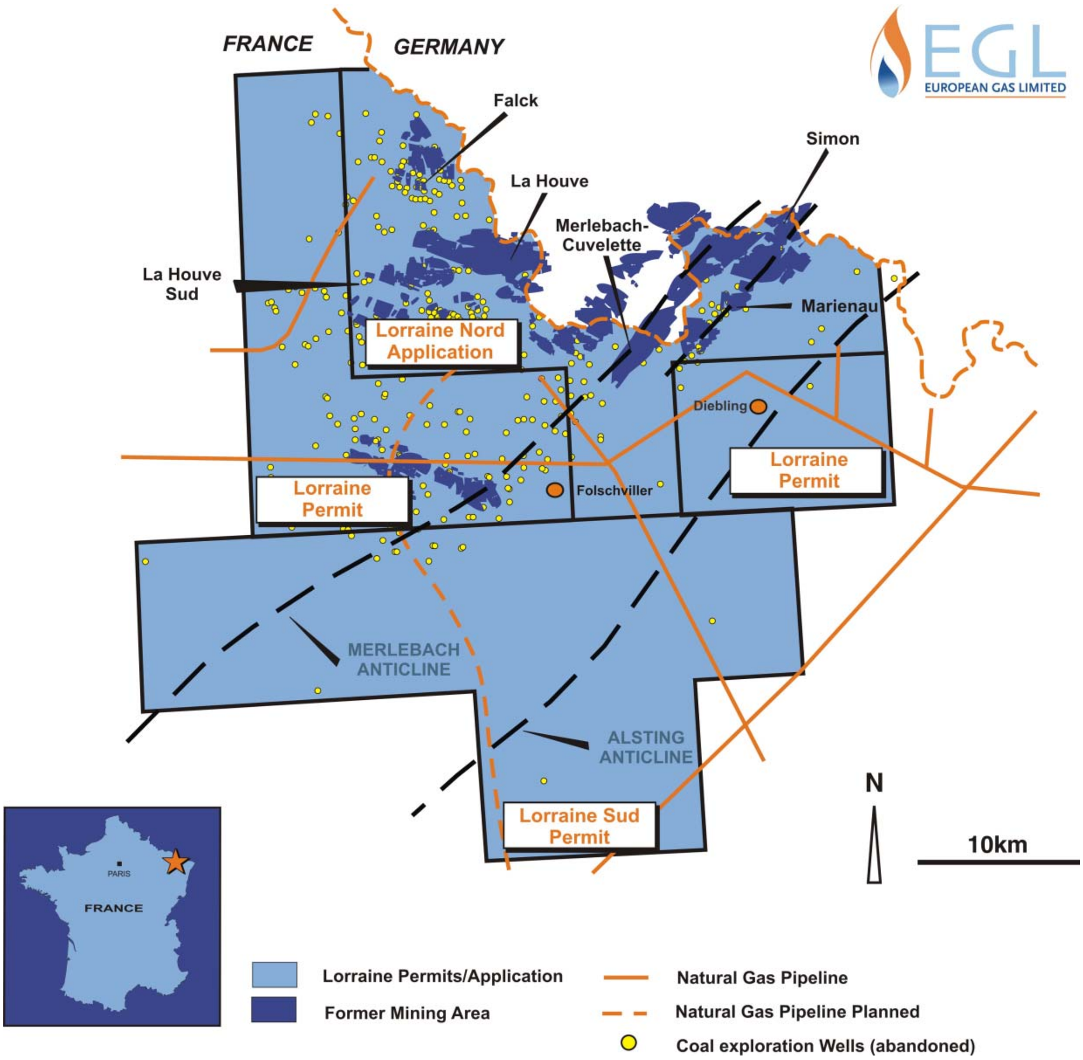

Figure 3 Lorraine Project Development Areas

Exploration program

During the semester European Gas carried out a second production test in the upper lateral at the Folschviller 2 well, and re-configured the well to test the lower lateral. During the production test pressure at which gas desorption commenced was observed and additional reservoir response data was acquired. A service rig was mobilised to the site in early December to remove the pump and plug which isolated the lower lateral and to condition the wellbore before re-running the pump below both laterals.

The workover was completed on time and within budget. Pump testing is continuing during the first quarter 2010.

Results from the Folschviller 2 appraisal well testing in Lorraine have provided valuable pressure and rate data which are presently being analysed. The Directors are encouraged by these preliminary results.

Contingent Resources

Initial estimates of CBM contingent resources within its Lorraine and Lorraine Sud permits were completed in 2008 and remained unchanged during the period under review.

The contingent resources within the Lorraine and Lorraine Sud permits (see Figure 3).

Contingent Resources as at October 2008

		Billions of Cubic Metres * Bm^3	Billions of Cubic Feet * Bcf	Petajoules PJ
Lorraine	C1 + C2 + C3	54	1899	2010
Lorraine Sud	C1 + C2 + C3	50	1782	1890
TOTAL		**104**	**3681**	**3900**

** contained methane*

The estimates exclude the Lorraine Nord application area covering 360 km^2.

The estimates were conducted by the European Gas technical group under SPE and PRMS guidelines. The study allows for the planning and commencement of moving the contingent resources to reserve categories and the assessment of development and production options.

LONS-LE-SAUNIER, CENTRAL FRANCE

European Gas holds a 100% interest in the Lons-le-Saunier permit.

Exploration Program

The 3.795 km^2 Jura (Lons le Saunier) permit contains an undeveloped coalfield and two historically produced conventional natural gas fields and several other gas shows. Re-evaluation of the seismic and other data continued ding the semester with delivery of reprocessed seismic and integration of this into geologic models. This work indicates potential for additional conventional gas accumulations as well as potential for gas resources within the previously exploited areas

GARDANNE, SOUTHERN FRANCE

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

The conditions precedent to the Heads of Agreement with Future Corporation Australia Limited were not met by December 31st 2009.

The standard permit renewal process is ongoing with the French Government.

The principal target of this permit is coal bed methane, a Gas in Place (GIP) resource of 2,803 million cubic metres (99.1 Bcf) has been identified. One site has been selected for exploration drilling.

SAINT ETIENNE, CENTRAL FRANCE

European Gas holds a 100% interest in the St Etienne permit.
No work was conducted during the quarter. The Company is considering its position regarding this permit.

BENELUX JOINT VENTURE

European Gas holds a 50% interest in a joint venture company created for the purposes of securing title, exploring, developing, extraction and marketing of hydrocarbons including CBM, CMM and conventional oil and gas within Belgium, the Netherlands and Luxembourg ("Benelux JV").

During the period, the Benelux JV monitored its applications to the Wallonia Government for a hydrocarbon permit "Hainaut" covering 443 km^2 and a production permit for "Anderlue et Peronnes" which covers 40 km^2. The "Hainaut" application covers the immediate southern extension of the Wallonia Coal Basin and historical coal mining region. The Basin is the eastern extension of the Nord Pas de Calais Basin in France in which the Company's Gazonor project is situated. .

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

SOUTHERN TUSCANY, ITALY

Three permit areas covering a total of 1,553 km^2 have been granted and preliminary environmental impact studies have been submitted to the Regione Toscana for approval. Initial work will commence if and when the reports are accepted.

No work was conducted during the quarter.

CANNING BASIN, WA

European Gas holds a Net Well Head Royalty (2% to 3%) over 30,171 km^2 in the Canning Basin, Western Australia.

CORPORATE/OTHER

Appointments

Chief Technology Officer

European Gas was pleased to announce the appointment of Mr. Eric Allen as Chief Technical Officer of the Company. Mr Allen's enhanced role will be as full time employee of European Gas working with both the Lorraine and Gazonor offices and across all of the Company's projects.

Mr Allen has worked with the Company as technical consultant since July 2008 and during that time has been integral in the development of the Company's coal bed methane plans, working in particular on the Lorraine permits.

Mr Allen is a Professional Engineer with over 30 years of engineering and project management experience in the energy industry in the Americas, Europe and Asia. His experience includes design, management and coordination of exploration programs and development of a variety of projects with particular emphasis on coal bed methane ("CBM"). Mr Allen has also held senior engineering roles with leading consultants in exploration and evaluation of CBM projects in Canada and internationally. Mr Allen holds an A.C.S.M from Camborne School of Mines in England and an M.Sc.Eng (Mining) from Queen's University in Canada.

Director of Gazonor

European Gas was pleased to announce the promotion of Mr Nicolas Ricquart to Director of Gazonor. Mr Ricquart has been with the Company since 2008 as General Manager of Gazonor.

Mr Ricquart is an engineer with over 20 years experience mainly in operations and projects in the energy field. Mr Ricquart has held senior management positions with Exxon Chemicals, EMC (Entreprise Minière et Chimique) and ANDRA (French Agency for nuclear waste and management). Mr Ricquart has also conducted Safety, Health and Environment ("SHE) standards implementation for several major corporations.

Executive General Manager

European Gas is continuing its search for an appropriate Executive General Manager or CEO. In the interim, Mr Julien Moulin will continue in the role of Acting Managing Director for a further six months until 30 June 2010 or until an appointment is made.

A management Committee of the Board of Directors has been established to oversee the operations of the Company, consisting of Mr Rod Bresnehan (technical), Mr Sebastian Hempel (corporate governance and financial) and Mr Julien Moulin (day to day operations and financial). Mr Moulin will act as Chairman of the Management Committee.

Directors' Report
FOR THE HALF YEAR ENDED 31 DECEMBER 2009

Head office

The Company's head office in France has been relocated to Freyming-Merlebach in Lorraine, for the time being. However, most employees are located in Nord-Pas-de-Calais (Gazonor). A redundancy and relocation program has taken place, primarily centred on Paris-based employees.

Restructuring of the Transcor debt

After lengthy discussions with Transcor and its representative on the Board, M. Gauthier de Potter, on restructuring options for the outstanding convertible notes, Transcor eventually advised that it does not have any present intention to extend the maturity of the Notes, to provide further finance to the Company, or to convert the Notes into shares.

Transcor has further indicated that it would be prepared to consider the terms of any reasonable third party proposal which could assist European Gas to meet its funding requirements.

Directors and Management have for some time now been actively engaged in a process to refinance or restructure the Convertible Notes (refer Note 2(a) for further details).

Other

The Company has commenced discussions with several substantial groups for the potential joint venture of one or more of its exploration projects with particular emphasis on coal bed methane and other hydrocarbons.

COMPLIANCE STATEMENT

The technical information quoted in this announcement has been compiled by Mr Eric Allen and Mr Rod Bresnehan and geoscientists under their supervision. Mr Allen holds an A.C.S.M from Camborne School of Mines in England and an M.Sc.Eng (Mining) from Queen's University in Canada. Mr Bresnehan is a member of the Society of Petroleum Engineers and is Chairman of the Society of Petroleum Engineers (Australia Mr Allen and Mr Bresnehan have consented to the inclusion in this report of the matters based on the information in the form and context in which it appears.

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 29 and forms part of the directors' report for the half-year ended 31 December 2009.

DATED at PERTH this 16th day of March 2010

Signed in accordance with a resolution of the directors:

....
Julien Moulin
MANAGING DIRECTOR

CONDENSED STATEMENT OF COMPREHENSIVE INCOME
FOR THE HALF YEAR ENDED 31 DECEMBER 2009

	Notes	CONSOLIDATED	
		For Half Year 31 Dec 2009 €	**For Half Year 31 Dec 2008 €**
Revenue		2,080,198	3,799,276
Cost of sales		(1,826,022)	(2,301,676)
Gross Profit		**254,176**	**1,497,600**
Financial income		2,008	48,640
Royalty income		12,314	10,910
Other income		32,739	2,549
Other field expenses		(587,525)	(764,471)
Administrative expenses		(1,252,779)	(1,148,720)
Professional and consultancy fees		(631,932)	(621,272)
Depreciation and amortisation charges		(185,307)	(662,278)
Financial expenses		(1,397,281)	(1,499,351)
Loss on sales of fixed assets		-	(4,460)
Loss on sale of available for sale investments		-	(15,342)
Other expenses		(216,767)	(380,410)
Loss before income tax		**(3,970,354)**	**(3,536,605)**
Income (tax expense)/benefit		28,896	53,360
Net loss for the period		**(3,941,459)**	**(3,483,245)**
Other comprehensive income			
Available for sale financial assets		28,396	-
Other comprehensive profit/(loss), net of tax		**28,396**	-
Total comprehensive profit/(loss) attributable to members of the parent entity		**(3,913,062)**	**(3,483,245)**
Earnings / (loss) per share [cents per share]			
From continuing operations:			
Basic		(1.900)	(1.749)
Diluted		(1.900)	(1.749)
From profit / (loss) for the period			
Basic		(1.900)	(1.749)
Diluted		(1.900)	(1.749)

The accompanying notes form part of this financial report.

CONDENSED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2009

	Note	CONSOLIDATED	
		As at 31 Dec 2009	As at 30 June 2009
		€	€
Current Assets			
Cash and cash equivalents		1,141,537	2,319,608
Trade and other receivables		1,381,309	1,116,864
Prepayments		96,151	59,999
Inventories		241,057	286,912
Total Current Assets		**2,860,054**	**3,783,383**
Non-current Assets			
Available for sale financial assets		265,117	254,567
Property, plant & equipment		3,154,522	3,256,435
Exploration & evaluation costs	3	27,467,978	26,999,345
Intangible assets	5	24,012,679	24,021,414
Total Non-Current Assets		**54,900,296**	**54,531,761**
Total Assets		**57,760,351**	**58,315,144**
Current Liabilities			
Trade payables & accruals		1,938,884	1,361,600
Current tax liability		403,892	7,648
Interest bearing liabilities	6	36,877,642	931,797
Total Current Liabilities		**39,220,419**	**2,301,045**
Non-current liabilities			
Interest bearing liabilities	6	-	35,092,315
Deferred tax liability			
Provisions	7	3,122,902	3,029,049
Total non-current liabilities		**3,122,902**	**38,121,364**
Total Liabilities		**42,389,429**	**40,422,409**
Net Assets		**15,417,030**	**17,892,735**
Equity			
Contributed Equity	8	32,718,782	31,281,424
Reserves	9	1,685,247	1,656,851
Accumulated Losses		(18,986,999)	(15,045,540)
Total Equity		**15,417,030**	**17,892,735**

The accompanying notes form part of this financial report.

CONDENSED STATEMENT OF CASH FLOWS
FOR THE HALF YEAR ENDED 31 DECEMBER 2009

	CONSOLIDATED	
	For Half Year 31 Dec 2009 €	For Half Year 31 Dec 2008 €
Cash flows from operation activities		
Receipts from customers	2,145,128	3,036,770
Payments to suppliers & employees	(3,734,923)	(4,002,132)
Borrowing costs	(9,689)	(23,390)
Interest paid on convertible notes	(516,563)	(543,750)
Interest received	2,008	48,640
Income Taxes (Paid) / Refund	53,038	(310,904)
Net Cash Flows (used in)/Provided by Operating Activities	**(2,061,001)**	**(1,794,766)**
Cash flows from investing activities		
Payments for exploration and development expenditure	(468,633)	(4,063,805)
Payment for plant & equipment	(75,164)	(64,310)
Proceeds from sale of equity investments	-	128,435
Net cash flows used in investing activities	**(543,797)**	**(3,999,680)**
Cash Flows (used in)/Provided by Financing Activities		
Proceeds from issue of shares	1,437,358	-
Net cash flows provided by financing activities	**1,437,358**	**-**
Net Increase/(Decrease) in Cash Held	(1,126,153)	(5,794,446)
Cash at 1 July	2,319,607	8,815,984
Net foreign exchange difference	(10,631)	-
Cash at 31 December	**1,141,537**	**3,021,538**

The accompanying notes form part of this financial report.

CONDENSED STATEMENT OF CHANGES IN EQUITY
FOR THE HALF YEAR ENDED 31 DECEMBER 2009

	Attributable to equity holders of the parent			
CONSOLIDATED	**Contributed equity**	**Accumulated losses**	**Other reserves**	**Total**
Balance at 1 July 2009	31,281,424	(15,045,540)	1,656,851	17,892,735
Loss for the period	-	(3,941,459)	-	(3,941,459)
Movement in fair value of available for sale assets	-	-	28,396	28,396
Issued shares	1,437,358	-	-	1,437,358
Balance at 31 December 2009	**32,718,782**	**(18,986,999)**	**1,685,247**	**15,417,030**
Balance at 1 July 2008	31,281,424	(9,500,286)	1,656,851	23,437,989
Loss for the period	-	(3,483,245)	-	(3,483,245)
Balance at 31 December 2008	**31,281,424**	**(12,983,531)**	**1,656,851**	**19,954,744**

The accompanying notes form part of this financial report.

CONDENSED NOTES TO THE CONSOLIDATED INTERIM FINANCIAL REPORTS

1. Corporate Information

The financial report of European Gas Limited (the "company") for the half-year ended 31 December 2009 was authorised for issue in accordance with a resolution of the directors on 16 March 2010. European Gas Limited is a company incorporated in Australia and limited by shares which are publicly traded on the Australian Securities Exchange.

The principle activities of the group are:

- Production of coal mine methane gas in France; and
- Exploration and evaluation for coal bed methane and coal mine methane gas in Western Europe.

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 2009.

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 2009 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.

Going concern basis of preparation:
The Group incurred a loss after tax for the period of $3,913,062 (2008 $3,483,245) and had a deficit of net current liabilities as at 31 December 2009 of $36,360,365 (June 2009 a surplus $ 1,482,338).

The deficit is almost entirely comprised of the amount shown as owing on the Convertible Notes.

During the period the Group used cash of $2,061,001 (2008 1,794,766) in its operations. The Group remains largely an exploration business and as a result, for the short term at least, will continue to have net cash outflows from operations.

These conditions indicate a material uncertainty that may cast significant doubt about the Group's ability to continue as a going concern.

CONDENSED NOTES TO THE CONSOLIDATED INTERIM FINANCIAL REPORT

The financial report has been prepared on the basis of going concern which contemplates continuity of normal business activities and the realisation of assets and liabilities in the ordinary course of business. The Directors believe that to be appropriate for the following reasons:

- The Directors have during and since the end of the period significantly reduced the overheads which were weighing on the business and have undertaken an analysis of the Group's minimum cash flow requirements for the 12 month period subsequent to the date of this report and accordingly, are confident, subject to the completion of further capital raisings, debt or equity funding transactions at subsidiary level (which might result in less than 100% equity ownership of material subsidiaries), orderly asset sales, and farm-out deals, or alternately, but as a last resort, the use of a short term funding facility already in place, that the Group will have sufficient funds for that period;

- As mentioned above, the Group an undrawn equity line of credit facility with YA Global Master SPV Ltd (**YA Global**). Under the terms of the facility, European Gas Limited may, at its discretion, issue shares to YA Global at any time during its 5 year term, up to a total of A$10,000,000.

In addition the Directors and Management have for some time now been actively engaged in a process to refinance or restructure the Convertible Notes. Discussions have included the Note holder and several other parties. The Directors have approved indicative terms for a Memorandum of Understanding ("MOU") with a consortium of interested parties based in Europe ("the Consortium").

It is expected that a signed MOU will be concluded in the near future with a view to having agreements in place during the second quarter of 2010.

Based on the above, and having regard to expressions of support from the company's largest shareholder, the directors are satisfied that, the going concern basis of preparation is appropriate. The half-year financial report has therefore been prepared on a going concern basis, which assumes the continuity of normal business activities and the realisation of assets and the settlement of liabilities in the ordinary course of business.

However, should the Group be unable to continue as a going concern, it may be required to realise its assets and extinguish its liabilities other than in the ordinary course of business, at amounts that differ from those stated in the half-year financial report.

The financial report does not include any adjustments relating to the recoverability and classification of recorded asset amounts or the amounts or classification of liabilities and appropriate disclosures that may be necessary should the Group be unable to continue as a going concern.

CONDENSED NOTES TO THE CONSOLIDATED INTERIM FINANCIAL REPORT

(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 2009, except for the adoption of amending standards mandatory for annual periods beginning on or after 1 July 2009, as described in Note 2(d).

(c) Basis of Consolidation

The half-year consolidated financial statements comprise the financial statements of 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.

The components of the Group are:

	Incorporated in	**Parent's Interests**	
		31/12/2009	30/06/2009
European Gas Limited [Parent]	Australia	-	-
Gazonor S.A.	France	100%	100%
European Gas S.A.S.	France	100%	100%
European Gas Limited (UK)	United Kingdom	100%	100%
Heritage Petroleum Ltd	United Kingdom	100%	100%
European Gas Benelux S.A.	Belgium	50%	50%

A branch of European Gas Limited (UK) has been registered in France to manage the exploration and evaluation activities of the Group in France and Italy.

CONDENSED NOTES TO THE CONSOLIDATED INTERIM FINANCIAL REPORTS

(d) Impact of New or Revised Accounting Standards

Title	Summary	Application date	Impact on the group
AASB 101: Presentation of Financial Statements	The revised standard affects the presentation of changes in equity and comprehensive income. It does not change the recognition, measurement or disclosure of specific transactions and other events required by other AASB standards. However, it is important to note that the AASB has decided that Australian issuers must make use in financial reports of the description-Statement of Comprehensive Income and Statement of Financial Position rather than Income Statement and Balance Sheet and use the term "Financial Report" and not "Financial Statement." The Amending Standard updates references in various other pronouncements.	Financial year beginning 1st January 2009	AASB 101 affects disclosures in the financial report, rather than the measurement or recognition of financial items.
AASB 8: Operating Segments	This standard supersedes AASB 114, Segment Reporting introducing a US GAAP approach of management reporting as part of the convergence project with FASB. This standard only applies to entities that have public accountability therefore any entities that do not fall within scope may wish to early adopt and avoid segment reporting. The Amending Standard updates references in various other pronouncements.	Financial year beginning 1st January 2009	AASB 8 affects disclosures of segment reporting, rather than the measurement or recognition of financial items. .

Amendments to other standards and interpretations do not have any material impact on the Group.

CONDENSED NOTES TO THE CONSOLIDATED INTERIM FINANCIAL REPORTS

3. EXPLORATION & EVALUATION COSTS

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

Pre-production: Exploration and evaluation phase

	CONSOLIDATED	
	31/12/2009	**30/06/2009**
Balance at the beginning of the period	26,999,345	23,324,966
Expenditure incurred	468,633	4,737,767
Transfers to plant and equipment	-	(1,063,388)
	27,467,978	**26,999,345**

Ultimate recoupment of costs carried forward for exploration and evaluation phases is dependent on successful development & commercial exploitation or sale of the respective exploration areas.
The Gardanne permit area is currently under renewal process with the French Government.

4. ESTIMATED EXPENDITURE COMMITMENTS

	CONSOLIDATED	
	31/12/2009	**30/06/2009**
0- 1 years	677,385	833,571
1- 5 years	18,834,471	19,641,971
≥5 years	164,298	617,298
	19,676,154	**21,092,840**

These commitments include contractual lease agreements and exploration expenditure. In order to maintain current rights of tenure over its hydrocarbon permits, the Company and its controlled entities will be required to outlay amounts in respect of meeting minimum expenditure requirements of the relevant government authorities. These permit obligations may vary from time to time, are subject to approval and are expected to be fulfilled in the normal course of operations by the relevant company.

5. INTANGIBLE ASSETS

	CONSOLIDATED	
	31/12/2009	**30/06/2009**
Goodwill [1]	24,010,740	24,010,740
Software (*net of amortisation)*	1,939	10,674
	24,012,679	**24,021,414**

[1] Goodwill arising on the acquisition of Gazonor has been impairment tested based on the value in use methodology. The values in use calculations apply a discounted cash flow methodology. Cash flow projections are based on European Gas management's 20 year business plan for Gazonor and are determined based on expected market trends and the expected impact of the key assumptions of gas production, gross margin and operating costs. The cash flow projections are discounted using a pre-tax discount rate of 10.0 percent.

6. INTEREST BEARING LIABILITIES

	CONSOLIDATED	
	31/12/2009	**30/06/2009**
	€	**€**
Current		
Convertible Note		
– Debt component at amortised cost	36,877,642	931,797
	36,877,642	**931,797**
Non-Current		
Convertible Note		
– Debt component at amortised cost	-	35,092,315
	-	**35,092,315**

On 28 December 2007, 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; and
- Tranche B: 9,750 Notes @ €1,500 each totalling €14.625 million.

The terms of the Notes are:

- Maturity: 36 months from the date of issue
- Applicable currency: Euro (€)
- Coupon rate:
  - Tranche A: 5% p.a. of nominal value;
  - Tranche B: 5% p.a. initially since 28 December 2007.

CONDENSED NOTES TO THE CONSOLIDATED INTERIM FINANCIAL REPORTS

6. INTEREST BEARING LIABILITIES (cont'd)

- Interest payment:
  - For Tranche A: paid quarterly;
  - For Tranche B: at redemption or conversion, the interests being 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 41st day of the issue and 7th day before maturity;
  - For Tranche B: anytime after Convertibility Event and 7th day before maturity.

- Conversion price: approximately €0.71 per Note following recent share issues.
- Conversion ratio: Nominal value divided by conversion price.
- Redemption at maturity: All outstanding Notes at maturity shall be redeemed in cash.
- 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 up to maturity/conversion.
- Security has been given over the shares in Gazonor S.A. and its immediate holding company, and also over an intercompany loan with the said holding company.

Tranche A Notes: 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 €2,620,073 represents the residual amount after deducting from the fair value of the Notes as a whole (€21,750,000) the amount of €19,129,927, which has been separately determined to be the fair value of the liability component.

The measurement of the fair value of the liability component was determined using a discounted cash flow analysis applying a discount rate of 10%, which was deemed to be the prevailing market interest rate for similar bonds with no conversion rights. The liability component is subsequently measured at amortised cost using the effective interest method for future periods.

Tranche B Notes: The Notes have been classified as a straight debt instrument with no equity component. This has been determined as the terms of the equity conversion option of the Tranche B Notes contain various hurdles that would prevent the holder from converting at any time during the terms of the Notes.

Transaction costs measured at amortised cost using the effective interest rate method have been off-set against the liability components of both Tranches. Transaction costs of €148,578 were incurred in relation to the issue of the Notes with €137,857 deducted against the liability components and €10,701 were deducted against the equity component in relation to the Tranche A Notes on initial recognition on the basis there was an equity component recognised.

7. PROVISIONS

	CONSOLIDATED	
	31/12/2009	30/06/2009
	€	€
Provision for asset restoration and rehabilitation		
Balance at the beginning of the reporting period	3,029,051	2,382,499
- amortisation of provisions	93,851	646,552
Balance at the end of the reporting period	**3,122,902**	**3,029,051**

The restoration and rehabilitation provisions relate to the estimated costs associated with the restoration and rehabilitation of the Gazonor sites that will be incurred at the conclusion of the economic life of the asset.

8. CONTRIBUTED EQUITY

	CONSOLIDATED		CONSOLIDATED	
	31/12/2009	30/06/2009	31/12/2009	30/06/2009
	Nos.	Nos.	€	€
At the beginning of the reporting period	199,155,662	199,155,662	31,281,424	31,281,424
Shares issued during the period	14,788,697	-	1,437,358	-
At reporting date	**213,944,359**	**199,155,662**	**32,718,782**	**31,281,424**

	CONSOLIDATED					
	31/12/2009			30/06/2009		
	Nos.	Exercise Price		Nos.	Exercise Price	
Outstanding options						
Unlisted options expiring on:						
28-November-2010				4,000,000	$	1.50
15-April-2010	2,750,000	$	1.50	2,750,000	$	1.50
15-April-2012	2,750,000	$	2.50	2,750,000	$	2.50
	5,500,000			**9,500,000**		

Movement in unlisted options:

Balance at 30 June 2009	9,500,000
Lapse of options	(4,000,000)
Balance at 31 December 2009	**5,500,000**

CONDENSED NOTES TO THE CONSOLIDATED INTERIM FINANCIAL REPORTS

9. RESERVES

Consolidated	Option valuation reserve	Available for sale assets reserve	Foreign Currency Translation Reserve	Total
31-December-2009				
Balance at the beginning of the period	1,692,733	-	(35,882)	1,656,851
Movement in fair value of available for sale assets.	-	28,396	-	28,396
At reporting date	**1,692,733**	**28,396**	**(35,882)**	**1,685,247**
				-
30-June-2009				
Balance at the beginning of the year	1,692,733	-	(35,882)	1,656,851
At reporting date	**1,692,733**	**-**	**(35,882)**	**1,656,851**

10. EVENTS AFTER BALANCE SHEET DATE

The composition of the Board has been revised during the period subsequent to the reporting date with Transcor's nominee director Mr Gauthier De Potter having resigned from his position on the Board.

There have been no other matters or circumstances 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. The contingent liability disclosed in the last annual report is still in existence and the latest developments regarding this liability is detailed below:

On November the 5th, SAV filed additional conclusions requesting the Appeal Court of Douai to confirm the first decision of the Court and get Gazonor to pay €2,101,811.51. On the January, 7th of 2010, following efforts from European Gas management team, SAV requested the Douai Appeal Court to further delay the audience to the 4th of February 2010.

On February, 3rd 2010, Gazonor has filed conclusions at the court replying to SAV's brief. Gazonor has increased its demand for damages to €1,000,000. On February, 4th 2010, the Douai Appeal Court delayed its decision to March, 18th 2010.

Independently of any of the arguments raised by the Company before the Douai Court of Appeals, the Company considers that, even if it is found liable in connection with this litigation, such a judgment would allow it to make a claim for breach of the warranties agreed to by the seller of Gazonor, Filianor or its parent company Charbonnage de France, in the context of the acquisition. This has been notified to Filianor on the 28th March 2009 by the Group.

.

COMPANY DETAILS

Corporate office (France)

2, rue de Metz
Freyming-Merlebach
57800
FRANCE

Telephone: +33 3 87 04 32 11
Fax: +33 3 87 93 52 37
E-mail: cdeconti@europeangas.fr
Website: www.europeangas.fr

Registered office (Australia)

Unit 4, 4 Ventnor Avenue,
West Perth Western Australia 6005
AUSTRALIA

Telephone: +61 8 9226 0320
Fax: +61 8 9226 0309
E-mail: info@europeangas.com.au
Web site: www.europeangas.com.au

DIRECTORS' DECLARATION

In the opinion of the directors of European Gas Limited:

1. The financial statements and notes set out on pages 13 to 26 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 2009 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 16th day of March 2010

Signed in accordance with a resolution of the Directors.

Julien Moulin

Managing Director

PKF

Chartered Accountants
& Business Advisers

Auditor's Independence Declaration

As lead auditor for the review of European Gas Limited for the half year ended 31 December 2009, I declare that to the best of my knowledge and belief there have been:

(a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and

(b) 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

PKF
Chartered Accountants

Chris Nicoloff

Chris Nicoloff
Partner

Dated at Perth, Western Australia this 16th day of March 2010

Tel: 61 8 9278 2222 | Fax: 61 8 9278 2200 | www.pkf.com.au
West Australian Partnership | ABN 39 542 778 278
Level 7, BGC Centre | 28 The Esplanade | Perth | Western Australia 6000 | Australia
PO Box Z5066 | St Georges Terrace | Perth | Western Australia 6831

Chartered Accountants
& Business Advisers

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 Statement of Financial Position as at 31 December 2009, and the Statement of Comprehensive Income, Statement of Changes in Equity and Cash Flow Statement for the half-year ended on that date, a description of accounting policies, other selected explanatory notes and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at 31 December 2009 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 Australian 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 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 2009 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.

Tel: 61 8 9278 2222 | Fax: 61 8 9278 2200 | www.pkf.com.au
West Australian Partnership | ABN 39 542 778 278
Level 7, BGC Centre | 28 The Esplanade | Perth | Western Australia 6000 | Australia
PO Box Z5066 | St Georges Terrace | Perth | Western Australia 6831

Chartered Accountants
& Business Advisers

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 2009 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*.

Material Uncertainty Regarding Going Concern Status

Without qualifying our conclusion expressed above, we draw attention to Note 2(a) in the financial report. The consolidated entity incurred a loss of €3,913,062 for the half year ended 31 December 2009; and has net current liabilities of €36,360,365 as at that date. The net current liabilities relate mainly to convertible notes of €36,877,642 classified as a current liability at 31 December 2009. These conditions indicate the existence of a material uncertainty which may cast significant doubt about the ability of the consolidated entity to continue as a going concern.

Should the consolidated entity be unable to continue as a going concern, it may be required to realise its assets and extinguish its liabilities other than in the ordinary course of business, and at amounts that differ from those stated in the financial statements.

PKF
Chartered Accountants

Chris Nicoloff
Partner

Dated at Perth, Western Australia on this 16th day of March 2010.