European Gas Ltd ACN 075 760 655

Quarterly Report for the Quarter ended 30 September 2012

A) Canning Superbasin (Western Australia)

The Company holds royalty interests in 12 permits in the Canning Superbasin via 2 separate Royalty Deeds. The approach in this section A of the report is to explain activities by topic, rather than by permit.

<u>EP 391, EP 431, EP 436 (2% Royalty on 100% participation interest)</u>

During the Quarter, negotiations were finalised with Buru Energy Ltd ('Buru') regarding adding Diamond Resources (Fitzroy) Pty Ltd ('DRF', a wholly owned subsidiary of Mitsubishi Corporation) as a covenanting party under the 26 August 2006 Royalty Deed in favour of the Company. Following Ministerial approval in late February 2012, these 3 Permits are held 50% by Buru and 50% by DRF.

On 7 September 2012 a Deed of Assignment and Assumption was signed, which makes DRF responsible, as to 50%, for the obligations and liabilities under the 26 August 2006 Royalty Deed. Mitsubishi Corporation has guaranteed to the Company the performance of DRF's obligations. The effective date of DRF's assumption of responsibility is 30 November 2010.

<u>EP 371, EP 390, EP 428 (2% Royalty on 100% participation interest)</u>

During the Quarter, negotiations were finalised with Buru regarding adding Diamond Resources (Canning) Pty Ltd ('DRC', a wholly owned subsidiary of Mitsubishi Corporation) as a covenanting party under the 26 August 2006 Royalty Deed in favour of the Company. Following Ministerial approval in late February 2012, these 3 Permits are held 50% by Buru and 50% by DRC.

On 7 September 2012 a Deed of Assignment and Assumption was signed, which makes DRC responsible, as to 50%, for the obligations and liabilities under the 26 August 2006 Royalty Deed. Mitsubishi Corporation has guaranteed to the Company the performance of DRC's obligations. The effective date of DRC's assumption of responsibility is 30 November 2010.

<u>EP 391 (2% Royalty on 100% participation interest)</u>

The Ungani field remained under an extended production test throughout the Quarter, according to announcements by Buru.

The first ever payment of a royalty under the 26 August 2006 Royalty Deed was received in respect of Ungani production (under the extended production test) in late July 2012 from Buru and DRF. The total amount paid to the Company was $5,596.72. For further details refer the Company's announcement of 2 October 2012.

<u>EP 431 (2% Royalty on 100% participation interest)</u>

In the previous Quarter ended 30 June 2012, a Deed of Indemnity was entered into which has the effect of Buru indemnifying the Company against any liability or loss in connection with a Native Title and Heritage Protection Agreement relating to EP 431 ('Heritage Agreement') and for the period since 26 August 2006.

The Heritage Agreement (relating to the Ngurrara native title holders) dates from July 2003 and primary negotiations with the Kimberly Land Council Aboriginal Corporation concerning it and exploration on EP 431 have been assumed by Buru (negotiations are understood to be continuing as at the end of the Quarter). Since 26 August 2006, Arc Energy Pty Ltd ('Arc') has covenanted with the Company to be bound by and be entitled to all the provisions of the Heritage Agreement in the place of EGL. Arc transferred EP 431 to Buru on 25 August 2008. EP 431 is now 50% owned by DRF.

EP 428, EP 436 (2% Royalty on 100% participation interest)

Negotiations continued during the Quarter which among other things will remove the Company from the contractual matrix in connection with any obligation (dating back to March 2004) to make certain 'Discovery Payments' to certain third parties in the event of hydrocarbon discoveries on EP 428 and EP 436 which are proven to be commercial and with an initial production of over 260 BOEPD. Since June 2006, Arc has agreed with the Company to assume the obligation to make any Discovery Payments to the third parties and to indemnify the Company in that regard. It is proposed that Buru, DRC and/or DRF will assume all the ongoing obligations to make any Discovery Payments.

Retention Lease R1 and EP 104 (2% Royalty on 8% participation interest)

The Company continues to monitor activities by the EP104 and R1 joint venture participants. The Company's 8% participating interest in EP 104 and R1 was sold together with various other Canning Basin Assets in 2006.

Production Licence L15 (2% Royalty on 12% participation interest)

During the Quarter the Company progressed (with Buru) getting its royalty interest formally registered against the title to this relatively new Production Licence. The Company continues to monitor activities by the L15 joint venture participants.

Royalty (3% of Well Head value) over EP129 and L6 and L8

Blina oil field royalties continued to be received by the Company from Buru on a monthly in arrears basis during the Quarter. Total payments received during the Quarter were $5,088.01.

The Company is monitoring the activities on the Backreef Area of L6 and EP129, particularly those of Oil Basins Ltd.

B) Other Projects and Assets & Corporate Matters

EGL UK Shareholding

The share register for European Gas Limited (a company incorporated in England and Wales with company number 05321791, 'EGL UK') commenced activities in early September 2012 after certain paperwork was completed, and it is understood that share certificates were issued by EGL UK in early September 2012. A total of 221,615,657 shares in EGL UK were transferred by the Company to 158 newly registered shareholders, with the Company remaining the largest registered shareholder in EGL UK at 75.657M shares or 25.45%. Transcor Astra Luxembourg SA started as EGL UK's 6th largest registered shareholder with 22 million shares and has ceased to be a substantial shareholder in the Company. Four different Australian professional custodian companies started as the 2nd to 5th largest registered shareholders in EGL UK, holding a total of 178.67M shares between them.

The Company' new management is reviewing the capital gains tax treatment of the disposal of the shares it held in EGL UK.

Agreements with EGL UK

During the 6 months ended 30 June 2012 and in anticipation of the Company's buy-back of shares resulting in EGL UK ceasing to be a subsidiary of the Company, various agreements with EGL UK were entered into to give effect to a financial and operational separation as between the Company's then European operations and the Company's Australian operations as disclosed in the Company's prospectus dated 4 June 2012 and the Explanatory Memorandum for the Company's general meeting held on 17 July 2012.

The Company has the benefit of a Deed of Indemnity from EGL UK with an effective date of 1 May 2012 relating to various 'Covered Obligations' (as defined), including any expenses incurred by the Company during the period 1 July 2010 up to 1 May 2012 which were known as at 1 May 2012 but were yet to be paid, and costs in relation to the recent restructuring of the Company and group.

EGL UK Activities (the Company interest is 25.45% at Quarter end) – this section provided by EGL UK

Operations during the Quarter ended 30 September 2012 by EGL UK and its subsidiaries have been dedicated to the preparation of the drilling campaign in both the Lorraine and Nord Pas de Calais regions in France, with the following activities: permitting of drill sites, preparation of civil work for the well sites, geological modelling of the coal prospects for each drill site, drilling design, well completion design, well testing design, and simulation studies.

Detailed work included covering the aspects of surface location, geological prognosis, well technical program (both drilling and testing), environmental impacts, impacts on the water resources, industrial risks, and abandonment plans. Additionally, civil work has been ongoing to prepare the two well sites in the Bleue Lorraine permit as well as their access roads for the arrival of the rig.

Following the permit-wide geological modeling studies that led to the certification of large contingent and prospective gas resources and the identification of the most prospective drill sites, EGL UK has now embarked in the construction of geological models for each drill site. This development plan is the basis upon which EGL UK intends to certify gas reserves.

Furthermore, EGL UK has been conducting, with the help of external consultants, a thorough review of alternatives for wellbore geometries, impacting the final well completion design. For the wells in Lorraine, it will preserve the accessibility for future testing of the coal seams that were crossed by the vertical well but not drilled with laterals; for the Nord Pas de Calais, the completion design will ensure adequate communication between the deviated wellbore and the coal seams that are targeted for testing.

EGL UK also continued on a communication campaign involving all the local stakeholders, such as land owners, farmers, local associations, municipalities, departmental and regional authorities, so that all parties are well informed on upcoming drilling and testing operations and plenty of time is available to address all issues and concerns. An emphasis is being made in particular on the small footprint that the drilling operations will have and the low key aspect of the testing operations.

Other opportunities

The Company's Prospectus dated 4 June 2012 stated that the Board did not currently have any plans for developing operations in Australia over the next 12 months.   It went on to state that: "However, it wishes to maintain the Company's ASX listing in order to keep the Company's options open in the event that any opportunities arise in the future. If any potential opportunities arise in Australia or if any favourable opportunities arise to acquire unconventional oil and gas assets in Australia, a listed vehicle is likely to be needed. However, the Board is not currently considering or pursuing any opportunities." It continues to remain the case that the Board is not currently considering or pursuing any opportunities, although some tentative and confidential approaches have been made to individual directors.

Share Capital

On 26 July 2012 the Company cancelled 221,615,657 ordinary shares in its share capital as a result of the buy-back. As a result of this large buy-back, the Company now has around ¼ of the number of shares it previously had on issue. Under the buy-back, $0.192 per share (total $42,550,206.14) was debited to the Company's untainted share capital account.

As at 30 September 2012 the Company had 75,656,848 fully paid ordinary shares on issue and 19 million options on issue (expiring 31 December 2012). At the end of the Quarter the Company had 1,177 members.

Financial Reporting Currency

The Company is taking steps to present its upcoming statutory half-yearly report (for the period ending 31 December 2012) in Australian dollars as the presentation currency instead of euro, as the Company's functional currency has arguably become the Australian dollar since the completion of the buy-back. The Appendix 5B for the Quarter ended 30 September 2012 has adopted Australian dollars for its presentation currency.

Management Changes

The Company announced Management changes on 13 August 2012. The Company's Executive Director is now the Company's only employee. The Board is concentrating on the reduction of operating costs. Standard directors' fees for each director have been reduced from 1 July 2012 to reflect the smaller size of the Company.

Sebastian Hempel, Executive Director