NEWS RELEASE

23 October 2006

FOLSCHVILLER ST1 WELL
INITIAL PERMEABILITY RESULTS

HIGHLIGHTS

- **Initial permeability results higher than expected up to 2.80 millidarcies (mD) in coal**
- **Results indicate sustainable gas flows from coal are likely**
- **Initial permeability results from interseam sediments range up to 2.88 mD**

PROGRESS

European Gas Limited ("European Gas") is pleased to announce initial permeability results from the Folschviller St1 well at the company's 75% owned Lorraine Project in eastern France.

The test work by Deutsche Montan Technologie of Essen, Germany ("DMT") covers 16 core samples of coal and interseam sediments from the company's recently completed Folschviller St1 well. The laboratory calculations were conducted at atmospheric pressure with coal results as follows:

Coal Packet	Depth From (metres)	Net Coal Intercept (metres)	Average Desorbable Gas content (m^3/t*)	Average Desorbable Gas content (Scf/t**)	Permeability (mD***)
Veines 5- 6-7	767.62	4.45	7.3	258	1.22
Veines 8-9	803.43	13.46	9.6	338	2.09
Veines Ida-Ignace-Isidore****	985.25	6.93	9.2	325	2.80
Veines Z-Z'-Y	1092.81	12.17	10.1	358	0.10
Veines Alpa-Alpha'-Beta-Gamma	1150.34	14.92	9.4	333	0.38
Veines Marie-Maurice-Noirel	1251.10	10.48	9.9	350	0.75

* Cubic metres per tonne
** Standard cubic feet per tonne
*** Millidarcies
**** Mean value of two samples

The results are considered by the company to be encouraging and show that sustainable gas flows should be achievable with the application of multi lateral drilling techniques.

Although the Lorraine coals are considered reasonably low permeability coals, the results are higher than expected particularly in the upper coal packets. Permeability data from the coals ranged from 0.1mD up to 3.39mD for coal (Ida-Ignace-Isidore) with inter-bedded shale layers. The company continues to assess data as it is returned, however it is possible that the lateral drilling completion techniques planned may not require fracture stimulation in order to achieve commercial production rates.

Additional more detailed permeability measurements will be made over the next two months to assist in determining which coal packet will be developed initially and to also to determine whether the application of fracture stimulation techniques will be required to enhance production.

Permeability results from interseam sediments have ranged from <0.0001mD in fine sandstones to

2.88mD in coarse conglomerates. Further test work including porosity tests are underway to aid in the assessment of this potential reservoir.

All results to date from the Folschviller St1 well have been highly encouraging. Seam thicknesses are large, gas content data has been positive and permeability data is higher than expected. The results also confirm the analogous nature of the Lorraine coals in respect of the Hartshorne coal measures in the Arkoma Basin, eastern Oklahoma. Although the Lorraine coals are significantly thicker than the shallower Hartshorne coals, both coals have similar gas content and permeability characteristics. Vertical completions in the Hartshorne coals are generally disappointing, however, lateral completions have returned production of up to 1 million to 2 million cubic feet per well per day. The Hartshorne coal seams are typically less than three metres in thickness. Over 1000 Coal Bed Methane ("CBM") well completions including several hundred lateral completions have been successfully carried out in the Hartshorne coals.

PROGRAM

The Folschviller St1 well location is at a site 850 metres east of the town of Folschviller. The Westphalien D coal bearing sequence was encountered at approximately 705 metres subsurface and HQ core was cut through to Total Depth ("TD") of 1306 metres.

Now that the Folschviller St1 well has been completed, the rig will be used to drill the second well at Diebling in the Alsting block commencing at the end of October 2006.

The principal target at Diebling is CBM within the Westphalien D sequence.

For each well the core will be analyzed for:

- Gas content for the coal seams;
- Inter seam sediments gas contents;
- Porosity and permeability;
- Fracture and cleating; and
- Fluid sensitivity in respect of the coals and the intercalated sediments.

Drilling is being carried out by Cofor of Maisse, France using a trailer mounted Wirth B3/B5 drilling rig under a turnkey contract. Wireline logging, gas and core analysis is being be carried out by Deutsche Montan Technologie of Essen, Germany while mud logging services are being provided by Geo-RS of Parigny, France.

The program is in preparation for the development of the large Gas in Place Resource which to date totals 28.1 billion cubic metres ("Bcm") (991.2 billion cubic feet ("Bcf")) within approximately 7% of the Company's permit and application areas.

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.

The company's Australian asset base is currently undergoing divestment.

For further information please contact:

Anthony McClure (Managing Director)	**Alan Flavelle (Executive Director)**
Corporate	**Technical**
(+33) 1 53 43 94 41	**(+61 8) 9330 8876**

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. 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 their information in the form and context in which it appears.