Narrabri Coal Seam Gas Project

Investor Presentation – New York, Houston and London

March 2010
Background

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2009 Highlights

- Two substantial certified reserves upgrades to underwrite project commercialisation:
  - June: 79% increase to 602 PJ 2P reserves
  - December: 152% increase to 1,520 PJ 2P reserves
- Successfully raised ~$70m in new equity during a volatile equity market
- Inclusion in the S&P ASX200 Index
- Materiality and strategic value of asset recognised with Santos becoming a JV partner and 19% shareholder in Eastern Star Gas
- Early gas and water production results, confirmed:
  - lateral methodology pioneered by ESG is ideally suited to targeted coal seams; and
  - high water rates are a precursor to high gas flows in the targeted coals
- Production pilot gas delivered to an expanded Wilga Park power station
- Concept Plan lodged with NSW Govt. for staged development of the Narrabri Coal Seam Gas Project
- Investigations underway for Newcastle LNG opportunity

2009 technical and exploration achievements ‘unlock’ a major resource for the NSW market
Corporative Overview

Company Highlights

- NSW based ASX top 200 company (ASX: ESG)
- Largest operated CSG acreage on the east coast
- Major asset is the world-scale Narrabri CSG Project
- Strategic location removes reliance on export markets for project commercialisation
  - MoUs with two entities for 1,300 PJ gas demand
  - HoA with APA Group to investigate delivery of gas into NSW gas market
- Strategic partner in Santos Limited (ASX:STO)
- 152% increase to 1,520PJ 2P reserves exceeds 2009 target

ESG’s vision is to be NSW’s leading supplier of natural gas

<table>
<thead>
<tr>
<th>Metric</th>
<th>Value</th>
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<tbody>
<tr>
<td>Market Cap. (2 March. 2010)</td>
<td>$619 million</td>
</tr>
<tr>
<td>Cash (31 Dec. 2009)</td>
<td>A$54.7 million</td>
</tr>
<tr>
<td>Debt</td>
<td>nil</td>
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<tr>
<td>Daily Volume (52 wk average)</td>
<td>2.8 million</td>
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Corporate Performance Continues to Outperform

- Certified 2P reserves up 82% to 336 PJ
- 3C Resource of 6,128 PJ independently certified
- Santos buy-in
- Gas flow rate from Bibblewindi West pilot exceeds 2 million scfd
- Part 3A Concept Plan lodged
- SPP announced
- Certified 2P reserves up 152% to 1,520 PJ

Eastern Star Gas out-performing the market and CSG sector
Comparison of Recent Market Transactions

Source: ESG, company announcements

Key:  

Notes:
1 BG Group acquired a 10% equity stake in QGC (plus 20% stake in QGC’s assets) in February 2008 and acquired the remaining 90% stake in October 2008
2 Based on total value ascribed by AGL to SGL, taking into account options and cash. AGL allocated $115mm of the consideration to the Hunter Valley gas project, which has no certified reserves, and $49mm for the Camden assets (taking into account options and cash) which had 2P and 3P reserves of 41PJ and 54PJ respectively, which on this basis implies $1.19/GJ and $0.90/GJ for SGL’s certified 2P and 3P reserves respectively
3 Based on BG Group’s offer of 27 February 2009, and Pure Energy’s publicly stated reserves as at the same date
4 Based on Santos’ acquisition of Gastar’s 35% interest in the Narrabri CSG Project and 19.99% interest in ESG for an aggregate $476mm
Narrabri CSG Project
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Prerequisites for a Successful Gas Business

- Gas Reserves
- Gas Market
- Infrastructure
152% Increase in Certified 2P Gas Reserves

Certified Gas Reserves & Resources

<table>
<thead>
<tr>
<th>PEL 238 Certified Gas Reserves</th>
<th>1P</th>
<th>2P</th>
<th>3P</th>
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<tbody>
<tr>
<td>1P</td>
<td>118 PJ</td>
<td>1,520 PJ</td>
<td>2,797 PJ</td>
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</table>

Certified Gas Reserves and Resources from PEL 238 is only one of six permits.

Certified reserves and resources from PEL 238 is only one of six permits.
Putting the Reserves & Contingent Resources into Context…

**Contingent Resource Growth**

- Contingent Resource growth is significant given the focus of 2009 was on Reserves growth
  - 49% increase in 2P + 2C to 5,035 PJ
  - 21% increase in 3P + 3C to 9,012 PJ
- Envisage further increases in Contingent Resources as the 2010 programme ramps up regional exploration across all licence areas

**World Scale Resource Potential**

- Reserves and Contingent Resources now support major new gas based initiatives out of NSW

Project received a material upgrade in contingent resources despite the focus in 2009 on reserves
Lateral Well Methodology Pioneered by Eastern Star

Technical success in completing different lateral well designs for all three targeted coal seams

Current Operations

Tailored Lateral Well Design

- Permeability of Bohena coal is in excess of 100mD at depths of ~1000m (3280ft)
- Fracture permeability highly directional
- Minimises environmental footprint
- Maximises return on investment

*Flow vs Time*

- Multi-lateral
- Vertical, fracture-stimulated
Role of Lateral Wells

Lateral wells are drilled perpendicular to the natural fracturing system of the target coal.
Technical Success Has ‘Unlocked’ a Major Resource

Lateral Pilots

- Gas production from the Bibblewindi West tri-lateral production pilot (targeting Namoi coal seam) is in excess of 2 million scfd after just over a month of dewatering
- Strong water flow rates of 3,500 barrels per day confirm permeability & reservoir connectivity
- Bibblewindi West results demonstrate:
  - lateral methodology implemented in 2009 is ideally suited to these coal seams
  - high water rates are a precursor to high gas flows in the targeted coals
- Gas flow rates from the Bibblewindi multi-lateral pilot continue to increase as modeled
- Bohena coal seam (targeted at Bibblewindi) five times thicker than the Namoi seam which has already yielded excellent results

Outstanding Flow Rates

Ongoing optimisation will lead to further improvements in production and cost efficiencies
Project Commercialisation

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Prerequisites for a Successful Gas Business

- **Gas Reserves**
- **Gas Market**
- **Infrastructure**
PEL 238 currently has 65% of NSW’s certified 2P reserves
Project Commercialisation - Stage 1

Stage 1: Wilga Park Progressive Expansion to 40 MW - Development Underway

- First new 3MW generator commissioned July 2009
- Electricity sales into National Electricity Market and revenue ramping up
- Generator expansion continues through 2010 utilising increasing production pilot gas
Project Commercialisation - Stages 2 & 3

Stages 2 & 3: Major Domestic Greenfield Opportunities

- Envisage connection to Central Ranges Pipeline
- Narrabri has a transportation cost advantage
- Multiple gas-fired power station opportunities - MoUs in place for 1,300PJ gas demand
- Production expansions and infrastructure extensions as the market grows
- Ongoing domestic market opportunities will underwrite the project's long-term commercial success
Stage 4: ‘New Frontier’ Opportunities Now a Reality

- Opportunities that would not be available in the absence of a world-class gas resource
- ESG investigating potential for value-added development at Newcastle
- ‘Part 3A Concept Approval’ process underway with the NSW Government for development of the total project (i.e. Stages 2, 3 & 4)

<table>
<thead>
<tr>
<th>Product Market</th>
<th>Process</th>
<th>Economics</th>
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<tbody>
<tr>
<td>LNG</td>
<td>Offshore</td>
<td>Clear</td>
</tr>
<tr>
<td>GTL</td>
<td>Domestic</td>
<td>Likely</td>
</tr>
<tr>
<td>Methanol</td>
<td>Offshore</td>
<td>Chemical</td>
</tr>
<tr>
<td>Ammonia</td>
<td>Mixed</td>
<td>Reforming</td>
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QLD Options

NSW Options

Existing Gas Pipelines
The Year Ahead...

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Realising Project Potential in 2010

The Year Ahead

- **Reserves Programme**
  - Ongoing production test of Bibblewindi & Bibblewindi West pilots
  - Complete and commence production test of Dewhurst & Tintsfield pilots
  - Ongoing seismic, exploration and appraisal wells
  - Ongoing reserves and contingent resource upgrades from all three target seams

- **Gas Marketing**
  - Formalise domestic market opportunities
  - Progress Newcastle LNG feasibility
  - Ongoing review of other high margin markets
  - Progress project development approvals

- **Infrastructure**
  - Continued expansion of Wilga Park to utilise production gas
  - Complete installation of gas gathering systems from additional production pilots
Investment Highlights

- **Large and growing reserve and resource base**
  - Certification by Netherlands Sewell & Associates
  - 2P gross reserves of 1,520 PJ (~1.4 tcfe) up 352% year on year
  - 3P gross reserves of 2,797 PJ (~2.6 tcfe) up 115% year on year
  - 3P + 3C gross resources of 9,012 PJ (~9.0 tcfe)

- **NSW has little indigenous gas supply**
- Growing gas demand on the back of carbon constraints and NSW privatisation of retail and generation assets
- Evaluation of high margin monetisation options via Newcastle
- Capitalise on any potential shortfall in Gladstone CSG-LNG reserves

- **Increased certified sizeable reserves likely to act as catalyst for commercialisation progress**
- MoUs in place currently for 1,300PJ gas demand
- HoA with APA Group (ASX:APA) re: evaluating delivery of gas into NSW market
- 4 staged commercialisation path clearly articulated and progressing

- **Experienced Board established and balanced between extensive technical and commercial skill sets**
- World class technical team pioneering world first lateral well methodologies
- Management team with collectively >60 years experience in the coal seam gas industry

- **Key corporate shareholders include:** Santos (ASX:STO) ~19%; TruEnergy ~4%; and Insiders~ 12.6%
- Cash of A$54.7m on hand and no debt held
- Wilga Park Power Station unencumbered
Appendices

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Commercialisation Options Aligned to Production Supply

Illustrative Gas Supply and Allocation

ESG Regional

Stage 1
Create regional market at Wilga Park

Stage 2
Connect to east coast gas network (HoA in place APA Group)

Stage 3
Domestic market growth (1,300 PJ MoUs in place for power station gas supply)

Stage 4
Major new gas based industry (Investigations and approvals processes underway)

Domestic (NSW) Market

Existing Market

‘Tariff’ Market

Contract Market

Greenfields

‘New Frontiers’

Timing

2009

Already Underway: Wilga Park (up to about 3.5 PJ/a)

2011

~2011: NSW Regional and Contract (6.5+ PJ/a)

2012

~2012: Power Generation (ramping to, and beyond, 70 PJ/a)

2013

~2014: New Frontiers

2015
ESG’s Total Australian Acreage

Key Assets - Substantive CSG Position with Focus on Narrabri CSG Project

Arckaringa Basin
27,923 km² (6.9m acres)
25% to 50% CSG farm-in

Wilga Park Power Station
Expandable to 40MW
ESG 65%

PEL 238
7,920 km² (1.9m acres)
(Narrabri CSG Project)
ESG 65%

PEL’s 433 & 434
15,378 km² (3.8m acres)
ESG 65%

Orion Petroleum
(ESG holding 23%)
Pursuing conventional opportunities
PELs 6, 427, 428
18,210 km² (4.5m acres)
40% - 50% - 75% farm-in

ESG has largest operated acreage on the east coast of Australia
Narrabri CSG Project Location and Geology

**Project Location**

- Overall Project area more than 2 million acres
- Strategic NSW location; State imports ~130 PJ/a
- Two major coal bearing horizons
- >17 trillion cubic feet of gas-in-place

**Features**

**Geology**
### Description
- Natural gas.
  - Comprising mainly methane.

### Gas Formation
- Formed during coalification.
- Source rock is reservoir rock.

### Gas Storage Mechanism
- Adsorbed to coal.
- Held in place by water pressure.

### Reservoir Depth
- Optimal ~ 250 and 1,000 metres.

### Gas Production Mechanism
- Wells are drilled into the coal.
- Coal is dewatered to release CSG.

### Observations
- No impact upon future mining of coal.
- Low environmental impact.

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**Coal Seam Gas is Natural Gas**
CSG Formation and Production

CSG Formation

Illustrative CSG Well

- Produced water
- CSG
- Wellhead
- Overburden
- Gas
- Gas
- Water
- Borehole
- Coal
- Pump

Diagram showing the composition of CSG formation and its production process. The diagram includes a graph plotting temperature (°C) against vitrinite reflectance ($R_{o,max}$) and coal rank, along with yield (cubic metres per tonne) against COAL RANK.
This presentation may contain forward looking statements that are subject to risk factors associated with oil and gas businesses. It is believed that the expectations reflected in these statements are reasonable but they may be affected by a variety of variables and changes in underlying assumptions which could cause actual results or trends to differ materially, including but not limited to: price fluctuations, actual demand, currency fluctuations, drilling and production results, reserve estimates, loss of market, industry competition, environmental risks, physical risks, legislative, fiscal and regulatory developments, economic and financial market conditions in various countries and regions, political risks, project delay or advancement, approvals and cost estimates.

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More information on ESG can be found at www.easternstar.com.au