

## FY2009 - An Eventful Year

### Investment Summary

- FY2009 delivers solid progress across the board.** Exploration activity was largely focussed in PEL 238 - defining areas of interest for further appraisal. The completion of 2 x multilateral and 1 x tri-lateral production pilot was a key highlight, with promising initial production indications. An independent certified resource of over 6000PJ was reported and reserves were upgraded significantly. On a corporate front, the entry of STO into PEL238 and interest as a major shareholder was a significant event, resulting in a strategic partnership for development of the assets. ESG's staged marketing approach saw commissioning of the 1<sup>st</sup> additional 3MW unit at Wilga Park and the initiation of a study into LNG export out of Newcastle. ESG finished the year with a net loss of \$2.5m and \$60m in cash.
- PEL238 Appraisal Ongoing.** ESG made significant progress during the year with establishment of 2 x dual multilaterals and a single tri-lateral. Initial results from the dual laterals were very encouraging with a high flow indicative of a highly permeable coal and a precursor to strong gas flows. Due to a technical issue, ramp-up was delayed however remedial works have been put in place. The flowline between Wilga Park and Bohena was completed during the year, tying-in production to the upgraded power station. Looking ahead, ESG plan to drill 3 x single laterals at the Dewhurst location potentially followed by a pilot at Coonarah and continue expansion of Wilga Park to 40MW in order to monetise early ramp-up gas.
- Substantial reserves upgrade achieved.** In August, gross 2P reserves were increased to 602 PJ and 3P to 1959PJ. ESG look set to exceed its targeted 2P reserves of 1300PJ by the end of CY2009.
- We maintain our BUY recommendation with a price target of \$1.40/sh.** ESG will provide a steady stream of catalysts with ongoing exploration, progressive reserves upgrades, improved production results from existing pilots, the development of new pilots, expansion of Wilga Park and progression of wider marketing strategies. We continue to highlight the significance of current studies into "New Frontiers" (including LNG export via Newcastle) and the potential impact on reserves.

#### 14 September 2009

12mth Rating		BUY
Price	A\$	1.02
Target Price	A\$	1.40
12m Total Return	%	37.9
RIC: <b>ESG.AX</b>		BBG: <b>ESG AU</b>
Shares o/s	m	853.9
Free Float	%	100.0
Market Cap.	A\$m	866.7
Net Debt (Cash)	A\$m	-59.6
Net Debt/Equity	%	na
3m Av. D. T'over	A\$m	3.27
52wk High/Low	A\$	1.13/0.21
2yr adj. beta		1.19

#### Valuation:

Methodology		NPV
Value per share	A\$	1.40

#### Analyst:

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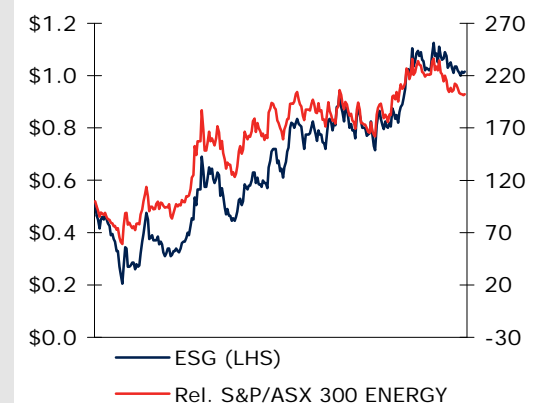
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*Disclosure: Patersons Securities was the Lead Manager to the rights issue in 2005, Lead Manager for a \$10M Share Placement in Feb 2007, Lead Manager for a \$28.85M Share Placement in Sept 2007 and Lead Manager for a \$50m placement in March 2009. It was paid a fee for these services.*

#### 12 Month Share Price Performance

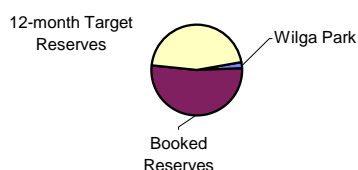


Performance %	1mth	3mth	12mth
Absolute	-1.5	26.3	71.2
Rel. S&P/ASX 300	-6.5	10.7	91.5

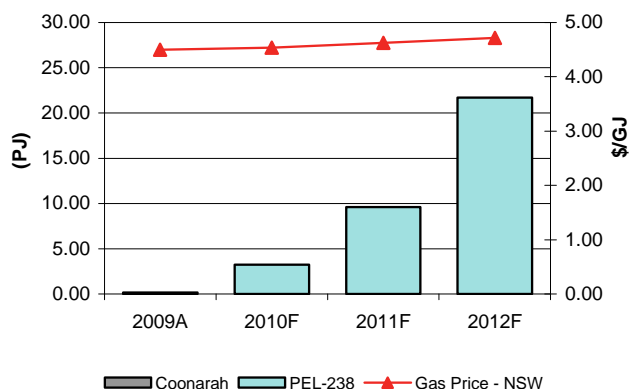
Year End June 30	2008A	2009A	2010F	2011F	2012F
Reported NPAT (\$m)	(4.2)	(2.5)	(1.1)	16.0	43.4
Recurrent NPAT (\$m)	(4.2)	(2.5)	(1.1)	16.0	43.4
Recurrent EPS (cents)	(0.5)	(0.3)	(0.1)	1.8	4.9
EPS Growth (%)	na	na	na	na	171.3
PER (x)	(190.8)	(336)	(826.4)	55.8	20.6
EBITDA (\$m)	(3.9)	(2.1)	(0.4)	20.6	51.7
EV/EBITDA (x)	(196.6)	(373.6)	(2,172)	44.2	17.8
Capex (\$m)	0.1	3.5	29.1	43.9	56.1
Free Cashflow	(9.5)	(31.5)	(51.6)	(27.3)	(10.4)
FCFPS (cents)	(1.2)	(3.8)	(5.9)	(3.1)	(1.2)
PFCF (x)	(84.2)	(26.9)	(17.3)	(32.6)	(85.4)
DPS (cents)	0.0	0.0	0.0	0.0	0.0
Yield (%)	0.0	0.0	0.0	0.0	0.0
Franking (%)	0.0	0.0	0.0	0.0	0.0

Eastern Star Gas (ESG)		\$1.02	
Valuation	A\$m	A\$/sh	
Wilga Park	26	0.03	
Booked Reserves	602	0.70	
12-month Target Reserves	523	0.61	
Corporate	(17)	(0.02)	
Cash	60	0.07	
Other	4	0.00	
Debt	0	0.00	
<b>Total @ 10% Discount Rate</b>	<b>1196</b>	<b>1.40</b>	
<b>Price Target</b>	<b>1196</b>	<b>1.40</b>	
<b>Price Target Sensitivity</b>			
	<b>-10%</b>	<b>0%</b>	<b>+10%</b>
Gas Price Sensitivity (A\$/sh)	NA	NA	NA
Exchange Rate Sensitivity (A\$/sh)	NA	NA	NA

#### Valuation Summary of Operating Assets



#### Production Summary



#### Reserves & Resources

Reserves - Net ESG	Oil/Cond (mmbbl)	Gas (bcf)	Total (mboe)
<b>2P Reserves</b>			
PEL-238	0.0	391.3	67.3
<b>Total Group</b>	<b>0.0</b>	<b>391.3</b>	<b>67.3</b>

#### Directors

Name	Position
David Casey	Managing Director
Roland Sleeman	General Manager Commercial
Peter Lansom	Chief Operating Officer
Ian Kirkham	Chief Financial Officer, Company Secretary
John Anderson	Non-Executive Chairman
David King	Non-Executive Director
Douglas G. Battersby	Non-Executive Director
David S. Archer	Non-Executive Director
Alexander M. Sundich	Non-Executive Director

Commodity Assumptions	Year End June 30			
	2009A	2010F	2011F	2012F
A\$:US\$	0.90	0.75	0.83	0.84
Crude Oil - WTI (USD/bbl)	69.65	67.50	84.07	86.92
Gas Price - NSW	4.50	4.53	4.63	4.72

Production Summary	2009A	2010F	2011F	2012F
Coonarah	0.00	0.00	0.00	0.00
PEL-238	0.2	3.2	9.6	21.7
<b>Total (PJ)</b>	<b>0.2</b>	<b>3.2</b>	<b>9.6</b>	<b>21.7</b>
Coonarah	0.0	0.0	0.0	0.0
PEL-238	0.0	0.5	1.6	3.6
<b>Total (mmboe)</b>	<b>0.0</b>	<b>0.5</b>	<b>1.6</b>	<b>3.6</b>

Profit & Loss (A\$m)	2009A	2010F	2011F	2012F
<b>Sales Revenue</b>	<b>0.2</b>	<b>12.0</b>	<b>50.0</b>	<b>88.2</b>
Other Income	4.6	2.3	1.8	2.7
Operating Costs	0.3	4.9	10.9	14.8
Exploration Exp.	0.1	0.0	0.0	0.0
Corporate/Admin	6.5	9.4	17.4	17.8
Royalty	0.0	0.5	2.9	6.7
<b>EBITDA</b>	<b>(2.1)</b>	<b>(0.4)</b>	<b>20.6</b>	<b>51.7</b>
Depn & Amort	0.4	0.3	1.2	2.8
<b>EBIT</b>	<b>(2.5)</b>	<b>(0.7)</b>	<b>19.4</b>	<b>48.8</b>
Interest	0.0	0.3	3.4	5.5
<b>Operating Profit</b>	<b>(2.5)</b>	<b>(1.1)</b>	<b>16.0</b>	<b>43.4</b>
Tax expense	0.0	0.0	0.0	0.0
Minorities	0.0	0.0	0.0	0.0
Discontinued Operations	0.0	0.0	0.0	0.0
<b>NPAT</b>	<b>(2.5)</b>	<b>(1.1)</b>	<b>16.0</b>	<b>43.4</b>

<b>Normalised NPAT</b>	<b>(2.5)</b>	<b>(1.1)</b>	<b>16.0</b>	<b>43.4</b>
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Cash Flow (A\$m)	2009A	2010F	2011F	2012F
Adjusted Net Profit	(2.5)	(1.1)	16.0	43.4
+ Interest/Tax/Expl Exp	0.1	0.3	3.4	5.5
- Interest/Tax/Expl Inc	25.0	22.0	4.0	6.0
+ Depn/Amort	0.4	0.3	1.2	2.8
+/- Other	(0.9)	0.0	0.0	0.0
<b>Operating Cashflow</b>	<b>(28.0)</b>	<b>(22.5)</b>	<b>16.6</b>	<b>45.6</b>
- Capex (+asset sales)	3.5	29.1	43.9	56.1
- Working Capital Increase	0.0	0.0	0.0	0.0
<b>Free Cashflow</b>	<b>(31.5)</b>	<b>(51.6)</b>	<b>(27.3)</b>	<b>(10.4)</b>
- Dividends (ords & pref)	0.0	0.0	0.0	0.0
+ Equity raised	47.9	0.0	0.0	0.0
+ Debt drawdown (repaid)	0.0	20.0	40.0	20.0
+ Other	5.5	0.0	0.0	0.0
<b>Net Change in Cash</b>	<b>22.0</b>	<b>(31.6)</b>	<b>12.7</b>	<b>9.6</b>
Cash at End Period	59.6	28.0	40.7	50.2
Net Cash/(Debt)	59.6	8.0	(19.3)	(29.8)

Balance Sheet (A\$m)	2009A	2010F	2011F	2012F
Cash	59.6	28.0	40.7	50.2
Total Assets	160.0	178.9	234.9	298.3
Total Debt	0.0	20.0	60.0	80.0
Total Liabilities	6.3	26.3	66.3	86.3
Shareholders Funds	153.8	152.7	168.7	212.0

Ratios	2009A	2010F	2011F	2012F
Net Debt/Equity (%)	na	na	11.5	14.0
Interest Cover (x)	na	na	5.7	8.9
Return on Equity (%)	na	na	9.5	20.4

Substantial Shareholders	Shares (m)	%
Santos	175.5	20.0
Tru Energy Investments Pty Ltd	38.5	4.5
Mr Douglas Geoffrey Battersby	35.9	4.2
Mr Dennis James Morton	32.4	3.8
David William King	26.5	3.1

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