

Solid Progress for the March 2009 Quarter

Investment Highlights

- **ESG made solid progress for the quarter including completion of the first two multilateral development wells, independent certification of a contingent resource totalling 6,128PJ (3C) and ongoing exploration.** ESG is on track to achieving production from its pilot wells mid-year and reserve targets of 1300PJ of 2P by year end. ESG provide a strong investment opportunity with targeted growth supported by a strong sector and ongoing value drivers. **We maintain our BUY recommendation with a price target of \$1.00/sh.**
- **Completion of the first two multilateral production wells.** ESG significantly de-risked the development strategy with successful completion of the first two development wells and early water flow indicative of a high connectivity and a pre-cursor to good gas flows. The first multilateral is on pump with the second to follow shortly. While peak production could 9-12 months, we anticipate release of material production data around mid-year which should support reserve assessment for the first two wells.
- **Field development well underway.** Installation of the flowline from the Bohena project area to the Wilga Park Power Station is well progressed to meet commissioning of the 1st of 12 new 3MW generators in June 2009. This upgrade will assist in reserve certification and monetise early production. The remaining units will need to be confirmed shortly to meet projected pilot production.
- **ESG are fully funded to meet 2009 targets and beyond after completing a successful \$50m capital placement.**
- **Reserve targets to drive growth.** ESG look certain to meet 2009 reserve targets with the first two wells likely to be sufficient to prove up 1300PJ alone. ESG has flagged the completion of up to 4 additional multilateral production pilots, suggesting that the final figure could be well north of the target. The first reserve upgrade will likely be the Sep Q following assessment of the first two wells. We anticipate completion of all 6 x multilaterals by year end.

Year End June 30	2007A	2008A	2009F	2010F	2011F
Reported NPAT (\$m)	(13.5)	(4.2)	(2.5)	(2.6)	13.9
Recurrent NPAT (\$m)	(13.5)	(4.2)	(2.5)	(2.6)	13.9
Recurrent EPS (cents)	(2.0)	(0.5)	(0.3)	(0.3)	1.6
EPS Growth (%)	na	na	na	na	na
PER (x)	(36.5)	(138.2)	(242)	(245.5)	46.3
EBITDA (\$m)	(12.9)	(3.9)	(2.3)	(1.4)	19.2
EV/EBITDA (x)	(38.1)	(139.7)	(243.8)	(450)	35.0
Capex (\$m)	0.0	0.1	11.6	41.9	43.9
Free Cashflow	(14.1)	(9.5)	(35.8)	(53.7)	(29.4)
FCFPS (cents)	(2.1)	(1.2)	(4.3)	(6.1)	(3.3)
PFCF (x)	(35.0)	(61.0)	(17.1)	(12.0)	(22.0)
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

29 April 2009

12mth Rating

BUY

Price	A\$	0.74
Target Price	A\$	1.00
12m Total Return	%	36.5

RIC: **ESG.AX**

BBG: **ESG AU**

Shares o/s	m	853.9
Free Float	%	100.0
Market Cap.	A\$m	627.6
Net Debt (Cash)	A\$m	-68.0
Net Debt/Equity	%	na
3m Av. D. T'over	A\$m	1.35
52wk High/Low	A\$	0.93/0.21
2yr adj. beta		1.35

Valuation:

Methodology		NPV
Value per share	A\$	1.00

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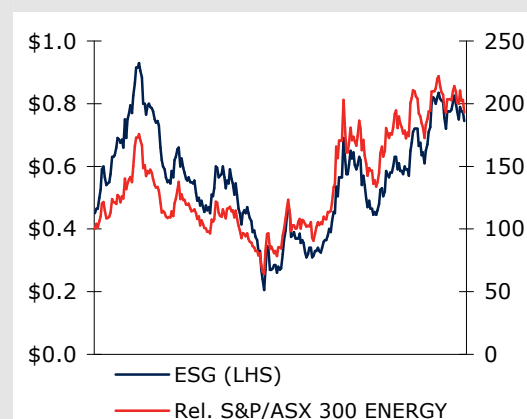
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Disclosure: Patersons Securities was the Lead Manager to the rights issue in 2005, Lead Manager for a \$10M Share Placement in Feb 2007, Lead Manager for a \$28.85M Share Placement in Sept 2007 and Lead Manager for a \$50m placement in March 2009.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

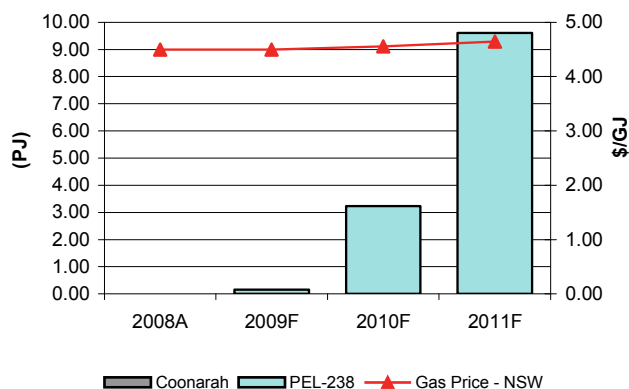
12 Month Share Price Performance



Performance %	1mth	3mth	12mth
Absolute	6.6	44.4	109.7
Rel. S&P/ASX 300	4.2	50.0	210.5

Eastern Star Gas (ESG)**\$0.74**

Valuation	A\$m	A\$/sh	
Wilga Park	26	0.03	
Booked Reserves	336	0.38	
12-month Target Reserves	482	0.55	
Corporate	(32)	(0.04)	
Cash	68	0.08	
Other	2	0.00	
Debt	0	0.00	
Total @ 10% Discount Rate	881	1.00	
Price Target	881	1.00	
Price Target Sensitivity	-10%	0%	+10%
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)
2P Reserves			
PEL-238	0.0	218.4	37.6
Total Group	0.0	218.4	37.6

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	2008A	2009F	2010F	2011F
A\$:US\$	0.79	0.90	0.71	0.67
Crude Oil - WTI (USD/bbl)	96.97	65.44	57.50	77.50
Gas Price - East Coast Australia	3.50	3.50	3.54	3.62
Gas Price - NSW	4.50	4.50	4.56	4.65

Production Summary	2008A	2009F	2010F	2011F
Coonarah	0.00	0.00	0.00	0.00
PEL-238	0.0	0.2	3.2	9.6
Total (PJ)	0.0	0.2	3.2	9.6
Coonarah	0.0	0.0	0.0	0.0
PEL-238	0.0	0.0	0.5	1.6
Total (mmboe)	0.0	0.0	0.5	1.6

Profit & Loss (A\$m)	2008A	2009F	2010F	2011F
Sales Revenue	0.3	0.9	13.0	50.3
Other Income	2.2	4.6	2.3	1.9
Operating Costs	0.9	0.6	5.0	10.9
Exploration Exp.	0.2	0.0	0.0	0.0
Corporate/Admin	5.3	7.2	11.2	19.1
Royalty	0.0	0.0	0.5	2.9
EBITDA	(3.9)	(2.3)	(1.4)	19.2
Depn & Amort	0.3	0.2	0.3	1.2
EBIT	(4.2)	(2.5)	(1.8)	18.0
Interest	0.0	0.0	0.9	4.1
Operating Profit	(4.2)	(2.5)	(2.6)	13.9
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
NPAT	(4.2)	(2.5)	(2.6)	13.9
Normalised NPAT	(4.2)	(2.5)	(2.6)	13.9

Cash Flow (A\$m)	2008A	2009F	2010F	2011F
Adjusted Net Profit	(4.2)	(2.5)	(2.6)	13.9
+ Interest/Tax/Expl Exp	0.2	0.0	0.9	4.1
- Interest/Tax/Expl Inc	5.7	19.7	10.4	4.7
+ Depn/Amort	0.3	0.2	0.3	1.2
+/- Other	0.0	(2.1)	0.0	0.0
Operating Cashflow	(9.4)	(24.1)	(11.8)	14.6
- Capex (+asset sales)	0.1	11.6	41.9	43.9
- Working Capital Increase	0.0	0.0	0.0	0.0
Free Cashflow	(9.5)	(35.8)	(53.7)	(29.4)
- Dividends (ords & pref)	0.0	0.0	0.0	0.0
+ Equity raised	50.5	48.0	0.0	0.0
+ Debt drawdown (repaid)	0.0	0.0	30.0	40.0
+ Other	(5.6)	4.9	0.0	0.0
Net Change in Cash	35.5	17.2	(23.7)	10.6
Cash at End Period	37.5	54.7	31.0	41.6
Net Cash/(Debt)	37.5	54.7	1.0	(28.4)

Balance Sheet (A\$m)	2008A	2009F	2010F	2011F
Cash	37.5	54.7	31.0	41.6
Total Assets	108.1	161.5	188.8	242.8
Total Debt	0.0	0.0	30.0	70.0
Total Liabilities	2.6	5.4	35.4	75.4
Shareholders Funds	105.5	156.1	153.4	167.4

Ratios	2008A	2009F	2010F	2011F
Net Debt/Equity (%)	na	na	na	17.0
Interest Cover (x)	na	na	na	4.4
Return on Equity (%)	na	na	na	8.3

Substantial Shareholders	Shares (m)	%
Hillgrove Resources Ltd	151.8	17.8
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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