



13 December 2007

EASTERN STAR GAS CONTRACTS DRILL RIG FOR 3 YEARS FOR COAL SEAM GAS EXPLORATION

Eastern Star Gas Limited (ASX: ESG) will expedite exploration at its Narrabri Coal Seam Gas Project in Northern NSW after entering into a General Services Agreement ('GSA') with McDermott Drilling Pty Ltd (wholly owned by AJ LUCAS Group) to secure exclusive access to a Schramm TXD Rotadrill 180 drilling rig for a minimum three year period.

The rig is a new build with state of the art automated pipe handling equipment. It is sized to accommodate all activities envisaged within the PEL 238 area, including drilling of multi-lateral wells with up to 1000 metres in seam.

The rig will be primarily used for drilling coal seam gas exploration and production wells in the area of Petroleum Exploration Licence 238 ("PEL 238"), but may also be used for exploration drilling in other areas that are presently being investigated by the Company, said Mr David Casey, Managing Director of Eastern Star Gas.

"Dedicated access to the Schramm 180 drilling rig will allow exploration activity within PEL 238 to be expedited," Mr Casey said.

"In addition to near term exploration drilling, the rig will be used for drilling multiple gas production wells to be brought on line progressively as customer offtakes ramp-up".

"The GSA with McDermott Drilling ensures Eastern Star's drilling programmes can be executed in a timely, cost-effective manner despite the underlying east-coast shortage of equipment and manpower that has resulted from high levels of activity in the coal seam gas industry".

Eastern Star Gas will undertake a substantial exploration drilling programme within PEL 238 during 2008. A number of additional pilot production projects, involving either fracture-stimulated vertical wells or multi-lateral wells, will be completed with a view to increasing the independently verified coal seam gas reserves of the area. In turn, this will underwrite requirements for supply of gas under potential gas sales arrangements based upon MOU's already announced with major electricity generators.

The Gunnedah Basin Gas Project (Coal Seam Gas) Joint Venture is located near Narrabri, NSW, within PEL 238. PEL 238 covers 9,100 km² and contains one of the largest onshore natural gas accumulations in Australia, alone totalling 17,000 PJ (17 TCF) of gas-in-place. The 265 km² Bohena Project Area within the PEL contains up to 3,700 PJ gas-in-place and is currently undergoing production testing at the Bibblewindi and Bohena Production Pilots. On the basis of

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the production pilots, which represent less than one percent of the total permit area underlain by coal, 2P gas reserves totalling 59 Petajoules (of which 21 PJ are classified as 1P reserves) have been independently certified.

Eastern Star Gas holds 65% of the Joint Venture while Gastar Exploration Ltd holds the remaining 35%.

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