

Quarterly Report - March 2009

KEY POINTS

Independently Certified Contingent Resources Announced

Independently certified Contingent Resources totalling 6,128 PJ (as at 31 December 2008) were announced for PEL 238 on 18 February 2009. ESG's 65% share of the Contingent Resource, which is in addition to certified Proved, Probable and Possible gas reserves, is 3,983 PJ.

First Multi-lateral Production Pilots Completed and On-line

ESG has finished drilling the first two Multi-lateral Production Pilots about 4 km south of the existing Bibblewindi Production Pilot. Each Multi-lateral Production Pilot incorporates three vertical wells and two lateral wells, the latter being drilled from a common location. The first of the Multi-lateral production Pilots has been completed (ie, pumps and wellhead facilities installed and connected) and is on line. Completion of the second pilot is underway.

Work Continuing on Bibblewindi Flowline and Wilga Park Expansion

Construction of the flowline from Bibblewindi to Wilga Park and installation at Wilga Park of the first new 3 MW gas engine driven generator is underway with a start up planned for June 2009.

Farmin Work Programme Advanced

Performance of the stage one farmin work programme commitments for Petroleum Exploration Licences 6, 427 and 428 is well advanced. Acquisition of 100 km of 2D seismic for the Moree North Seismic Survey (PEL 6) and drilling of the Moree-4 (PEL 427) and Kurrabooma-1 (PEL 428) coreholes has been completed.

Successful \$50m Capital Raising

ESG raised \$50 million through a partially underwritten and heavily oversubscribed placement. The capital raising involved the issue of 90,909,100 ordinary shares at a price of \$0.55 each.

Inclusion in S&P/ASX 200

With effect from close of trade on 20 March 2009, ESG was included in the S&P/ASX 200.

Key Objective

ESG's key objective remains the continuation of its CSG reserves upgrade programme, achieving certified 2P gas reserves of at least 1,300 PJ by the end of 2009

ACTIVITIES REPORT

Eastern Star Gas Limited and its subsidiaries (“ESG”) have progressed exploration, appraisal and production operations across the company’s licence areas during the first quarter of 2009, with continued primary focus on commercialisation and development of the coal seam gas resource of Petroleum Exploration Licence 238. ESG is undertaking a programme of work with the objective of increasing 2P coal seam gas reserves of the Narrabri Coal Seam Gas Project to 1,300 PJ (of which ESG’s share is 65%) by the end of 2009.

Principal project activities during the Quarter were:

1. OPERATIONS

PEL 238, PAL 2 and PPL 3
Gunnedah Basin, New South Wales
Conventional Gas Rights: 100%
Coal Seam Gas Rights: 65%

The Narrabri Coal Seam Gas Project (operated by ESG in Joint Venture with Gastar Exploration Ltd) is based upon the coal seam gas resources of Petroleum Exploration Licence 238 (PEL 238), Petroleum Assessment Lease 2 (PAL 2) and Petroleum Production Licence 3 (PPL 3). PPL 3 also contains the Coonarah Gas Field, a conventional natural gas reservoir.

Narrabri Coal Seam Gas Project

i) Management of existing Production Pilots

The existing nine well Bibblewindi and three well Bohena Production Pilots, both of which are located within PAL 2 (the ‘Bohena Project Area’), were developed to assess the coal seam gas potential of the Early Permian Maules Creek Formation coal measures. Gas production from both Production Pilots continued during the Quarter.

PAL 2 covers a 265 km² area that was originally part of, but was excised from, PEL 238. The assessment lease facilitates ongoing assessment of coal seam gas reserves and production economics in advance of eventual grant of a production licence.

PAL 2 incorporates an umbilical area that connects to the Wilga Park Power Station site, and within which a gas flowline is presently being constructed to allow pilot production gas to be transported to and used in the power station.

Approval for construction of the flowline and for expansion of the power station was received on 7 December 2008 pursuant to Part 3A of the NSW Environmental Planning and Assessment Act 1979.

Water produced from the Bibblewindi Pilot is processed through a reverse osmosis water treatment plant, trialling of which has demonstrated the plant operates reliably to design specifications.

ii) Multi-lateral Production Pilots

Up to six multi-lateral Production Pilots will be developed as part of the 2008/09 coal seam gas exploration and appraisal programme.

Drilling of the first two Multi-lateral Production Pilots, located approximately 4 km to the south of the nine-spot Bibblewindi Production Pilot and each comprising three vertical production wells and two lateral wells (drilled from a common location), was finished during the Quarter.

The vertical production wells of the first Multi-lateral Production Pilot, namely Bibblewindi 12, 13 and 14, have been completed (ie, pumps installed and wells tied-in to gas and water handling systems) and are on-line. Completion of the vertical production wells of the second Multi-lateral Production Pilot, namely Bibblewindi 15, 16 and 17, is underway.



Illustrative Layout of First Multi-lateral Production Pilot

The Multi-lateral Production Pilots have been designed to take advantage of the unique, vertically-fractured architecture of target coal seams. It is predicted that the multi-lateral wells will achieve gas production levels 5 to 10 times that achievable with vertical, fracture stimulated wells similar to those used in the existing production pilots.

Preliminary confirmation of the success of the Multi-lateral design was obtained during drilling of the first Multi-lateral Production Pilot. During an open hole flow test carried out after drilling of the first lateral, the well free-flowed in excess of 1,800 barrels of water per day. During a free-flow test after drilling of the second lateral, the well free-flowed in excess of 3,400 barrels of water per day. The high free-flow rates demonstrate that the lateral wells have maximised connectivity with the natural fracture network of the coal.

iii) Coal Seam Gas Exploration and Appraisal

In addition to the drilling of Multi-lateral Production Pilots, addressed above, key components of the 2008/09 coal seam gas exploration and appraisal programme are as follow:

- Drilling of up to 20 coreholes, of which seven have now been completed. The seventh corehole, Blue Hills 1, was drilled during February 2009. Located approximately 17 kilometres north northwest of Narrabri, the Blue Hills 1 corehole evaluated the Black Jack and Maules Creek formations in a trough that extends to the northern border of PEL 238. The corehole intersected 10.34 metres of net coal including a 9.94 metre thick Hoskissons seam. Initial gas desorption results, which indicate high gas contents, combined with the high permeability measured during drill stem testing have elevated the prospectivity of the northern extent of PEL 238. Drilling in the next quarter will focus on locations adjacent to previous conventional wells in the Coonarah, Brigalow Park and Wilga Park areas where early booking of reserves will be possible.
- Acquisition of new 2D seismic and reprocessing of up to 2,000 km of historic seismic. To date 170 km of new 2D seismic data has been acquired and 650km of existing data has been identified for reprocessing. Processing of both new and existing data was completed by the end of the quarter and interpretation for incorporation into the geologic model commenced. To date six step-out appraisal wells in the Bibblewindi / Dewhurst area have been identified, four of which will be production wells and two will be coreholes.

The objective of the 2008/09 exploration and appraisal programme is to accelerate upgrading of gas reserves to achieve a target level of 1,300 PJ of 2P reserves by the end of 2009.

(iv) Gas Reserves Upgrade

The first independent Contingent Resource certification for the Narrabri Coal Seam Gas Project, totalling 6,128 PJ (as at 31 December 2008) was announced on 18 February 2009. ESG's share of the Contingent Resource, which is in addition to certified Proved, Probable and Possible (3P) gas reserves, is 3,983 PJ.

Narrabri CSG Project - Gas Reserves and Contingent Resource

Reserves	1P	2P	3P
(30 September 2008)	21 PJ	336 PJ	1,300 PJ
Contingent Resources	1C	2C	3C
(31 December 2008)	1,195 PJ	3,053 PJ	6,128 PJ

The figures tabulated above have been independently certified by Netherland, Sewell & Associates, Inc., Dallas, Texas, USA. ESG has a 65% net interest in the tabulated reserves and contingent resources.

Coonarah Gas Field

Gas produced from the Early Permian Maules Creek Formation sandstone reservoir in the Coonarah Gas Field is delivered to the Wilga Park Power Station for use in electricity generation. Gas deliverability from the Coonarah Gas Field continues to be low.

CSG potential in both the Hoskissons and Bohena seams, will be targeted in the next quarter with a step-out corehole planned to identify a suitable location for a production pilot. This area has the distinct advantage for rapid commencement of production testing as gas flowlines and facilities connected to the Wilga Park Power Station are already in place.

The sale to Gastar Exploration Ltd, ESG's joint venture partner in the Narrabri CSG Project, of a 35% interest in PPL 3 and the Wilga Park Power Station was completed on 19 February 2009. ESG's interest in the conventional gas right of PPL3 is now 65% (down from 100%). ESG's interest in the Coal Seam Gas rights of PPL3 is unchanged at 65%

Wilga Park Power Station

Interest 100%

The Wilga Park Power Station incorporates four 1 MW reciprocating gas-engine driven generators. Gas for operation of the power station is presently sourced from the Coonarah Gas Field (within PPL 3). The Wilga Park Power Station continues to operate reliably, with all electricity generated, and associated NSW Greenhouse Gas Abatement Certificates ("NGACs"), being sold to Country Energy under a 10 year Power Purchase Agreement (PPA).

Low gas deliverability from the Coonarah Gas Field has resulted in the power station continuing to operate at significantly less than its installed capacity. This situation is expected to continue until the second quarter 2009, when delivery to the power station of coal seam gas from the Bohena Project Area commences.

Approval for construction of a flowline from the Bohena Project area and for expansion of the power station was received on 7 December 2008 pursuant to Part 3A of the NSW Environmental Planning and Assessment Act 1979. Installation at Wilga Park of the first of up to twelve new 3 MW gas engine driven generators is underway, with commissioning scheduled for June 2009.

Total electricity sales for the quarter amounted to \$37,000.

PELs 433 and 434

Gunnedah Basin, New South Wales

Conventional Gas Rights: 100%

Coal Seam Gas Rights: 65% interest

Analysis of core samples acquired from coreholes drilled during 2007 on the eastern side of PEL 433 near the Bando Trough has indicated low gas contents and saturations within the Hoskissons seam target. Based on these results, efforts are now focussed on locations in the Tooraweenah Trough in the west of PEL 433 and southern PEL 434 where the Hoskissons seam is deeper and where Maules Creek coals have been identified by previous drilling. Planning of a seismic survey to primarily target the Maules Creek coals is currently underway and locations for testing the Hoskissons seam are under investigation.

PELs 6, 427 and 428

Bowen, Surat and Northern Gunnedah Basins, New South Wales

Coal Seam Gas Rights (respectively): 50%, 50% and 40%

Performance of first stage work programme commitments for farmin to Petroleum Exploration Licences 6, 427 and 428 began on 6 February 2009 when the Moree North Seismic Survey was commenced. The Moree North Seismic Survey involved the acquisition of 100 line kilometres of 2D seismic within Petroleum Exploration Licence 6.

Subsequently, the following additional farmin commitments have also been undertaken:

The Moree-4 corehole, 20 km north northwest of Moree within PEL 427, was completed on 27 March 2009 to provide the first definitive CSG test of the Cretaceous Coreena Member in the region. Approximately 4.9 net metres of gassy coal was intersected. Testing of core samples and analysis of wireline log data is now underway.

The Kurrabooma-1 corehole, 70 km west of Moree, was completed on 17 April 2009 as the first petroleum well drilled in northern PEL 428. The well was designed to provide the first detailed dataset on the Cretaceous Coreena Member in the licence. Approximately 4.6 net metres of gassy coal was intersected. Testing of core samples and analysis of wireline log data is now underway.

After analysis of seismic data acquired during the Moree North Seismic Survey, two coreholes will also be drilled in PEL 6. These wells will target different CSG targets to the first farmin coreholes with well designs currently under consideration to target coals in the Triassic Moolayember Formation and/or the Permian section. Importantly, initial interpretation of the seismic data has reinforced the pre-seismic geological model which predicted the presence of Permian coal at prospective depths for CSG on the eastern side of PEL 6. These coals are the lateral equivalents of the Bowen Basin coals which are on production in Queensland, and the Gunnedah Basin coals which are under extensive investigation to the south in New South Wales. Should drilling confirm their presence these coals provide exciting upside to the CSG potential of PEL 6. These two proposed coreholes will complete both the first and second stage farmin work commitments.

An ESG internal estimate indicates that the prospects to be investigated as part of the farm-in could contain a high-side prospective gas resource of 3,500 Bcf.

Exploration Expenditure

The total cash expenditure incurred on exploration and evaluation activities during the quarter was \$7.03 million which included payments for the construction of gas and water pipelines.

2. ELECTRICITY GENERATION AND SALES

- The Wilga Park Power Station continued to operate reliably, but at less than available capacity owing to an ongoing shortfall in deliverability of gas from the Coonarah Gas Field.
- All electricity output was delivered and sold, together with the created NSW Greenhouse Abatement Certificates, to Country Energy under a 10 year Power Purchase Agreement (PPA) which is presently in its fifth year.
- Gas produced from the Bibblewindi, Bohena and future production pilots will be utilised at the Wilga Park Power Station following completion of a new gas flowline. Construction of the flowline commenced during December 2008 but has been delayed by wet weather and a need to replace a quantity of fibreglass pipe following identification of a manufacturing defect.
- The Wilga Park Power Station will be progressively expanded as pilot gas production quantities rise. A commitment has been made to Clarke Energy Australia Pty Ltd for staged installation of 3 MW Jenbacher gas engine driven generators. Installation of the first 3 MW generator is underway. The new generator is scheduled to be available for operation in June 2009. Commitments for installation of additional generators will be made as appropriate to match gas availability.

3. CORPORATE

Capital Raising Completed

On 17 March 2009 ESG finalised its \$50 million placement which was partially underwritten and heavily oversubscribed. The capital raising involved the issue of 90,909,100 ordinary shares at a price of \$0.55 each. The capital raising ensures ESG has the financial capability to continue its CSG reserves upgrade programme.

Inclusion in S&P/ASX 200

With effect from close of trade on 20 March 2009, ESG was included in the S&P/ASX 200.

Cash Position

Total cash at the end of the quarter was \$68.1million.

David Casey,
Managing Director
29 April 2009

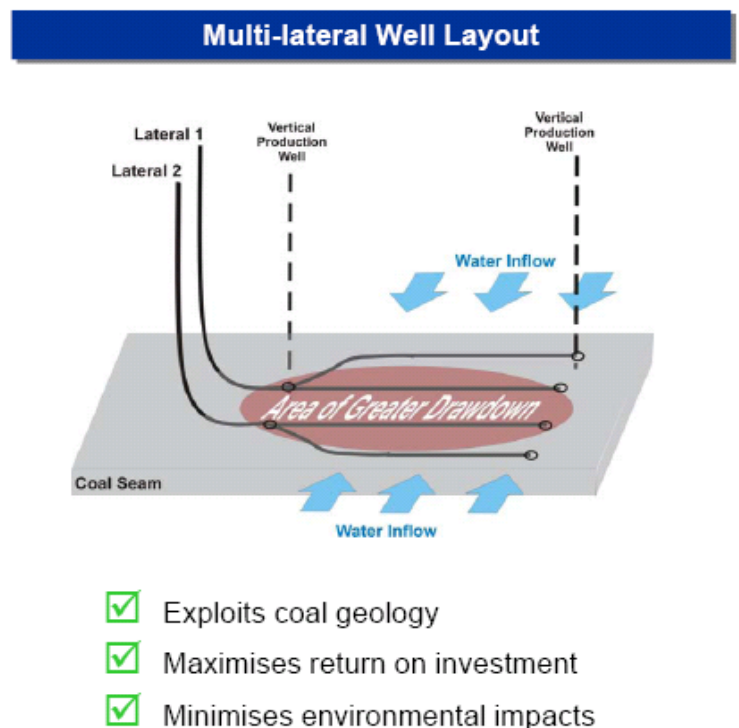
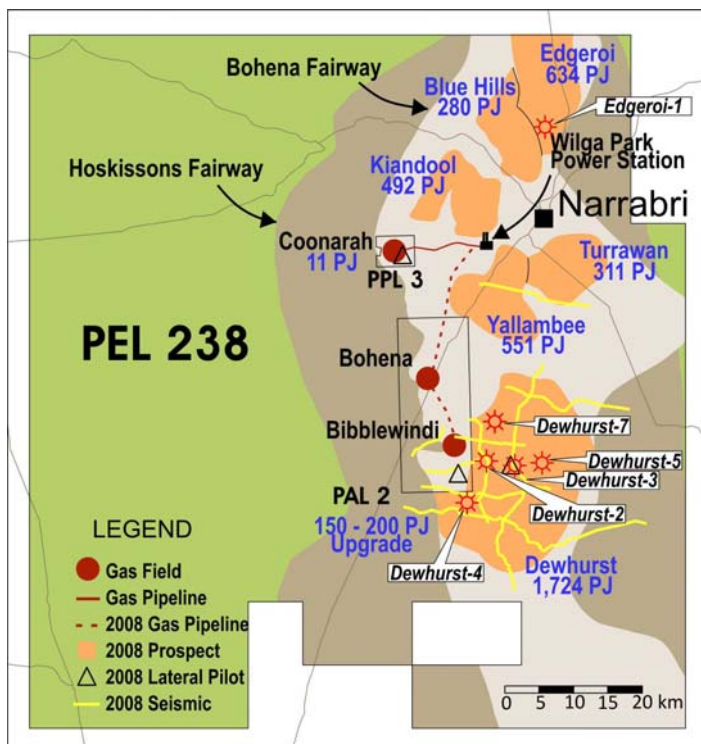
About ESG

(ASX:ESG OTC:ESGLY) is focused on exploration, development and production of coal seam gas in Australia.

The company's main activity, the Narrabri Coal Seam Gas Project, is located in Petroleum Exploration Licence 238 adjacent to the township of Narrabri in the state of New South Wales Australia. ESG holds a 65.0% interest in the PEL 238 and is the operator. The remaining 35% interest is held by Gastar Exploration Limited (AMEX: GST TSX: YGA). PEL 238 covers 9,100 kms² (2.25 million acres) of the Gunnedah Basin, the most lightly explored portion of the Bowen-Gunnedah-Sydney Basin complex which presently supplies the dominant proportion of Australia's coal seam gas production. Production testing is underway at two locations (Biblewindi and Bohena) and, on the basis of the production pilots and the first four coreholes drilled in the Dewhurst area, 2P gas reserves of 336 Petajoules and 3P gas reserves of 1,300 Petajoules were independently certified as at on 30 September 2008.

Further reserves will be generated in 2008/09 in PEL238 through the current corehole programme and the completion of 4 multi-lateral production pilot wells at Biblewindi and Dewhurst. The in-seam, or horizontal, section of the multi-lateral wells will have a notional length of around 1 km (3,300 feet), and will be drilled perpendicular to the fracture system within the target coal seams to maximise connectivity resulting in many times greater flow rates than can be achieved from vertical, fracture-stimulated wells.

Test gas from the production pilots will be connected into ESG's Wilga Park Power Station which will, be expanded to take production test gas in addition to gas currently supplied from ESG's Coonarah gas field. MOU's for the supply of gas from PEL 238 have been signed with Macquarie Generation (up to 500 PJ) and Babcock & Brown (up to 40 PJ/a).



This announcement contains forward-looking statements that are subject to risks and uncertainties. These forward-looking statements include information about possible or assumed future results of our business, financial condition, liquidity, results of operations, plans and objectives. In some cases, you may identify forward-looking statements by words such as "may," "should," "plan," "intend," "potential," "continue," "believe," "expect," "predict," "anticipate" and "estimate," the negative of these words or other comparable words. These statements are only predictions. One should not place undue reliance on these forward-looking statements. The forward-looking statements are qualified by their terms and/or important factors, many of which are outside the Company's control, involve a number of risks, uncertainties and other factors that could cause actual results and events to differ materially from the statements made. The forward-looking statements are based on the Company's beliefs, assumptions and expectations of our future performance, taking into account information currently available to the Company. These beliefs, assumptions and expectations can change as a result of many possible events or factors, including those events and factors described in "Risk Factors" in the prospectus, not all of which are known to the Company. Neither the Company nor any other person assumes responsibility for the accuracy or completeness of these statements. The Company will update the information in this press release only to the extent required under applicable securities laws. If a change occurs, the Company's business, financial condition, liquidity and results of operations may vary materially from those expressed in the aforementioned forward-looking statements.

For further information contact:

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ASX : ESG



Class: American Depositary Receipts
Ratio: 1ADR=20 ASX Ordinary Shares

OTCQX: ESGLY

Appendix 5B

Mining exploration entity quarterly report

Introduced 1/7/96. Origin: Appendix 8. Amended 1/7/97, 1/7/98, 30/9/2001.

Name of entity

EASTERN STAR GAS LIMITED

ABN

29 094 269 780

Quarter ended ("current quarter")

31 MARCH 2009

Consolidated statement of cash flows

	Current quarter \$A'000	Year to date (9 months) \$A'000
Cash flows related to operating activities		
1.1 Receipts from product sales and related debtors	37	172
1.2 Payments for (a) exploration and evaluation	(7,030)	(16,512)
(b) development	(1,696)	(1,989)
(c) production	(170)	(464)
(d) administration	(1,616)	(3,870)
1.3 Dividends received	-	-
1.4 Interest and other items of a similar nature received	228	1,412
1.5 Interest and other costs of finance paid	-	-
1.6 Income taxes paid	-	-
1.7 Other	(537)	(317)
Security deposit paid	(30)	(105)
Security deposit refund	-	46
Reimbursement of share on cancellation of royalty in PEL 238 received.	-	1,332
Net Operating Cash Flows	(10,814)	(20,295)
Cash flows related to investing activities		
1.8 Payment for purchases of: (a)prospects	-	-
(b)equity investments	-	-
(c) other fixed assets	(80)	(972)
1.9 Proceeds from sale of: (a)prospects	-	-
(b)equity investments	-	-
(c)other fixed assets	4,686	4,686
1.10 Loans to other entities	(945)	(945)
1.11 Loans repaid by other entities	-	-
1.12 Other – Payment for farm-in exploration costs	-	(130)
– Reimbursement of office fit-out	159	159
Net investing cash flows	3,820	2,798
1.13 Total operating and investing cash flows (carried forward)	(6,994)	(17,497)

+ See chapter 19 for defined terms.

Appendix 5B
Mining exploration entity quarterly report

1.13	Total operating and investing cash flows (brought forward)	(6,994)	(17,497)
	Cash flows related to financing activities		
1.14	Proceeds from issues of shares, options, etc.	47,894	48,006
1.15	Proceeds from sale of forfeited shares	-	-
1.16	Proceeds from borrowings	-	-
1.17	Repayment of borrowings	-	-
1.18	Dividends paid	-	-
	Net financing cash flows	47,894	48,006
	Net increase (decrease) in cash held	40,900	30,509
1.20	Cash at beginning of quarter/year to date	27,145	37,536
1.21	Exchange rate adjustments to item 1.20	-	-
1.22	Cash at end of quarter	68,045	68,045

Payments to directors of the entity and associates of the directors

Payments to related entities of the entity and associates of the related entities

	Current quarter \$A'000
1.2 Aggregate amount of payments to the parties included in item 1.2	564
1.2 Aggregate amount of loans to the parties included in item 1.10	
1.2 Explanation necessary for an understanding of the transactions	

Salaries, fees and superannuation contributions for executive and non executive directors. Bonuses to executive directors.

Non-cash financing and investing activities

- 2.1 Details of financing and investing transactions which have had a material effect on consolidated assets and liabilities but did not involve cash flows

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- 2.2 Details of outlays made by other entities to establish or increase their share in projects in which the reporting entity has an interest

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+ See chapter 19 for defined terms.

Financing facilities available

Add notes as necessary for an understanding of the position.

	Amount available \$A'000	Amount used \$A'000
3.1 Loan facilities		
3.2 Credit standby arrangements		

Estimated cash outflows for next quarter

	\$A'000
4.1 Exploration and evaluation	12,900
4.2 Development	3,100
Total	16,000

Reconciliation of cash

Reconciliation of cash at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts is as follows.

	Current quarter \$A'000	Previous quarter \$A'000
5.1 Cash on hand and at bank	50,917	1,670
5.2 Deposits at call	17,128	25,475
5.3 Bank overdraft		
5.4 Other (provide details)		
Total: cash at end of quarter (item 1.22)	68,045	27,145

Changes in interests in mining tenements

	Tenement reference	Nature of interest (note (2))	Interest at beginning of quarter	Interest at end of quarter
6.1	Interests in mining tenements relinquished, reduced or lapsed			
6.2	Interests in mining tenements acquired or increased			

+ See chapter 19 for defined terms.

Appendix 5B
Mining exploration entity quarterly report

Issued and quoted securities at end of current quarter

Description includes rate of interest and any redemption or conversion rights together with prices and dates.

	Total number	Number quoted	Issue price per security (see note 3) (cents)	Amount paid up per security (see note 3) (cents)
7.1 Preference + securities <i>(description)</i>				
7.2 Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs, redemptions				
7.3 +Ordinary securities	853,909,793	816,234,793		
7.4 Changes during quarter (a) Increases through issues: Placement to institutional and sophisticated investors (b) Decreases through returns of capital, buy-backs	90,909,091	90,909,091	\$0.55	\$0.55

+ See chapter 19 for defined terms.

7.5	+Convertible debt securities <i>(description)</i>				
7.6	Changes during quarter (a) Increases through issues: (b) Decreases through securities matured, converted: Converting Notes maturing on 30 October 2011				
7.7	Options <i>(description and conversion factor)</i>	24,250,000		<i>Exercise price</i> \$0.15	<i>Expiry date</i> 30 October 2009
7.8	Issued during quarter				
7.9	Exercised during quarter				
7.10	Expired during quarter				
7.11	Debentures <i>(totals only)</i>				
7.12	Unsecured notes <i>(totals only)</i>				

Compliance statement

- 1 This statement has been prepared under accounting policies which comply with accounting standards as defined in the Corporations Act or other standards acceptable to ASX (see note 4).
- 2 This statement does give a true and fair view of the matters disclosed.

+ See chapter 19 for defined terms.

Sign here:



Date: 29 April 2009
(Company secretary)

Print name: Ian Kirkham

Notes

- 1 The quarterly report provides a basis for informing the market how the entity's activities have been financed for the past quarter and the effect on its cash position. An entity wanting to disclose additional information is encouraged to do so, in a note or notes attached to this report.
- 2 The "Nature of interest" (items 6.1 and 6.2) includes options in respect of interests in mining tenements acquired, exercised or lapsed during the reporting period. If the entity is involved in a joint venture agreement and there are conditions precedent which will change its percentage interest in a mining tenement, it should disclose the change of percentage interest and conditions precedent in the list required for items 6.1 and 6.2.
- 3 **Issued and quoted securities** The issue price and amount paid up is not required in items 7.1 and 7.3 for fully paid securities.
- 4 The definitions in, and provisions of, *AASB 1022: Accounting for Extractive Industries* and *AASB 1026: Statement of Cash Flows* apply to this report.
- 5 **Accounting Standards** ASX will accept, for example, the use of International Accounting Standards for foreign entities. If the standards used do not address a topic, the Australian standard on that topic (if any) must be complied with.

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