



Monthly Drilling Report

Sydney, Australia - 1 September, 2010 - Eastern Star Gas Limited (ASX:ESG OTCQX:ESGLY) today announced its monthly drilling update on its coal seam gas drilling operations in PEL 433 around the township of Gilgandra, in Northern New South Wales Australia.

Dilly 1 Corehole

Spud Date: 1/08/2010
Rig Release Date: 20/08/2010
Permit: PEL 433 - ESG 65% interest & Santos QNT 35% interest.
Location: Latitude: 31 30' 06.29"S
Longitude: 148 59' 26.81"E
Rig: Boart Longyear 1200-1

Objective:

The Dilly 1 exploration corehole is located approximately 40 km southwest from the township of Coonabarabran in the northern region of PEL 433. The well was designed as a reconnaissance exploration well to evaluate the coal seam gas characteristics of the Late Permian Black Jack Formation coal seams in the Tooraweenah Trough.

Well Status/Results:

Dilly 1 has reached a total depth of 739m. From wireline logs run at total depth it is interpreted the well has intersected 15.5m of net coal within the Black Jack Formation.

Current Operations:

Rig released to drill Ellendale 1 corehole.

Ellendale 1 Corehole

Spud Date: 23/08/2010

Rig Release Date:

Permit: PEL 433 - ESG 65% interest & Santos QNT 35% interest.

Location: Latitude: 31 49' 23.60"S
Longitude: 148 50' 17.23"E

Rig: Boart Longyear 1200-1

Objective:

The Ellendale 1 exploration corehole is located approximately 25 km southeast from the township of Gilgandra in the western region of PEL 433. The well was designed as a reconnaissance exploration well to evaluate the coal seam gas characteristics of the Late Permian Black Jack Formation coal seams in the Tooraweenah Trough.

Well Status/Results:

At the report date, Ellendale 1 has reached a depth of 405m. Preliminary indications suggest the well has intersected 5m of coal in the Black Jack Formation to date.

Current Operations:

Currently coring ahead to total depth.

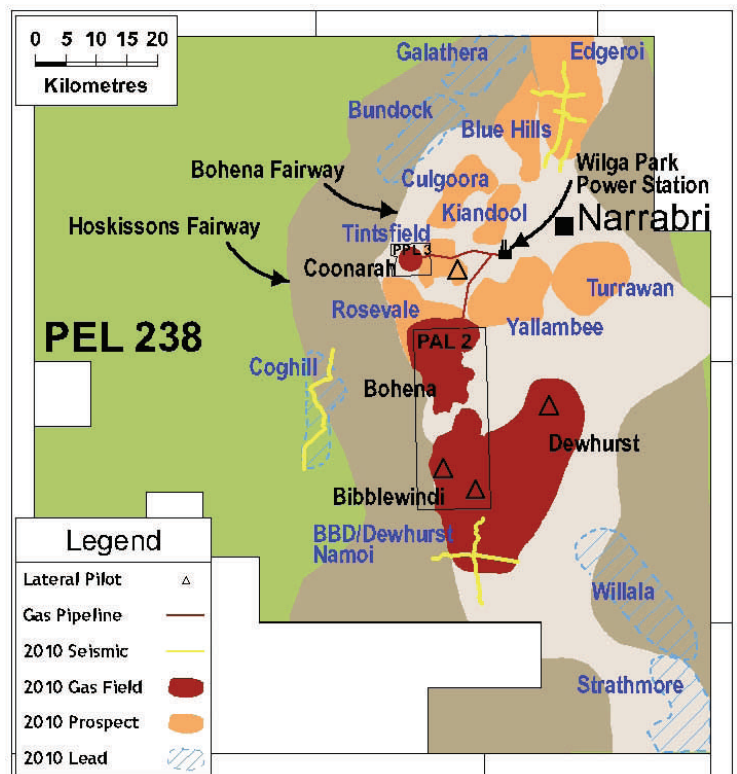
About ESG

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

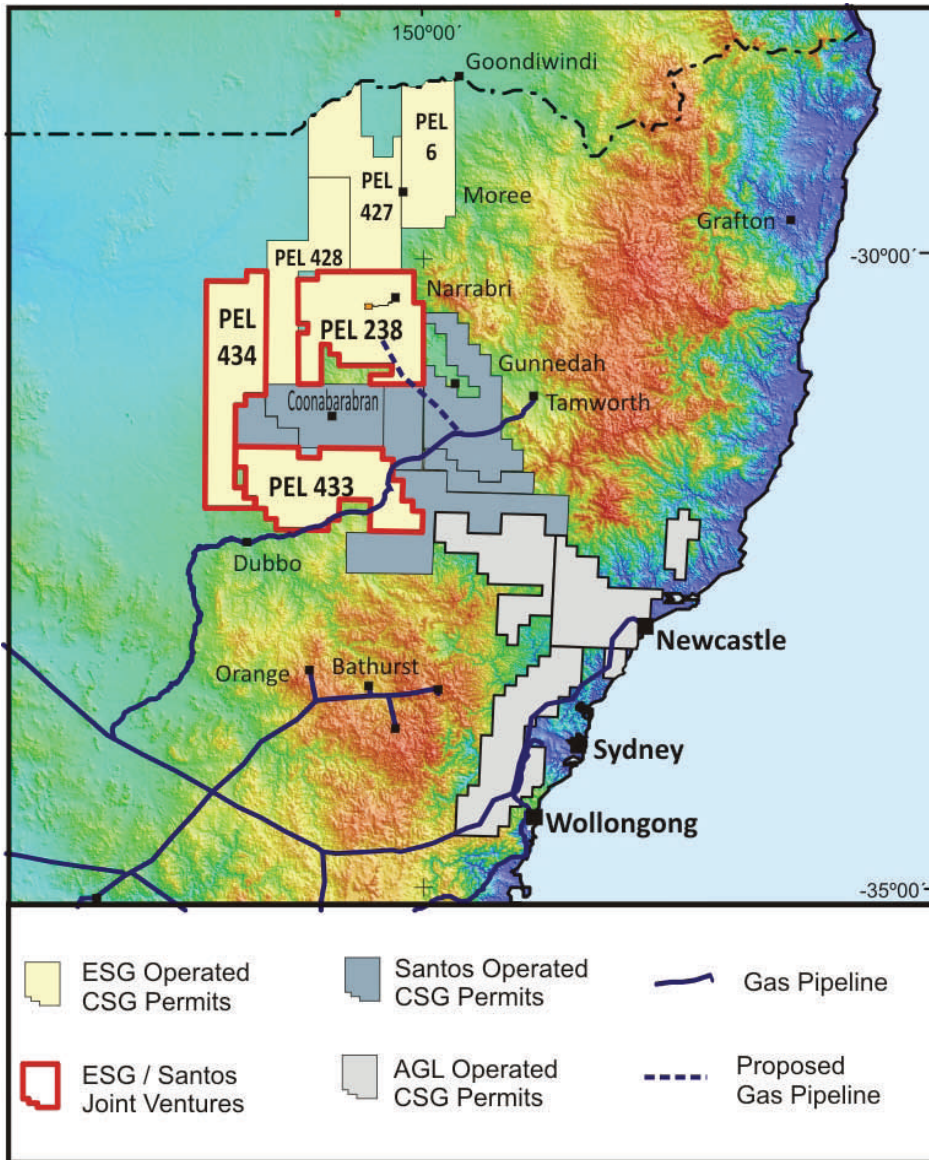
The Company's main activity, the Narrabri Coal Seam Gas Project, is located in Petroleum Exploration Licence 238 adjacent to the township of Narrabri in the state of New South Wales Australia. ESG holds a 65.0% interest in the PEL 238 and is the Operator. The remaining 35% interest is held by Santos Limited (ASX: STO). PEL 238 covers 7,920 kms² (1.96 million acres) of the Gunnedah Basin, the most lightly explored portion of the Bowen-Gunnedah-Sydney Basin complex which presently supplies a large proportion of Australia's coal seam gas production. Production testing is underway at four locations; the Bibblewindi vertical pilot, Bibblewindi multi-lateral pilot, Bibblewindi West and Bohena vertical pilot. As at 31 December 2009, certified 2P reserves increased by 152% to 1520 PJ (of which ESG's net interest is 988 PJ). The updated gas reserves estimate takes into account the flow testing of the multi-lateral production pilots at Bibblewindi and Bibblewindi West, and outstanding results from coreholes and appraisal vertical wells drilled across the Dewhurst area. At the same time certified 3P reserves increased by 43% to 2,797 PJ (of which ESG's net interest is 1,818 PJ).

Further upgrading of reserves will take place during 2010 in PEL238 through an ongoing corehole programme and production from multi-lateral production pilots, including new pilots to be brought on line Dewhurst and Tintfield. Like the Bibblewindi multi-lateral pilots, the new pilots will incorporate in-seam, or horizontal wells with a length of around 750 - 1,000m (up to 3,300 feet) drilled perpendicular to the fracture system of the target coal seams. This well design maximises connectivity with the coal, resulting in many times greater flow rates than can be achieved from vertical, fracture-stimulated wells.

Test gas from the production pilots is delivered by flowline to the joint venture's Wilga Park Power Station which will be expanded to take pilot production test gas. Arrangements are also being developed for full scale commercialisation of the Narrabri CSG Project. In particular, ESG is finalising terms for supply of 20 PJ/a of gas to ERM Power for use in a power station approved for development at Wellington (south of Narrabri) and is, with the Hitachi and Toyo Engineering Corporations, completing a detailed investigation into the feasibility of exporting liquefied natural gas (LNG) from Newcastle. LNG exports could commence as early as 2014 at an initial level of 1 Mtpa. Over and above these key near-term pursuits, ESG also has in place MoU's for the supply of gas to Macquarie Generation (up to 500 PJ) and to Babcock & Brown (up to 40 PJ/a), in both cases for use in gas fuelled power station developments.



PEL238 Prospects & Leads Map



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:

David Casey Managing Director Tel: 61 2 9251 5599	Peter Lansom Exec. Director - Operations Tel: 61 7 3136 1515	Street Address: Level 7, 51 Pitt Street, Sydney NSW 2000	Postal Address: GPO Box 4526, Sydney NSW 2001 office@easternstar.com.au
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