

Production and Reserves Upgrade Update

Sydney, Australia - 5 November, 2010 - Eastern Star Gas (ASX:ESG), Operator of the Narrabri CSG Project, has over recent weeks achieved outstanding rates of gas production from pilot production wells in the Bibblewindi area. Since early October 2010, when water processing constraints were finally resolved and full-time pilot production operations resumed, gas production from the Bibblewindi multi-lateral pilot has reached a new peak of over 900 Mscfd and gas production from the Bibblewindi West pilot has again exceeded 2,000 Mscfd. In both cases, gas production continues to climb. For the Bibblewindi multilateral pilot this is an excellent result as this is without the benefit of production from the additional shield wells drilled in September, 2009. Eastern Star is still waiting on Government approvals to install larger pumps in these wells.

The company is also pleased to announce that preliminary production testing of the Dewhurst pilot is now also underway to determine on-site water handling requirements. After completion of on-site facilities, the Dewhurst pilot will be operated on a short-term basis to establish a correlation between its performance and that of other pilots.

The outstanding performance of the Bibblewindi pilots, along with the 2010 corehole and seismic programmes, will result in strong reserve additions. However, the overall 2010 reserves upgrade programme is behind schedule. Wet weather, as experienced across much of the Australian east coast, has significantly delayed field activities and has prevented completion of infrastructure necessary for the operation of the Tintsville pilot. The Tintsville pilot targets the Hoskissons coal seam, which has not previously been included in gas reserves assessments. The results from this pilot are the major component of the 2010 gas reserves upgrade programme. Based on current forecasts and weather permitting it is anticipated that the Tintsville pilot will now be brought on line by the end of December, following completion of water storage and processing facilities.

In order that production data from the Tintsville pilot can be taken into account, Eastern Star Gas has elected to delay its year end independent gas reserves review until early 2011. This approach will enable all available data from the 2010 programme to be incorporated into the assessment, rather than conducting a limited review at the end of 2010 and subsequently following this up with an additional review early in 2011.

Mr David Casey, Managing Director of Eastern Star Gas, said “we are extremely pleased with the production results achieved by the existing pilots and the overall exploration programme, particularly as these pilots have only been back on line following the forced shutdowns for the last 4 weeks. The decision to delay the next reserves review will ensure key results from the 2010 work programme, particularly production results from the Tintsville pilot, are available for consideration by the independent gas reserves certifier”.

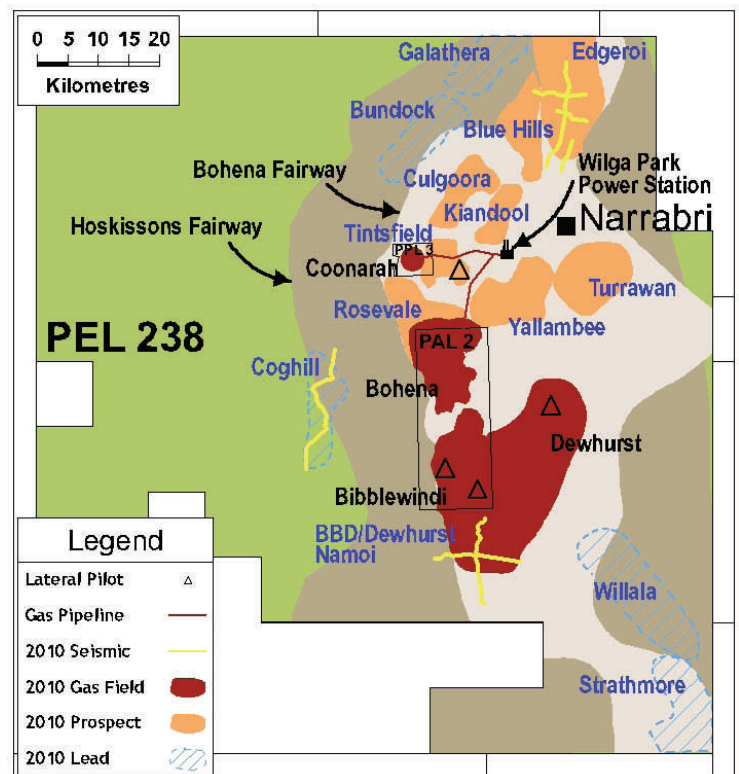
About ESG

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

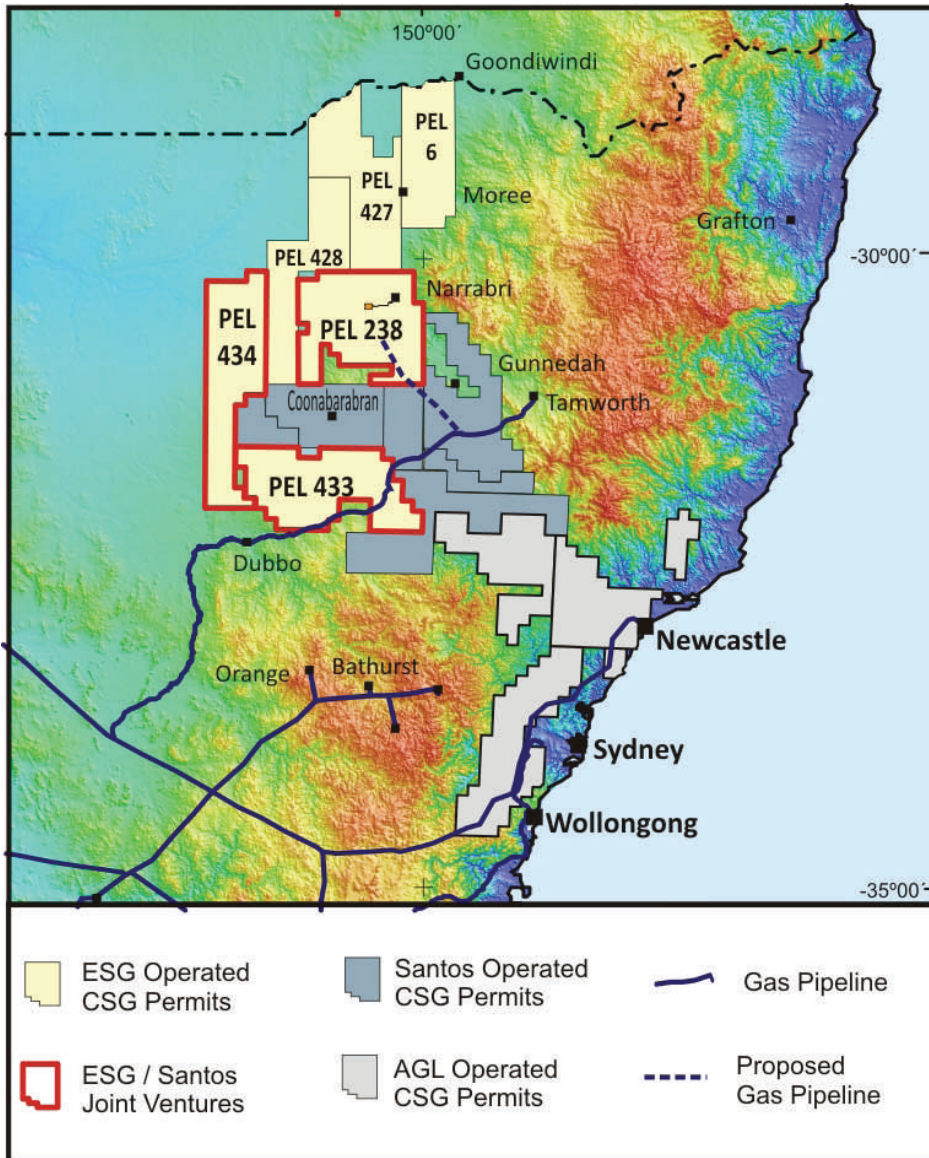
The Company's main activity, the Narrabri Coal Seam Gas Project, is located in Petroleum Exploration Licence 238 adjacent to the township of Narrabri in the state of New South Wales Australia. ESG holds a 65.0% interest in the PEL 238 and is the Operator. The remaining 35% interest is held by Santos 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 early 2011 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 National Power (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.

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