

**ASX ANNOUNCEMENT: 18 January 2010****Flow Rate Results & Reserves Outlook**

Open Briefing with Managing Director David Casey

Eastern Star Gas Limited  
Level 7, 51 Pitt Street  
Sydney NSW 2000**In this Open Briefing<sup>®</sup>, Eastern Star Gas MD David Casey discusses**

- the latest flow rates at Bibblewindi West
- the future reserve evaluation of Namoi and Bohena coal seams
- the timing of the next reserve upgrade for the Narrabri CSG project

**Open Briefing interview:****[openbriefing.com](http://openbriefing.com)**

Eastern Star Gas (ASX code: ESG) has seen early gas production from the Bibblewindi West tri-lateral production pilot in excess of 2.0 million standard cubic feet per day. Why is this a significant milestone for PEL 238 and the broader Narrabri Coal Seam Gas Project?

**MD David Casey**

The flow rate achieved from the Bibblewindi West pilot is a tremendous result for the Narrabri CSG project as a whole. The result confirms beyond doubt that the lateral well design introduced last year by Eastern Star Gas is ideally suited to the coals we are targeting at Narrabri. The fit-for-purpose well design has achieved our predicted significant increase in deliverability.

You will recall that when we brought the Bibblewindi multi-lateral pilot on line in mid-2009, we achieved excellent water flow rates from all the lateral wells. This confirmed the lateral wells were communicating effectively with the vertical fractured coal architecture. In addition, since high water flows are a precursor to - but not a guarantee of - high gas flows, it augured well for future gas production performance.

What the Bibblewindi West pilot has now proven is that the high gas flows will follow. Consistent with expectations, the Bibblewindi West pilot has achieved high gas flows much more quickly than the Bibblewindi multi-lateral pilot. This is purely and simply because the Namoi coal being accessed at Bibblewindi West is thinner – only about one-sixth as thick, as the Bohena coal at the multi-lateral pilot location. Since the coal is thinner we have been able to more quickly draw down the water pressure in the coal, thereby allowing gas desorption to commence.

The 2.0 million cubic feet per day gas flow has been achieved at Bibblewindi West despite the fact we still have 500 to 600 metres of water head on the coal. We fully expect the gas production rate will increase significantly as the reservoir pressure continues to be drawn down.

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This latest result came from the first testing of the Namoi coal seam. How important is this result in driving future reserve upgrades for the Narrabri project? When do you expect to complete a reserve evaluation of the Namoi coal seam?

**MD David Casey**

Achieving high gas flow rates from the production pilots is key to demonstrating gas can be commercially produced and supplied on a large scale to existing and new gas market opportunities. This is in turn a fundamental requirement for reserves determination work.

The gas production rates being achieved at both the Bibblewindi multi-lateral pilot, where we target the Bohena coal seam and Bibblewindi West pilot, where we target the Namoi coal seam, are very important inputs used by gas reserve certifiers. The Namoi coal seam has not previously been taken into account in resource assessments, so the results achieved at the Bibblewindi West pilot will be material. Furthermore, as discussed previously, we are also of the view that the Bibblewindi West result is as a good indicator of the future potential performance of the Bibblewindi multi-lateral pilot.

The upcoming gas reserves assessment will take account of data from both the Bohena and Namoi coal seam units for the first time.

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Can you comment on plans to further ongoing testing and evaluation of the Bohena coal seam? Is it reasonable to conclude that a thicker seam has a greater potential for gas?

**MD David Casey**

Like the Namoi coal seam, the Bohena coal seam is fully saturated with gas and, because of their depth of burial, both have very high gas content. The Bohena coal seam is however much thicker and more areally extensive than the Namoi coal seam and therefore contains much more gas. It is the primary target of the Narrabri CSG project.

We have two lateral pilots targeting the Bohena coal seam - the Bibblewindi multi-lateral pilot and Dewhurst pilot, drilling of which was completed just before Christmas last year. These pilots will take longer to achieve the same reservoir pressure drawdown as we have seen at Bibblewindi West due to the size and thickness of the seam. As mentioned, we are excited by the performance of the Bibblewindi West pilot. We believe it gives a clear, albeit smaller-scale, indication of the performance we can expect from the thicker Bohena seam once reservoir pressure drawdown becomes significant.

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The combined flow rate from the two current PEL 238 production pilots equates to approximately 1.0 petajoule (PJ) per year. 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/yr). What are your plans to lift production rates across the four pilots at Bibblewindi, Bibblewindi West, Dewhurst and Tintsville during 2010?

What annualised flow rate are you targeting to meet the needs of both the power plant at Wilga Park and your longer-term CSG production obligations? What approach are you taking?

**MD David Casey**

It is important to note that the lateral pilots are at the very beginning of their life. The pilots are in early stages of dewatering and gas production will climb considerably during 2010 as the reservoirs are dewatered. Ultimately, information available from all of our pilots will allow us to make accurate predictions of peak gas rates and reservoir performance. This data will then be used to finalise field development plans, including well drilling schedules to meet market commitments. As with other coal seam gas projects, there will be an initial need for wells to be drilled to produce gas to meet requirements, followed by an annual programme of supplementary drilling to maintain deliverability.

In preparation for the transition to development we have already commenced long-lead approvals processes. The Concept Plan for development of the Narrabri CSG Project, which was lodged with the Department of Planning, last November, deals with drilling of production wells, to meet market requirements. It also addresses gas processing, compression and pipelining activities. While all of these activities are progressed we are using pilot production gas in the Wilga Park Power Station. Approvals are of course already in place to allow us to expand Wilga Park as pilot production gas rates climb.

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Drilling at the first CSG well in PEL 6 at Gwydir-1 (near Narrabri, Northern NSW) was plugged and abandoned. Why was this action necessary? Was the well drilled deep enough to adequately assess the presence of coal-bearing sediments and general formation quality? What further exploration work is planned in PEL 6?

**MD David Casey**

The Gwydir-1 well was a wildcat exploration core hole specifically designed to assess the CSG potential of PEL 6. The well was drilled to its planned depth that is to basement, and assessed all potential coal bearing horizons. We were delighted with the results from the Gwydir -1 corehole. It has confirmed the presence of the Moolayember coal across PEL 6.

As the Gwydir-1 well was a slim-hole core hole it has no potential in terms of future gas production. Accordingly, as is common practice and ultimately a permit requirement the well was plugged and abandoned as soon as evaluation work was completed.

ESG has near-term plans to drill a further two core holes in PEL 6 to further assess the Moolayember coal and its potential for CSG production.

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Your most recent drilling report noted that drilling operations were suspended. Can you elaborate upon this? How have other activities been affected?

**MD David Casey**

As a result of heavy rainfall over the Christmas period there was widespread damage to many Council roads and Forestry tracks, some of which are now temporarily closed to all but local traffic. Thankfully this inconvenience coincided with a planned Christmas drilling break.

We will recommence operations as quickly as possible and, in this context; the attention of Narrabri Council to restore roads for the benefit of all community members has been exemplary.

Our other operations were only lightly impacted by the weather conditions. They are of course remotely monitored and controlled. The Bibblewindi Multi-lateral pilot remained on line despite severely limited access. The Bibblewindi West pilot was shut down temporarily since we could not gain access to site to carry out minor facility changes to handle the increasing gas flow rates.

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What is the likely timing of the next upgrade for the Narrabri CSG project? What progress has been made toward commercial certification of the 2P reserve base at Narrabri during the December quarter? What other areas are you focusing on this calendar year? How are you prioritising your plans?

**MD David Casey**

Our reserve certifiers are currently working on the assessment using all data gathered up to 31 December 2009. We expect to receive this assessment by the end of the month, but this of course depends upon our certifier's other commitments.

Beyond that, the key focus for ESG will be continued ramp up of gas production from all of our lateral pilots, further expansion of Wilga Park to utilise growing pilot production gas quantities, and securing markets and approvals that are necessary for us to take the step from exploration to development and production.

Consistent with the staged approach to development that I have often talked about, we have a balanced focus to addressing all gas business prerequisites – gas reserves, gas markets and infrastructure.

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Thank you David.

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