



A\$100m Equity Raising To Fund Growth Initiatives

Sydney, Australia - 9 August, 2010 - Eastern Star Gas Limited (ASX:ESG OTCQX:ESGLY), announced today an equity capital raising of A\$100 million to be completed by way of a fully underwritten placement of approximately 122 million shares* ("Placement").

Use of proceeds

As at 30 June 2010, ESG had a cash position of A\$31.6 million. Following the Placement, the Company will have a pro forma cash position of approximately A\$127.6 million, which the Company intends to use as follows:

- A\$25 million** to acquire land at Kooragang Island, Newcastle, New South Wales (refer to separate ASX announcement dated 9 August 2010);
- approximately A\$48 million to be used for ongoing exploration, evaluation and development, including acquisition of seismic data, drilling of exploration core holes, drilling completion and gathering for multi-seam stacked pilot wells, ongoing workovers and recompletion of existing non-producing wells and the expansion of the Wilga Park Power Station;
- approximately A\$34 million to complete feasibility studies and progress Front-End Engineering and Design ("FEED") regarding the Narrabri field development and proposed LNG facility at Newcastle; and
- the balance of funds to be used for Corporate and other costs.

Commenting on the Placement, Mr David Casey, Managing Director of ESG, said "The Placement provides ESG with funding to support ongoing progress in developing the Newcastle LNG project by acquiring an ideal site for a scaleable LNG project and by providing additional capital to progress FEED and increase reserves."

Offer details

- A\$100 million fully underwritten placement, representing approximately 13.5%* of issued share capital, to institutional and sophisticated investors in certain jurisdictions.
- Final issue price to be determined by a bookbuild, with an underwritten floor price of \$0.82 per share.
- Book opens on Monday, 9 August 2010 at 10:00am (Sydney time) and closes on Monday, 9 August 2010 at 5:00pm (Sydney time) for Australia and 7:00pm (Sydney time) for Asia Pacific / UK / Europe.
- The new shares will be fully paid and will rank equally with the Company's existing issued shares.
- Credit Suisse (Australia) Limited and RBS Morgans Corporate Limited are joint lead managers and Underwriters of the Placement. Flagstaff Partners are financial adviser to ESG.
- ESG shares will remain in trading halt until the commencement of trade on 10 August 2010, pending successful completion of the Placement.

* Based on the underwritten floor price. Final number of shares issued under the Placement, and percentage of issued capital, to be announced once final issue price is determined.

** Pre transaction costs and taxes.

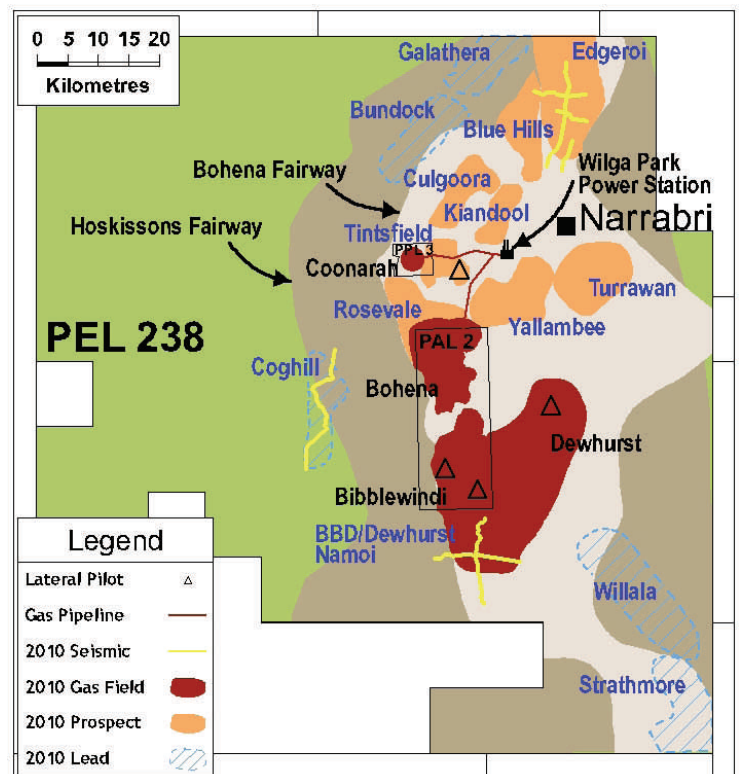
About ESG

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

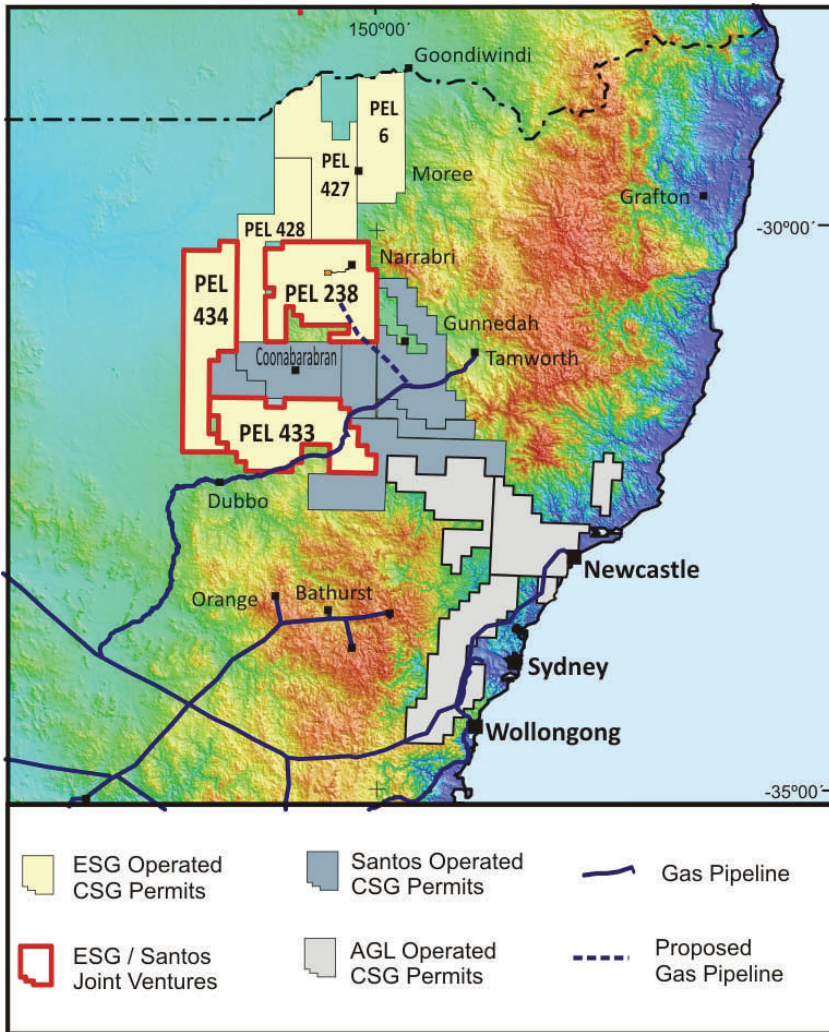
The Company's main activity, the Narrabri Coal Seam Gas Project, is located in Petroleum Exploration Licence 238 adjacent to the township of Narrabri in the state of New South Wales Australia. ESG holds a 65.0% interest in the PEL 238 and is the Operator. The remaining 35% interest is held by Santos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



Important information and disclaimer

The Placement referred to in this announcement is subject to investor restrictions that will be set out in a subsequent announcement(s) or presentation (s). Reference should be made to such announcement(s) or presentation(s).

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