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## **Santos increases strategic coal seam gas position in Gunnedah Basin**

Santos today announced the next major step in its Australian coal seam gas (CSG) strategy with the acquisition of significant additional acreage in the Gunnedah Basin in northern New South Wales and an investment in leading local CSG company, Eastern Star Gas Limited (ESG).

Key elements of the \$476 million transaction include:

- the acquisition by Santos of Gastar Exploration Limited's 35% interest in various Gunnedah Basin exploration permits and production areas operated by ESG for \$300 million;
- the acquisition by Santos of a 19.99% interest in ESG from Hillgrove Resources Limited for \$176 million<sup>1</sup>.

Santos and ESG's combination of operated CSG permits in the Gunnedah Basin will cover a total area of around 63,000 square kilometres. The resource potential of this area is estimated to exceed 50 trillion cubic feet. The combination will consolidate the leadership position of both Santos and ESG among the 15 companies active in CSG acreage in NSW.

Santos entered the Gunnedah Basin in 2007 and is currently undertaking a 23-well drilling program. ESG began exploring the area in late 2002 and is widely recognised as the leading independent explorer in the region.

The transaction announced today builds upon this presence and provides a basis for each party to work together to accelerate the development of the region and a range of commercialisation opportunities, including domestic gas supply, power generation and future LNG options.

Santos Chief Executive David Knox said: "This is a significant step in our Gunnedah Basin strategy. Combining the proven CSG expertise of Santos and Eastern Star with the ability of Santos to deliver major projects and develop various channels to market will advance the region's potential as Australia's next major CSG province – bringing jobs and investment to the area."

"We look forward to working with ESG towards this goal," he said.

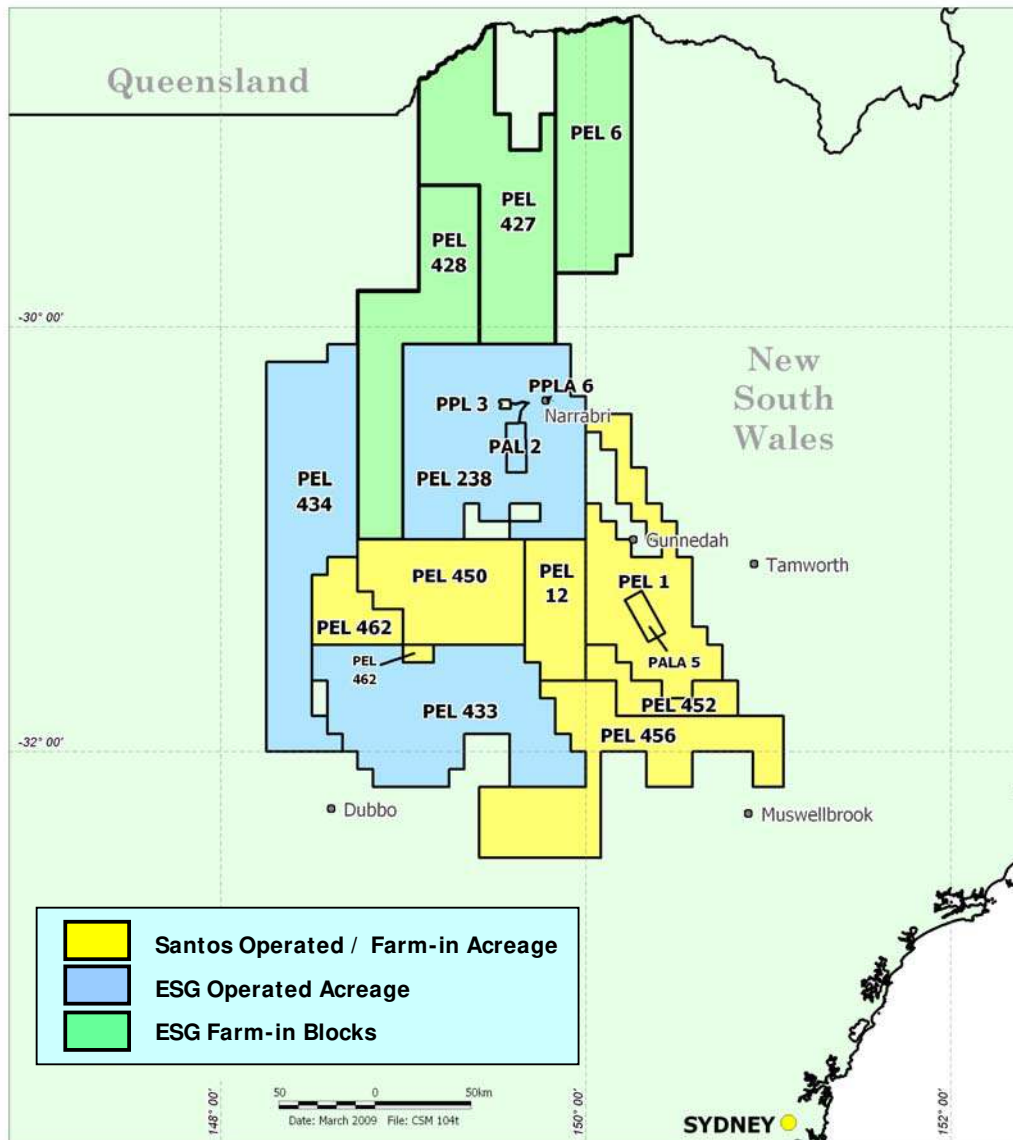
Mr Knox said the development of NSW's abundant coal seam gas resources presented an exciting opportunity to deliver "carbon light" gas fired power generation.

ESG's Chief Executive David Casey said: "We are excited to welcome one of Australia's largest CSG players as a joint venture partner and strategic shareholder in what is a major milestone for ESG. We have said before that ESG is market constrained rather than resource constrained – we expect that this transaction will play a key part in removing that constraint and unlocking value for both parties."

The consideration being paid to Gastar equates to \$0.66 per GJ of current 3P reserves. Santos will pay a further \$20 million to Gastar if ESG meets certain reserve targets by 31 December 2009.

Santos' acquisition of a 19.99% interest in ESG represents a strategic investment that will align the interests of the respective joint venture partners. Santos will pay \$176 million<sup>1</sup> for the interest, equating to a price of \$1.00 per ESG share. Santos has agreed to make an additional payment to Hillgrove in the event that any party completes the acquisition of a beneficial interest of more than 50% in ESG at a price in excess of \$1.00 per share within 18 months.

## Combined Gunnedah Basin positions



<sup>1</sup> Includes \$3.6m paid to exercise 23.5m options with a \$0.15 exercise price and October 2009 maturity. See Transaction Summary for further detail.

## Transaction Summary

### Acquisition of Gastar's interests

#### At completion

Offer consideration for Gastar's 35% interest at completion	A\$300m
Proportionate interest in PEL 238 3P reserves	455PJ
<b>EV / 3P</b>	<b>\$0.66 / GJ</b>

### Transaction metrics on an economic interest basis

#### At completion

Offer consideration for Gastar's 35% interest at completion	A\$300m
Offer consideration for 19.99% of ESG	A\$176m
<b>Total cash consideration at completion</b>	<b>A\$476m</b>
Less economic interest in net cash <sup>2</sup>	(A\$15m)
<b>Transaction EV</b>	<b>A\$461m</b>
PEL 238 3P reserves	1,300PJ
Economic interest in PEL 238 3P reserves <sup>3</sup>	624PJ
<b>EV / 3P</b>	<b>\$0.74 / GJ</b>

<sup>2</sup> Adjustment for 19.99% economic interest in ESG cash and liquid assets. Calculated as cash on balance sheet as at 31 March 2009 plus value of Orion Petroleum shares (based on 20 day VWAP to 30 June 2009) plus cash received upon exercise of outstanding options.

<sup>3</sup> Calculated as 35% direct interest acquired from Gastar plus 19.99% of ESG's 65% interest.

## About Santos

Santos is a major Australian oil and gas exploration and production company with interests and operations in every major Australian petroleum province and in Indonesia, Papua New Guinea, Vietnam, India, Bangladesh, and Kyrgyzstan. Santos is one of Australia's largest domestic gas producers, supplying sales gas to all mainland Australian states and territories, ethane to Sydney, and oil and liquids to domestic and international customers. Through its interest in the Darwin LNG project, Santos is already a producer of liquefied natural gas which is exported to customers in Japan.

## About Eastern Star Gas

ESG is focused on exploration, development and production of coal seam gas in Australia. Key assets of the company include a 65% interest in the following assets:

- CSG exploration acreage associated with PEL 238, 433 & 434.
- Wilga Park Power Station, for which ESG has received Major Project status and approval to expand the generating capacity from 11 MW to 40 MW; and the
- PAL 2 CSG pilot production area (with tie-back to Wilga Park power station).

The remaining 35% is currently held by Gastar and is to be acquired by Santos.

ESG's main activity, the Narrabri Coal Seam Gas Project, is located in PEL 238 adjacent to the township of Narrabri in the state of New South Wales Australia. ESG is the operator of PEL 238, which covers 9,100 kms<sup>2</sup> (2.25 million acres) of the Gunnedah Basin and is the most lightly explored portion of the Bowen-Gunnedah-Sydney Basin complex that presently supplies a large 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 336PJ and 3P gas reserves of 1,300PJ were independently certified as at 30 September 2008.

## About Hillgrove Resources

Hillgrove is an Australian resources company listed on the Australian Securities Exchange (ASX: HGO) focused on developing its Indonesian, South Australian and Queensland base and precious metals projects. The Company is targeting the discovery of world class epithermal gold and porphyry copper/gold deposits in Eastern Indonesia.

Hillgrove's flagship development is the Kanmantoo Copper Gold Project, located less than 60km from Adelaide. Kanmantoo currently hosts a Mineral Resource of 32.2Mt (2.3MT Measured, 22.5MT Indicated and 7.4MT Inferred) grading 0.9% copper and 0.20g/t gold, containing 292,200 tonnes of copper, 191,100 ounces of gold and 3,313,600 ounces of silver. With production targeted for the first quarter of 2011, Kanmantoo will be a 2Mt p.a. open-cut mine producing approximately 17,000 tonnes of copper in concentrate and 8,000 ounces of gold per annum.

## About Gastar Exploration

Gastar Exploration Ltd. is an exploration and production company focused on finding and developing natural gas assets in North America. The Company pursues a strategy combining deep natural gas exploration and development with lower risk CSG and shale resource development. The Company owns and operates exploration and development acreage in the deep Bossier gas play of East Texas and Marcellus Shale play in West Virginia and Pennsylvania. Gastar's CSG activities are conducted within the Powder River Basin of Wyoming.

Ends

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**Santos stock symbols: STO (Australian Securities Exchange), STOSY (NASDAQ ADR), Ref #82-34 (Securities Exchange Commission)**