



Eastern Corporation Limited

Quarterly Report

**For the Period Ended
30 June 2006**

1. ACTIVITY HIGHLIGHTS FOR THE QUARTER

- **\$1.4 million raised in options exercise**
- **Management & board appointments**
- **Stage 2 of Broughton Feasibility underway**
- **Acquisition of second New Zealand coal mine on track**
- **Next stage of Whareatea West drilling completed**
- **Cascade production meeting targets**
- **Additional Prospecting Permits in NZ**
- **Board Restructure for Galilee Energy**
- **Additional acquisition targets in Australia & New Zealand**

2. EASTERN'S COAL STRATEGY

Eastern is continuing its strategy of development and acquisition of coal projects within Australia and New Zealand. The New Zealand operation is becoming a self sufficient business unit currently supplying an increasing number of domestic industrial customers while also targeting the high yield export market. The planned acquisition of a second mine underpins this strategy by opening further supply opportunities across a greater area of the South Island. The company has several other operating projects within the country under consideration in addition to developing its exploration permit at Whareatea West and its prospecting permits in the southern area of the South Island.

The increasing cash flow generated by the New Zealand projects will enable Eastern to concentrate its efforts within Australia to developing the Broughton coking coal project, and to continue to review acquisition opportunities.

3. COAL - QUEENSLAND

(a) Broughton Coal Joint Venture

Project background

The Broughton Coal Joint Venture (BCJV) was formed in June 2005 between Eastern's wholly-owned subsidiary Broughton Coal Mining Pty Ltd (BCM) and Mitsui Coal Holdings Pty Ltd (Mitsui). The current Joint Venture interests are BCM 90% and Mitsui 10%, with Mitsui having the right to acquire a further 20% interest in the Joint Venture for a further \$11 million dollars.

The BCJV holds EPC818 which is an exploration permit situated immediately to the south of Rio Tinto's Hail Creek coal project, approximately 100km west of Mackay in the Northern part of Queensland's Bowen Basin. A total Measured, Indicated and Inferred coal resource in the order of 30 million tonnes has been identified.

Quarter Activities

The current stage of the feasibility study of Broughton is evaluating the most suitable product split and establishing appropriate methods of beneficiation. Options under consideration for coal handling include toll washing off site, a stand alone washplant or shared infrastructure. Detailed mine plans and project development strategies are also being prepared as part of Stage 2 of the study. It is envisaged that this will be completed by the end of 2006.

- **Dorben**

Project Background

Dorben (a wholly-owned Eastern subsidiary) holds EPC861 which is situated adjacent to the Dingo Project held by the recently floated Cockatoo Coal Limited in the Southern region of Queensland's Bowen Basin.

The Dorben permit area is believed to be prospective for low volatile Pulverised Coal Injection (PCI) coal.

Quarter Activities

A preliminary geological review of existing data was carried out during the previous quarter by Queensland Geological Services. A more detailed investigation including a seismic survey and drill holes is now being planned.

4. COAL – NEW ZEALAND

- **Cascade**

Project Background

On 30 June 2005, Eastern's wholly-owned subsidiary of Cascade Coal Pty Ltd acquired all the assets, plant, equipment, statutory permits and authorities of the Cascade Coal Mine for NZ \$3.8 million. This mining operation is situated in the historical Buller Coalfields region approximately 25 kilometres North-East of the township of Westport on the West Coast of New Zealand's South Island. The coal produced at Cascade is commercially attractive – being a low ash and sulphur coal, with a high specific energy.

Quarter Activities

During the June quarter, Cascade performed to expectations. Management is continuing to address options to improve efficiencies and optimise off take arrangements.

Trials are being considered with a Melbourne based production laboratory to test a briquetting process utilising Cascade fines. The end product would be sold both domestically and into the export market.

A new crushing and screening plant is being installed to allow for greater operating efficiencies on site.

Export opportunities are being re-evaluated in light of increasing domestic demand. Sales into the domestic industrial markets have increased and have been underpinned by the extreme climatic conditions experienced in the South Island during the winter months.

- **Whareatea West**

Project Background

Rochfort Coal Mining Pty Ltd (a wholly-owned subsidiary of Eastern) holds Exploration Permit EP40-591, known as Whareatea West. The Exploration Permit covers an area of 820 hectares, situated on the West Coast of New Zealand's South Island, approximately 5 kilometres North-West of the existing Cascade Mining operations.

Quarter Activities

A ten-hole exploration drilling programme was completed at Whareatea West in June. Assaying is now underway to determine coal quality and to delineate the extent of the resource. Preliminary results are encouraging however it will be some months before a full analysis will be completed at which stage a decision will be made as to commencing a feasibility study on developing the prospect as an export coking coal mine.

- **Straith/ Ohai**

Project Background

Rochfort Coal Mining Pty Ltd (a wholly-owned subsidiary of Eastern) has entered into a contract for the purchase of a second New Zealand coal mine in the Ohai/ Nightcaps area in the far south of the South Island from Straith Industries Ltd. The mining tenements involved in the proposed purchase have been the subject of coal mining activities for many years, and are seen as an ideal component of Eastern's overall coal mine development strategy in New Zealand.

Quarter Activities

The option period for the purchase of this asset was extended by two weeks to allow Eastern to fully satisfy certain requirements under the due diligence process. Completion of the purchase is now scheduled for mid August 2006.

The area has been identified as one of only two large known deposits of sub-bituminous coal in the Southland district of New Zealand's South Island. A large industrial market exists for this coal and recent trials with potential major customers have demonstrated its value as an energy source. Expressions of interest for offtake have been received from end users in the immediate vicinity and in areas of industry further north. An exploration drilling programme was completed as part of the due diligence and a JORC compliant resource estimate is now being prepared.

In addition to the mining tenements held by Straith Industries, Eastern, through its subsidiary Rochfort Coal Mining Pty Ltd, has applied for two prospecting permits which cover a large area surrounding these tenements and also a region prospective for sub bituminous coal further to the south west. The potential exists to expand on the original resource estimates for the Straith tenement under option as the coal seams identified within part of it extend into the area adjacent which falls under one of these prospecting permits.

5. COAL SEAM METHANE – QUEENSLAND

- **Galilee Energy**

Project Introduction

Eastern holds a shareholding interest of approximately 60% in Galilee Energy Limited, which is the holder of Authority to Prospect Interests near Longreach in Central Queensland. These permit interests are prospective for coal seam methane and conventional hydrocarbons.

Quarter Activities

A Board restructure was announced with director Mr Rino Camarri taking the position of Non Executive Chairman in place of Mr Paul Williams. Mr Campbell Smith resigned as Non Executive Director, replaced by Eastern CEO, Mr Mike O'Brien. Mr Ken McMahon was also appointed to the board in the role of Non Executive Director. Mr McMahon has served on the boards of several mining and oil companies operating in Australia and offshore and presently consults to domestic and international resource companies. His experience will be of great value as Galilee progresses through its next phase of exploration.

A further two well exploration programme has been designed to determine gas contents, adsorption isotherms and in-situ permeabilities of the significant coal seams present in the Galilee Basin. This plan consists of drilling and coring two additional exploratory coal seam methane wells in the Rodney Creek region which can then be converted to pilot productivity test wells or production wells in the next stages. A report including re-evaluation and interpretation of seismic data to identify ideal hole locations has been completed and the company is now awaiting the procurement of a drilling rig to complete the exploration.

A desktop study of the prospectivity of the area for conventional petroleum has also commenced.

6. CORPORATE

The Eastern group of companies is on track to announce a net profit before tax of over \$2 million when final audited accounts are lodged at the end of September.

Sources of revenue include the operating profit from the Cascade mine and a one-off payment for a 10% share in the Broughton project. Expenditure in the second half of the year was higher than that of the first half due to the exploration drilling at Whareatea West, the due diligence drilling programme in the Ohai region and the Broughton Stage 2 feasibility study.

- **Share Capital**

A further 24,219,200 ordinary shares were issued by Eastern during the quarter as a result of an exercise of options. The options exercised at a price of .06 cents, raising over \$1.45 million.

Total ordinary shares on issue are now 717,853,187.

Propwood Pty Ltd is the only substantial shareholder of Eastern holding approximately 33% of the total shares on issue.

- **Board / Senior Management Changes**

Mr Mike O'Brien was appointed Chief Executive Officer for Eastern Corporation Limited, replacing Mr Paul Williams. Mr O'Brien was previously Group Operations Manager. Prior to joining Eastern Mr O'Brien was General Manager of the Dawson Mine.

Mr Howard Stack and Mr William (Bill) Lyne were also appointed to Eastern board. Mr Stack has had 32 years experience as a partner in leading Australian corporate law firms and has extensive experience as a public company director. Mr Lyne holds a Bachelor of Commerce (Economics) degree and is a Chartered Accountant. He is a Fellow of Chartered Secretaries Australia and brings to Eastern a wealth of experience in corporate governance principles and practice.

7. OUTLOOK FOR THE CURRENT QUARTER

The proposed major activities to be undertaken by Eastern and its subsidiary entities during the quarter ending 30 September 2006 include:

- Continuing with Stage 2 of the Broughton Coal Joint Venture Feasibility Study;
- Establishing coal quality and a resource estimate for the Whareatea West project in New Zealand;
- Finalising the purchase of the Straith's coal assets in the Southland area of New Zealand's South Island;
- Continuing to seek out and secure other opportunities (primarily in the coal sector) in both Australia and New Zealand.

8. FINANCIALS

The attached 5B statement provides all of the up to date information on the financial position of Eastern Corporation Limited and its subsidiaries as at 30 June 2006.

For and on behalf of Board of Directors



Gordon Smith
Chairman

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Appendix 5B

Mining exploration entity quarterly report

Introduced 1/7/96. Origin: Appendix 8. Amended 1/7/97, 1/7/98, 30/9/2001.

Name of entity

Eastern Corporation Limited

ABN

11 064 957 419

Quarter ended ("current quarter")

30 June 2006

Consolidated statement of cash flows

Cash flows related to operating activities		Current quarter \$A'000	Year to date (12 months) \$A'000
1.1	Receipts from product sales and related debtors	798	3,699
1.2	Payments for (a) exploration and evaluation	-	(100)
	(b) development	-	-
	(c) production	-	-
	(d) administration	(1,684)	(5,638)
1.3	Dividends received	-	-
1.4	Interest and other items of a similar nature received	86	264
1.5	Interest and other costs of finance paid	(30)	(103)
1.6	Income taxes paid	(2)	(2)
1.7	Other	-	-
	Net Operating Cash Flows	(832)	(1,880)
Cash flows related to investing activities			
1.8	Payment for purchases of:		
	(a)prospects	-	-
	(b)equity investments	-	-
	(c)other fixed assets	(42)	(436)
1.9	Proceeds from sale of:		
	(a)prospects	-	-
	(b)equity investments	-	-
	(c)other fixed assets – equity share of joint venture	-	4,000
1.10	Loans to other entities	-	-
1.11	Loans repaid by other entities	-	-
1.12	Other (provide details if material)		
	(a) exploration expenditure (net of refunds)	(44)	(584)
	(b) Joint venture equity contribution	-	-
	(c) Overburden advanced	-	-
	(d) Other	(4)	(36)
	Net investing cash flows	(90)	2,944
1.13	Total operating and investing cash flows (carried forward)	(922)	1,064

1.13	Total operating and investing cash flows (brought forward)	(922)	1,064
Cash flows related to financing activities			
1.14	Proceeds from issues of shares, options, etc. - OEI	1,453	5,783
1.15	Proceeds from sale of forfeited shares	-	-
1.16	Proceeds from borrowings	-	-
1.17	Repayment of borrowings	(57)	(223)
1.18	Dividends paid	-	-
1.19	Other (provide details if material)	-	-
Net financing cash flows		1,396	5,560
Net increase (decrease) in cash held		474	6,624
1.20	Cash at beginning of quarter/year to date	8,300	2,150
1.21	Exchange rate adjustments to item 1.20	-	-
1.22	Cash at end of quarter	8,774	8,774

Payments to directors of the entity and associates of the directors

Payments to related entities of the entity and associates of the related entities

	Current quarter \$A'000
Aggregate amount of payments to the parties included in item 1.2	42
Aggregate amount of loans to the parties included in item 1.10	-

Explanation necessary for an understanding of the transactions

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Non-cash financing and investing activities

2.1 Details of financing and investing transactions which have had a material effect on consolidated assets and liabilities but did not involve cash flows

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2.2 Details of outlays made by other entities to establish or increase their share in projects in which the reporting entity has an interest

-

Financing facilities available
Add notes as necessary for an understanding of the position.

	Amount available \$A'000	Amount used \$A'000
3.1 Loan facilities	-	-
3.2 Credit standby arrangements	-	-

Estimated cash outflows for next quarter

	\$A'000
4.1 Exploration and evaluation	400
4.2 Development	-
Total	400

Reconciliation of cash

Reconciliation of cash at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts is as follows.	Current quarter \$A'000	Previous quarter \$A'000
5.1 Cash on hand and at bank	2,794	2,216
5.2 Deposits at call	5,980	6,084
5.3 Bank overdraft	-	-
5.4 Other	-	-
Total: cash at end of quarter (item 1.22)	8,774	8,300

Changes in interests in mining tenements

	Tenement reference	Nature of interest (note (2))	Interest at beginning of quarter	Interest at end of quarter
6.1 Interests in mining tenements relinquished, reduced or lapsed	-			
6.2 Interests in mining tenements acquired or increased	-			

Issued and quoted securities at end of current quarter

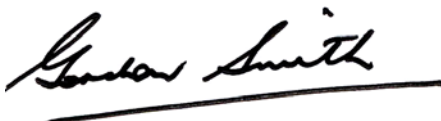
Description includes rate of interest and any redemption or conversion rights together with prices and dates.

	Total number	Number quoted	Issue price per security (see note 3) (cents)	Amount paid up per security (see note 3) (cents)
7.1 Preference +securities <i>(description)</i>	-			
7.2 Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs, redemptions	-			
7.3 +Ordinary securities	717,853,187			
7.4 Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs	24,219,209			
7.5 +Convertible debt securities <i>(description)</i>	-			
7.6 Changes during quarter (a) Increases through issues (b) Decreases through securities matured, converted	-			
7.7 Options <i>(description and conversion factor)</i>	-		<i>Exercise price .06c</i>	<i>Expiry date 30.6.06</i>
7.8 Issued during quarter	-			
7.9 Exercised during quarter	24,219,209			
7.10 Expired during quarter	74,200,791			
7.11 Debentures <i>(totals only)</i>	-			
7.12 Unsecured notes <i>(totals only)</i>	-			

Compliance statement

- 1 This statement has been prepared under accounting policies which comply with accounting standards as defined in the Corporations Act or other standards acceptable to ASX (see note 4).
- 2 This statement does ~~not~~* (*delete one*) give a true and fair view of the matters disclosed.

Sign here:



Date: 31 July 2006

(Director/~~Company secretary~~)

Print name: Gordon Smith

Notes

- 1 The quarterly report provides a basis for informing the market how the entity's activities have been financed for the past quarter and the effect on its cash position. An entity wanting to disclose additional information is encouraged to do so, in a note or notes attached to this report.
- 2 The "Nature of interest" (items 6.1 and 6.2) includes options in respect of interests in mining tenements acquired, exercised or lapsed during the reporting period. If the entity is involved in a joint venture agreement and there are conditions precedent which will change its percentage interest in a mining tenement, it should disclose the change of percentage interest and conditions precedent in the list required for items 6.1 and 6.2.
- 3 **Issued and quoted securities** The issue price and amount paid up is not required in items 7.1 and 7.3 for fully paid securities.
- 4 The definitions in, and provisions of, *AASB 1022: Accounting for Extractive Industries* and *AASB 1026: Statement of Cash Flows* apply to this report.
- 5 **Accounting Standards** ASX will accept, for example, the use of International Accounting Standards for foreign entities. If the standards used do not address a topic, the Australian standard on that topic (if any) must be complied with.

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