



# **Eastern Corporation Limited**

## **Quarterly Report**

**For the Period Ended  
30 September 2006**

## 1. ACTIVITY HIGHLIGHTS FOR THE QUARTER

- **Significant progress on New Zealand coal strategy**
  - Acquisition of second New Zealand coal mine - Takitimu
  - Acquisition of New Zealand coal handling and distribution facility
  - Encouraging exploration results at Whareatea West coal project
- **Feasibility study at Broughton coking coal Joint Venture (Queensland Bowen Basin) nearing completion**
- **Richard May joined the Board**

## 2. PROGRESS ON EASTERN'S COAL STRATEGY

During the quarter, Eastern continued to pursue our strategy of growth through the acquisition and development of coal projects within Australia and New Zealand. In New Zealand a second coal mine, Takitimu, was acquired. Eastern now operates two coal mines, Cascade and Takitimu, and is exploring for coal at Whareatea West adjacent to the Cascade mine and in the Ohai / Orepuke area near the Takitimu mine. In Australia, Eastern is completing a feasibility study into the development of its 30 million tonne coal resource at Broughton in Queensland's Bowen Basin.

The Cascade operation is currently supplying an increasing number of domestic industrial customers while also targeting the high yield export market. The newly acquired Takitimu operation opens further supply opportunities across a greater area of the South Island.

In addition to pursuing further coal resources through exploration at Whareatea West, and the Ohai / Orepuke area in the south of New Zealand's South Island, Eastern is considering further project acquisitions.

The increasing cash flow generated by the New Zealand projects will enable Eastern to concentrate on potential mine development and the pursuit of acquisition opportunities in New Zealand and also in Australia.

## 3. COAL - QUEENSLAND

- **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 \$11 million.

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 of approximately 30 million tonnes has been identified.

### **Quarter Activities**

The feasibility study into the development of the Broughton coal resource is well advanced and is expected to be completed by the end of 2006. Current work includes identifying the most suitable coking and thermal coal product split and designing processing and other infrastructure requirements. Detailed mine plans and project development strategies are being prepared. Options under consideration for coal handling include toll washing off site, a stand alone wash plant or shared infrastructure.

- **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 PCI (Pulverised Coal Injection) coal.

### **Quarter Activities**

Planning continued for an exploration programme aimed at establishing a PCI resource suitable for development. Proposed work includes seismic surveying and drilling.

## **4. COAL – NEW ZEALAND**

### **Operations**

- **Cascade coal mine**

### **Project Background**

The Cascade open cut coal mine was acquired by Eastern's wholly-owned subsidiary of Cascade Coal Pty Ltd in June 2005. The mine 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 – low ash and low sulphur coal with a high calorific value.

### **Quarter Activities**

During the September quarter the Cascade operation performed to expectations. Options to improve efficiencies and optimise off take arrangements continue to be pursued.

Trials are now underway 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.

Coal export opportunities are being re-evaluated with the focus on the domestic industrial markets.

- **Takitimu coal mine**

**Project Background**

The Takitimu coal mine in the Ohai / Nightcaps area in the far south of the South Island of New Zealand was acquired by Rochfort Coal Mining Pty Ltd (a wholly-owned subsidiary of Eastern) in September 2006. A Measured Resource of 2.85 million tonnes of sub-bituminous thermal coal has been defined. Production of coal will be tailored to meet a growing local market demand. The operation provides access to resources to service customers in the southern region of the South Island. Eastern has extensive coal exploration permits surrounding the Takitimu operation. There is potential to extend the resource at Takitimu into the adjacent area.

**Quarter Activities**

A resource estimate was prepared for the Takitimu operation as part of the purchase due diligence programme. It confirmed an initial Measured Coal Resource of 2.85 million tonnes with an in-situ linear ratio of less than 5 to 1. Coal qualities were determined to be in the middle range for New Zealand sub-bituminous coals. The bulk of the coal is contained with three seams - Upper Morley 1, 2 and 3.

- **Eastern Coal Supplies**

**Project Background**

Eastern purchased the Somerville's Fuel Centre in Timaru in September 2006 for NZ\$2.4 million. The Fuel Centre, renamed Eastern Coal Supplies Limited, will be used as a coal stockpiling, blending and distribution point and is an important addition to Eastern's New Zealand coal strategy. It is situated on the east coast of New Zealand's South Island, approximately mid way between the Cascade and Takitimu coal mines and offers immediate access to several large industrial customers. The port of Timaru is being considered for export of Eastern's coal.

**Quarter Activities**

Acquisition of the Fuel Centre was completed in mid September. The former owner has been employed by Eastern as New Zealand Transport and Marketing Manager.

## Exploration

- **Whareatea West**

**Project Background**

The Whareatea West Exploration Permit (EP40-591) is held by Rochfort Coal Mining Pty Ltd, a wholly-owned subsidiary of Eastern. The 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 Cascade mining operation. Geological studies have indicated the potential for a significant coal resource at Whareatea West.

### **Quarter Activities**

Work continued on the analysis of results from a ten-hole exploration drilling programme which was completed in the June quarter. Assaying is underway to determine coal quality and to delineate the extent of the resource. Preliminary results of the coal analysis are encouraging showing favourable coking characteristics and high swell numbers. A resource estimate is scheduled to be completed during the December quarter.

- **Ohai / Orepuki**

#### **Project Background**

Eastern, through wholly-owned subsidiary Rochfort Coal Ltd, has applied for two prospecting permits covering an extensive area surrounding the Takitimu mining tenements and a region prospective for sub-bituminous coal further to the south west. The area has been identified as one of only two known large 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.

#### **Quarter Activities**

Awaiting the granting of Prospecting Permits.

## **5. COAL SEAM METHANE – QUEENSLAND**

- **Galilee Energy (Eastern 61%)**

#### **Project Introduction**

Galilee Energy holds Authorities to Prospect (ATP 529P and ATP 799P) covering an area of approximately 12,000 sq km near Longreach in Central Queensland. The areas are prospective for coal seam methane and conventional hydrocarbons. Galilee plans to drill a two-well exploration programme to determine gas contents, adsorption isotherms and in-situ permeabilities of the extensive coal seams present in the Galilee Basin.

The 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.

#### **Quarter Activities**

Unavailability of a suitable drilling rig has delayed the planned two-well exploration programme. A rig has now been secured and drilling is scheduled to commence in March 2007.

A desktop study of the prospectivity of the ATP areas for conventional petroleum is continuing.

## 6. CORPORATE

### • Board Appointment

During the quarter Eastern added further expertise to its board with the appointment of Mr Richard May as a non-executive director.

Mr May is a former partner with accounting firm KPMG where he served as a partner both in Australia and Papua New Guinea over a period of 27 years. His financial and accounting experience will be a valuable addition to the board of Eastern as the company expands its activities in Australia and New Zealand through a strategy of acquisition, exploration and development of coal and energy projects.

## 7. OUTLOOK FOR THE DECEMBER QUARTER 2006

- Completion of the Broughton Coal Joint Venture Feasibility Study;
- Trials of Takitimu coal to commence with local industrial users.
- Completion of an initial coal resource estimate and coal quality analysis for the Whareatea West project in New Zealand;
- Granting of Southland Prospecting Permits
- 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 September 2006.

For and on behalf of Board of Directors



Mike O'Brien  
Chief Executive Officer

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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 September 2006

## Consolidated statement of cash flows

<b>Cash flows related to operating activities</b>		Current quarter \$A'000	Year to date (3 months) \$A'000
1.1	Receipts from product sales and related debtors	1,226	1,226
1.2	Payments for (a) exploration and evaluation	(454)	(454)
	(b) development	-	-
	(c) production	-	-
	(d) administration	(1,462)	(1,462)
1.3	Dividends received	-	-
1.4	Interest and other items of a similar nature received	94	94
1.5	Interest and other costs of finance paid	(35)	(35)
1.6	Income taxes paid	(2)	(2)
1.7	Other	-	-
	<b>Net Operating Cash Flows</b>	<b>(633)</b>	<b>(633)</b>
<b>Cash flows related to investing activities</b>			
1.8	Payment for purchases of:		
	(a)prospects	-	-
	(b)equity investments	-	-
	(c)other fixed assets	(32)	(32)
1.9	Proceeds from sale of:		
	(a)prospects	-	-
	(b)equity investments	-	-
	(c)other fixed assets – equity share of joint venture	-	-
1.10	Loans to other entities	-	-
1.11	Loans repaid by other entities	-	-
1.12	Other (provide details if material)		
	(a) exploration and evaluation expenditure (net of refunds)	(374)	(374)
	(b) Joint venture equity contribution	-	-
	(c) Overburden advanced	-	-
	(d) Other – purchases of businesses	(3,855)	(3,855)
	<b>Net investing cash flows</b>	<b>(4,261)</b>	<b>(4,261)</b>
1.13	Total operating and investing cash flows (carried forward)	<b>(4,894)</b>	<b>(4,894)</b>

1.13	Total operating and investing cash flows (brought forward)	(4,894)	(4,894)
<b>Cash flows related to financing activities</b>			
1.14	Proceeds from issues of shares, options, etc. - OEI	-	-
1.15	Proceeds from sale of forfeited shares	-	-
1.16	Proceeds from borrowings	-	-
1.17	Repayment of borrowings	(72)	(72)
1.18	Dividends paid	-	-
1.19	Other (provide details if material)	-	-
	<b>Net financing cash flows</b>	(72)	(72)
	<b>Net increase (decrease) in cash held</b>	(4,966)	(4,966)
1.20	Cash at beginning of quarter/year to date	8,774	8,774
1.21	Exchange rate adjustments to item 1.20	48	48
1.22	<b>Cash at end of quarter</b>	3,856	3,856

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
1.23	Aggregate amount of payments to the parties included in item 1.2	-
1.24	Aggregate amount of loans to the parties included in item 1.10	-

1.25 Explanation necessary for an understanding of the transactions

During the quarter the group finalised the acquisition of 2 New Zealand businesses, hence the cash outflow per 1.12(d). No amounts paid to the directors in the 1st quarter. The payments were made early in the 2<sup>nd</sup> quarter.

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

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### 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	300
4.2 Development	-
<b>Total</b>	<b>300</b>

### 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	1,147	2,794
5.2 Deposits at call	2,709	5,980
5.3 Bank overdraft	-	-
5.4 Other	-	-
<b>Total: cash at end of quarter</b> (item 1.22)	<b>3,856</b>	<b>8,774</b>

### 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 <b>Preference securities</b> <i>(description)</i>	-			
7.2 Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs, redemptions	-			
7.3 <b>+Ordinary securities</b>	717,853,187			
7.4 Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs	-			
7.5 <b>+Convertible debt securities</b> <i>(description)</i>	-			
7.6 Changes during quarter (a) Increases through issues (b) Decreases through securities matured, converted	-			
7.7 <b>Options</b> <i>(description and conversion factor)</i>	-		<i>Exercise price</i>	<i>Expiry date</i>
7.8 Issued during quarter	-			
7.9 Exercised during quarter	-			
7.10 Expired during quarter	-			
7.11 <b>Debentures</b> <i>(totals only)</i>	-			

7.12	<b>Unsecured notes</b> ( <i>totals only</i> )	-	
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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 ~~does not~~\* (*delete one*) give a true and fair view of the matters disclosed.

Sign here:                      Date: 31 October 2006  
(Director/~~Company secretary~~)



Print name:    Mike O'Brien

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.