



# **Eastern Corporation Limited**

## **Quarterly Report**

**For the Period Ended  
30 June, 2007**

## **ACTIVITY HIGHLIGHTS FOR THE QUARTER**

- **Drilling commences at Galilee coal seam gas project**
- **Successful Galilee fund raising**
- **Production ramps up at Takitimu**
- **NZ Debt funding facility established**

In Australia, Eastern Corporation Limited ('Eastern') commenced exploration at the Galilee Energy Limited ('Galilee') coal seam methane ('CSM') project in central Queensland. The programme was funded by a rights issue offered to Galilee shareholders which was completed subsequent to period end, raising \$2.58 million.

The first stage of the desktop study into the prospectivity of Galilee tenements for conventional oil and gas was also completed. Information obtained has warranted continuation of the study, the next stage of which will commence following the current CSM drilling programme.

Eastern's New Zealand business continued to grow with further offtake agreements in place for the recently purchased Takitimu mine. The company has also been successful establishing a debt funding facility in New Zealand, secured against coal production, assets and cashflows.

## **COAL – NEW ZEALAND**

### Operations

- **Cascade coal mine**

The Cascade open cut coal mine, producing low ash, low sulphur coal with a high calorific value, 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.

### Quarter Activities

The results from the mini-sosie seismic survey, conducted during the previous quarter were received. These results confirmed our understanding of the geology and have allowed the mine plan to be reassessed. The revised mine plan shows production between 50,000 and 55,000 tonnes per year over the next four years. This plan and production tonnage recognises the complexity and economics of operating in the Cascade environment and includes relocation of the main entry road.

Extensive ground surveys have also been completed. A revised resource statement has been completed of 471,974 tonnes Measured and 87,530 tonnes Indicated\* which reflects the completion of mining in the Mill Creek area and exclusion of the western inferred resource.

Rehabilitation of the Mill Creek area has now been completed. The ground profile has proved to be stable even in the most adverse weather conditions reflecting the excellent protection provided through utilisation of hydro-seeding techniques.

Work will continue on the Cascade mine plan to maximise resource recovery. Eastern will increase its focus on the nearby Whareatea deposit as a target for development.

- **Takitimu coal mine**

The Takitimu coal mine in the Ohai / Nightcaps area is situated in the far south of the South Island of New Zealand. The mine is building up production in line with demand.

#### Quarter Activities

Stripping of the first block was completed during the quarter. Activities then focused on construction and improvements of permanent infrastructure.

All weather haul roads have been established. ROM and product coal stockpiles have also been completed and the coal handling and processing facility has been refurbished to increase production efficiencies.

Sales continue to build with sales forecasts of 40,000 tonnes for the 07/08 financial year with production and sales forecast to increase in subsequent years, particularly with the commencement of the Fonterra contract in September 08.

<u>Mine</u>	<u>Coal Extracted</u> (tonnes)	<u>Overburden</u> (bcm)	<u>Sales</u> (tonnes)	<u>Sales</u> (NZ\$)
Cascade	10,000	87,320	10,822	959,156
Takitimu	5,008	50,893	3,375	254,678
<u>Totals</u>	15,468	138,213	14,197	1,213,834

## Exploration

- **Whareatea West**

The Whareatea West Exploration Permit (EP 40-591) is held by Rochfort Coal Mining 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.

## Quarter Activities

The Whareatea West resource is 5km south east of Eastern's Cascade coal mine.

No further exploration activity was carried out at Whareatea during the quarter. Currently about 40% of the Whareatea West Exploration Permit has been explored and a resource identified however further exploration work is required to delineate the extent of the resource and to gain an understanding of the coal quality overall.

An information memorandum is being prepared for potential joint venture partners before the next stages of exploration are undertaken.

- **Ohai / Orepuki / Takitimu**

The Orepuki Permit (EP 39-319) is located on the coast, south west of Takitimu. The Ohai Permit (EP 39-321) covers an extensive area surrounding the Takitimu mining tenements. Both areas are prospective for sub-bituminous coal. Exploration programmes will be devised for both these tenements although no immediate activity is planned whilst the Takitimu mine is in development phase.

## **FUNDING**

Subsequent to period end, the company has also secured a debt facility in New Zealand of approximately NZ\$4million to fund its operating activities for the coming period, secured against the assets and operating cashflows from the company's two mines and coal distribution facility. This will allow the NZ companies to repay \$2.5m to the Australian parent with the balance available as working capital to fund further development in New Zealand, including the Takitimu mine ramp up to full production.

## **COAL - QUEENSLAND**

- **Broughton Coal Joint Venture**

The Broughton Coal project in Queensland's Bowen Basin is held in joint venture with Mitsui Coal Holdings Pty Ltd (Mitsui). Eastern has announced that currently the project will not sustain the costs of stand alone development however the board of Eastern is still confident that the deposit holds value for the company in the future and will continue to seek options to realise its worth. Talks are being conducted with interested parties to this effect.

Mitsui has confirmed that it intends to maintain its current 10% interest in the project.

- **Dorben**

Dorben (a wholly-owned Eastern subsidiary) holds EPC861 which is situated adjacent to the Dingo Project held by 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. No further activities have been planned for this project in the short term.

## **COAL SEAM METHANE – QUEENSLAND**

- **Galilee Energy (Eastern 67%)**

Galilee Energy holds Authorities to Prospect (ATP 529P and ATP 799P) covering an area of approximately 14,000 sq km near Longreach in Central Queensland. The areas are prospective for coal seam methane and conventional hydrocarbons.

Coal Seam Methane – Mitchell Drilling Rig 105 was on standby in Longreach during the final week of June. Mobilisation on site was delayed due to wet weather. The exploration hole was spudded on July 7 and drilling was completed on July 20, reaching a total depth of 1100 metres. Cores have been despatched to Earth Data in Maitland for analysis. The results of this are not expected until the final quarter of 2007. Downhole logging and testing then commenced.

Funds for the drilling were raised via a rights issue offered to Galilee shareholders at 0.05 cents per share. Eastern participated to its full entitlement as a result of which the company now holds 67% of Galilee.

Conventional Hydrocarbons - Galilee has been working with US consultants Dr Read Holland and Dr Jim Applegate to evaluate the potential of the tenements for conventional hydrocarbons (oil and gas). The first stage of a desktop study has been completed and further studies will be undertaken once the current CSM exploration programme has been finalised.

## **Subsequent to Period End**

### **Board and Management changes**

On July 5 Mr Howard Stack announced his resignation as chairman of the Eastern board, a position he held since previous chairman, Mr Gordon Smith stepped down due to health reasons. Mr Bill Lyne also resigned as non executive director on July 5. Mr Lyne continues to fulfil the role of Company Secretary for the company.

Mr Campbell Smith was appointed to the board in the role of Executive Director in April 2007. On July 23 he was appointed Managing Director and Mr Mike O'Brien retired from Eastern as Chief Executive Officer.

The Board would like to acknowledge the contributions made by Messrs Stack, Lyne and O'Brien in their respective roles.

## **FINANCIALS**

The attached 5B statement provides the cash flows for Eastern Corporation Limited and its subsidiaries for the quarter ended 30 June 2007.

*\* The information in this report that relates to the estimated coal resource for Cascade is based on information compiled by Mr Ian Poppitt of Rockmode Proprietary Limited, who is a member of the Australasian Institute of Mining and Metallurgy. Mr Poppitt has sufficient experience, which is relevant to the style and type of the deposits under consideration and to the activity, which he has undertaken to qualify as a Competent Person as defined in the 2004 Edition of the "Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves". Mr Poppitt consents to the inclusion in this report of the matters based on his information in the form and context in which it appears.*

## 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 2007

## Consolidated statement of cash flows

<b>Cash flows related to operating activities</b>		Current quarter \$A'000	Year to date (12 months) \$A'000
1.1	Receipts from product sales and related debtors	747	4,187
1.2	Payments for (a) exploration and evaluation	(549)	(1,387)
	(b) development	-	-
	(c) production	(595)	(2,874)
	(d) administration	(450)	(2,504)
1.3	Dividends received	-	-
1.4	Interest and other items of a similar nature received	(40)	222
1.5	Interest and other costs of finance paid	(32)	(137)
1.6	Income taxes paid	27	(138)
1.7	Other	-	-
	<b>Net Operating Cash Flows</b>	<b>(892)</b>	<b>(2,631)</b>
<b>Cash flows related to investing activities</b>			
1.8	Payment for purchases of:		
	(a)prospects	-	-
	(b)equity investments	-	-
	(c)other fixed assets	-	(133)
1.9	Proceeds from sale of:		
	(a)prospects	-	-
	(b)equity investments	-	-
	(c)other fixed assets	-	215
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)	-	(247)
	(b) Joint venture equity contribution	-	-
	(c) Payments for bonds and deposits	-	(90)
	(d) Other – purchases of businesses	-	(4,877)
	<b>Net investing cash flows</b>	<b>-</b>	<b>(5,132)</b>
1.13	Total operating and investing cash flows (carried forward)	<b>(892)</b>	<b>(7,763)</b>

1.13	Total operating and investing cash flows (brought forward)	(892)	(7,763)
	<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	(61)	(301)
1.18	Dividends paid	-	-
1.19	Other (provide details if material)	-	-
	<b>Net financing cash flows</b>	(61)	(301)
	<b>Net increase (decrease) in cash held</b>	(953)	(8,064)
1.20	Cash at beginning of quarter/year to date	1,832	8,775
1.21	Exchange rate adjustments to item 1.20	(102)	(66)
1.22	<b>Cash at end of quarter</b>	777	777

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	\$53K
1.24	Aggregate amount of loans to the parties included in item 1.10	-

1.25 Explanation necessary for an understanding of the transactions

The amounts paid to the directors in this quarter of \$53k per 1.23 above represents fees for the 3 months to 30/06/07.

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

-

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	1,200
4.2 Development	-
<b>Total</b>	<b>1,200</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	405	1,003
5.2 Deposits at call	372	829
5.3 Bank overdraft	-	-
5.4 Other	-	-
<b>Total: cash at end of quarter</b> (item 1.22)	<b>777</b>	<b>1,832</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>	-			

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: Bne Date: 31 July 2007  
(Director/~~Company secretary~~)

A handwritten signature in black ink, appearing to read 'Campbell G Smith', written in a cursive style.

Print name: Campbell G 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.