



Eastern Corporation Limited

Quarterly Report

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

ACTIVITY HIGHLIGHTS FOR THE QUARTER

- **Drilling completed at Galilee coal seam gas project**

In Australia, Eastern Corporation Limited ('Eastern') completed exploration at the Galilee Energy Limited ('Galilee') coal seam methane ('CSM') project in central Queensland. Preliminary results from this testing will be announced shortly.

- **New Zealand management team expanded**

In New Zealand, a new mine manager has been recruited for the Takitimu mine in Southland and a Chief Accountant has been appointed based at Eastern Coal Supplies at Timaru.

- **New Takitimu processing plant underway**

Also in New Zealand, plans are underway for infrastructure upgrades at the Takitimu mine as production builds up to supply an expanding customer base.

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

Coal winning is currently in the Fire Pit area and will continue in this block through to December 2007. Meanwhile work has commenced on realigning the haul road to allow access to the next block of 50,000 tonnes of coal in the Gravel Pit area.

New slurry pumping equipment has been installed at the washery and a new water supply connected to take effect once the current supply from the creek is diverted as part of the Stage 1 mining process of the Gravel Pit.

Overburden removal and coal winning is on target for 50,000 to 55,000 tonnes per annum.

- **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, exposing 50,000 tonnes of coal. Coal winning is continuing in Block One whilst stripping has commenced on Block Two to the south east to expose the next 100,000 tonnes of coal.

Work has now commenced on the design and build of a new processing plant capable of handling 200,000 tonnes per annum. This will complement the existing processing facility which has been upgraded to 70,000 tonnes per annum capacity.

During the quarter a mine manager, John Marnane, was recruited to run the Takitimu operation. The Marnane family company operated the mine, then known as Nightcaps, for a period during the 1990's before the lease reverted back to the owners at the time. Mr Marnane has extensive knowledge of coal mining in the Southland district and is well regarded in the local community.

Production

<u>Mine</u>	<u>Coal Extracted</u> (tonnes)	<u>Overburden</u> (bcm)	<u>Sales</u> (tonnes)	<u>Sales</u> (NZ\$)
Cascade	14,300	129,140	11,660	1,098,274
Takitimu	5,691	61,915	3,976	326,494
<u>Totals</u>	19,991	191,055	15,636	1,424,768

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

Further exploration work is planned for Whareatea to delineate the full extent of the resource however this will not be undertaken until 2008. The actual start date of the exploration programme will depend on the approvals process with the Department of Conservation who hold tenure over the land.

It is envisaged that the next stages of exploration will be conducted in conjunction with a joint venture partner.

- **Ohai / Orepuki / Takitimu**

The Orepuki Permit (PP 39-319) is located on the coast, south west of Takitimu. The Ohai Permit (PP 39-321) covers an extensive area immediately surrounding the Takitimu mining tenements. Both areas are prospective for sub-bituminous coal.

No immediate activity is planned whilst the Takitimu mine is in development phase however once the planned infrastructure improvements are in place focus will switch to devising exploration programmes for these areas with particular emphasis on extending the resource base at Takitimu.

FUNDING

In July, Eastern secured a debt facility through Westpac 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 in New Zealand. Part of this facility has been drawn down to repay parent company loans and the remainder has been retained in New Zealand as working capital for the New Zealand operations and to fund continuing mine development at Takitimu and Cascade.

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). The Company is currently considering its options for this project going forward, one of which is the sale of Eastern's 90% equity in the Joint Venture, and discussions are underway with several parties to this effect.

- **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. 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. Following the recent rights issue Eastern now holds 67% of Galilee.

Coal Seam Methane

The first exploration hole in the current Galilee exploration programme was completed during July. The hole at Rodney Creek 8 was spudded on July 7 and drilling was completed on July 20, reaching a total depth of 1100 metres. Rodney Creek 8 is located 5 kilometres south-west of the original Rodney Creek trial gas production field operations established in 1994 by Enron, and later operated by Galilee in the 2002-2004 programme.

Rodney Creek 8 was drilled by Mitchell Drilling Company using a UDR 1200 rig. The R1 seam, uppermost of the Betts Creek coal measures, was intercepted at approximately 907 metres. Core recovery from the Betts Creek and underlying Aramac seam sequences approached 100%.

Cores were despatched to Earth Data in Maitland for analysis. Preliminary indications of gas content are somewhat better than earlier Enron results. Further results from the gas desorption testing are expected to be announced shortly.

Review of previous seismic and drill hole data in conjunction with coal seam sequences and gamma logs observed in Rodney Creek 8 indicate that there is continuity of the R1 coal seam across a large part of the Galilee tenement.

The next phase of exploration will be determined once the complete results of the current testing have been received.

Conventional Hydrocarbons

A desktop study has indicated the potential for conventional oil and gas to exist in the Galilee tenements however further work on this study will not be undertaken until the current CSM exploration programme has been finalised.

Corporate Structure changes

As previously announced, Eastern has undergone several personnel changes resulting in a reduced management group based in the Brisbane corporate office and an expanding operational team in New Zealand.

Board vacancies as a result of the resignation of Chairman Howard Stack and Director Bill Lyne have not been filled and Campbell Smith has assumed the position of Managing Director in conjunction with his responsibilities overseeing the New Zealand operations.

Several accounts positions have been made redundant in Brisbane, the functions being relocated to New Zealand under newly appointed Chief Accountant, Ken Dovestone.

FINANCIALS

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

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 2007

Consolidated statement of cash flows

Cash flows related to operating activities		Current quarter \$A'000	Year to date (3 months) \$A'000
1.1	Receipts from product sales and related debtors	1,280	1,280
1.2	Payments for (a) exploration and evaluation	(1,178)	(1,178)
	(b) development	-	-
	(c) production	(837)	(837)
	(d) administration	(1,305)	(1,305)
1.3	Dividends received	-	-
1.4	Interest and other items of a similar nature received	26	26
1.5	Interest and other costs of finance paid	(130)	(130)
1.6	Income taxes paid	-	-
1.7	Other	-	-
	Net Operating Cash Flows	(2,144)	(2,144)
Cash flows related to investing activities			
1.8	Payment for purchases of:		
	(a)prospects	-	-
	(b)equity investments	-	-
	(c)other fixed assets	(28)	(28)
1.9	Proceeds from sale of:		
	(a)prospects	-	-
	(b)equity investments	-	-
	(c)other fixed assets	-	-
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)	2	2
	(b) Joint venture equity contribution	-	-
	(c) Payments for bonds and deposits	-	-
	(d) Other – purchases of businesses	-	-
	Net investing cash flows	(26)	(26)
1.13	Total operating and investing cash flows (carried forward)	(2170)	(2,170)

1.13	Total operating and investing cash flows (brought forward)	(2,170)	(2,170)
	Cash flows related to financing activities		
1.14	Proceeds from issues of shares, options, etc. - OEI	357	357
1.15	Proceeds from sale of forfeited shares	-	-
1.16	Proceeds from borrowings	2,572	2,572
1.17	Repayment of borrowings	(81)	(81)
1.18	Dividends paid	-	-
1.19	Other (provide details if material)	-	-
	Net financing cash flows	3,217	3,217
	Net increase (decrease) in cash held	678	678
1.20	Cash at beginning of quarter/year to date	777	777
1.21	Exchange rate adjustments to item 1.20	-	-
1.22	Cash at end of quarter	1,455	1,455

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	\$70K
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 \$70k per 1.23 above represents fees for the 3 months to 30/09/07.

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

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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

Galilee Energy Limited raised \$2,583,476 from a rights issue early in the quarter. The parent company Eastern Corporation subscribed \$1,857,919 (its full entitlement) and other shareholders subscribed \$725,557. Of the total external subscription amount, \$368,198 was received before the end of the previous quarter and the remaining \$357,359 is included above per 1.14.

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	\$2,572	\$2,572
3.2 Credit standby arrangements	\$857	-

Estimated cash outflows for next quarter

	\$A'000
4.1 Exploration and evaluation	500
4.2 Development	-
Total	500

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	1,201	405
5.2 Deposits at call	254	372
5.3 Bank overdraft	-	-
5.4 Other	-	-
Total: cash at end of quarter (item 1.22)	1,455	777

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	-			
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</i>	<i>Expiry date</i>
7.8 Issued during quarter	-			
7.9 Exercised during quarter	-			
7.10 Expired during quarter	-			
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 ~~does not~~* (*delete one*) give a true and fair view of the matters disclosed.

Sign here: Date: 31 October 2007
(~~Director~~/Company secretary)



Print name: William G Lyne

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.