

CORPORATE

GALILEE ENERGY LIMITED ACQUISITION

Background

On 23 October 2002, Eastern Corporation Limited (ECU) announced that the Company had entered into a Heads of Agreement to acquire a 51% shareholding interest in Galilee Energy Limited (GEL). GEL will issue 63,836,732 new shares to ECU for a total subscription from ECU of \$4 million.

ECU has received a firm undertaking from Propwood Pty Ltd that subject to approval by shareholders of ECU and GEL, Propwood will provide sufficient funds to finance the acquisition.

The Heads of Agreement makes provision for extensive corporate and technical due diligence to be undertaken in the coming weeks. Approval of GEL shareholders, which is expected to be about 17 December 2002, is also required before the 51% acquisition can be completed.

GEL is an unlisted public company which holds (through wholly-owned subsidiaries) an extensive onshore authority to prospect (ATP) for oil and gas in the Galilee basin in central Queensland. The area is especially prospective for coal bed methane.

Since acquiring the ATP a number of years ago, GEL has spent considerable sums of money drilling a number of exploration and potential production wells as part of an initial pilot program. During the program encouraging gas results were derived, but at the same time, rising levels of water in the wells inhibited the program. Ultimately, the inability to secure funding for the continuation of the dewatering process saw the program deferred and that situation has continued for about 18 months.

ECU is obliged to subscribe for new shares in GEL (for its 51% interest) for a total amount of \$4 million payable by way of instalments of \$2m (which will be paid by the end of January 2003), and two further \$1m instalments in 6 months and 12 months respectively.

These funding requirements will be satisfied by ECU as follows:

1. A placement of \$1.2m to be provided by the Propwood Unit Trust.
 - The terms of the placement will be by the issue of 60 million shares at 2 cents per share together with a 1 for 1 free attaching option, exercisable at 4 cents on or before 31 December 2003. ECU will have the right to call upon Propwood to exercise sufficient options to enable completion of the funding of the GEL acquisition.
 - The principal investor in Propwood is Brisbane based Gordon Smith, one of the founding partners in the Foxleigh Coal Mine in Central Queensland. Gordon Smith is one of six GEL directors and holds 0.9% of the total GEL share capital.
 - The placement will be subject to the approval of ECU shareholders at a General Meeting which will be held mid December 2002.

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Under the Heads of Agreement, approval by the shareholders of GEL is conditional on approval of the placement by ECU shareholders.

2. A non-renounceable rights issue to ECU shareholders to raise \$1.6 million

The principal features of the rights issue are as follows:

- The offer will be on the basis of one new share for each existing two shares held in ECU. The record date for determination of entitlements to participate in the rights issue prospectus and other details relating to the rights issue will be made known to shareholders shortly after GEL at its General Meeting about 17 December 2002 has approved the transaction.
- The issue price will be 2 cents per share, with the intention of raising approximately \$1.6m
- The rights issue will also be underwritten by sophisticated investors (not associated with ECU) who have formed a unit trust of which Propwood Pty Ltd is the trustee. A firm underwriting commitment has been given by Propwood to an amount of \$1m with the right to take up any further shortfall over that amount. An underwriting fee of 8% of the funds subscribed by Propwood Pty Ltd as underwriter will apply.
- It is anticipated that the rights issue will open in early January 2003 and close before the end of January 2003.

It is important to emphasise that ECU has structured the terms of its proposed GEL acquisition so that all funds subscribed are directed towards enhancing the project and not being paid to vendors or interests associated with GEL. As part of the proposed acquisition, ECU will appoint three representatives, two of whom are directors of ECU to a re-constructed five person GEL board of directors.

While the board of ECU recognise the principal focus of the project work will be to devise a pumping system to overcome the water content in existing wells, they also believe there exists considerable potential for the Galilee project in that:

- GEL's ATP is one of the larger onshore authorities in Australia presently covering some 28,000 square kilometres (before compulsory relinquishment) in central Queensland.
- Almost \$20m has already been spent on exploration and pilot programs by GEL and previous owners of the ATP.
- In recent times, another coal bed methane project in Queensland was able to solve its de-watering problems relatively simply and inexpensively.
- The potential market for gas in Queensland appears to be firming.

At ECU's recent General Meeting (13 September 2002), shareholders overwhelmingly supported the board's determination to seek suitable resource projects for ECU to participate in. The board believes that with the proposed GEL acquisition, they may well have secured a project interest with the potential to benefit shareholders in the future.

More detail about the proposed GEL acquisition will be released to the market and shareholders as due diligence and related acquisition matters take place over the coming weeks.

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SABENA LIMITED

The Company continued to pursue its objective of reaching agreement with a listed Canadian exploration company to merge its gold and copper/gold mineral assets in the Philippines with the Canadian entity.

On 4 October 2002 the Company announced it had signed an agreement with Sur American Gold Corporation (a TSE Venture Exchange Listed Company) to merge the interest of Sur American and Sabena Limited (a subsidiary of Eastern Corporation). Under this agreement Sabena will exchange its total issued capital for 25 million shares of Sur American Gold Corporation at a deemed price of \$CAN 0.10 per share and \$CAN 250,000 in cash.

The agreement is subject to the following conditions:

- Sur American raising a minimum of \$CAN 1.5 million to progress Sabena's gold and copper/gold projects in the Philippines;
- All regulatory and shareholder approvals required in Canada and Australia being obtained.

Upon completion of the transaction, ECU will be the largest single shareholder in Sur American and will have the right to nominate two of five directors to the board of Sur American Gold Corporation.

This agreement will be binding on both parties until 1 December 2002, at which time its continuance shall be subject to the agreement of both parties.

The Directors are confident that on completion this merger will give the project access to equity capital in Canada and the United States, sources that are not available for Philippine projects held in purely Australian listed companies.

DIVESTMENT OF INTEREST IN ONLINE MEDIA GROUP PTY LTD

At a General Meeting of the Company held on 27 June 2002, shareholders approved the issue of up to 100 million Eastern shares to Beecher Investment Pty Ltd (Beecher) in consideration for Eastern acquiring a further 20 million shares in OMG, which would have brought Eastern's interest in OMG to 50%. These shares were not issued within a month of the meeting as required under Listing Rule 10.13 as a result of concerns about Eastern's future ability to be able to financially support its investment in OMG.

As a result of difficult market conditions for junior companies, Eastern was unable to provide the necessary support to OnLine Media Group Pty Ltd (OBG) to enable that company to continue the development of the OMG and JabCast business model.

In order to satisfy the contractual obligations under the terms of the subscription agreement dated, December 1999, Eastern reached an agreement with Beecher, Graham McVean and OMG, under which Eastern would be released from its contractual obligation to subscribe for a further \$1.5 million in equity capital in OMG. In return, Eastern agreed to transfer (or otherwise deal with) its existing shares in OMG to Beecher, Graham McVean or OMG as directed by OMG.

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The effect of this is that Eastern has no further investment in OMG and has no further material contractual obligation in respect to this investment.

FUND RAISING

Placement

1. On 17 October the Company announced a placement of 15 million shares to Propwood Pty Ltd to raise \$300,000. A fee of 8% applied to this placement.
2. The Company intends to make a further placement of 60 million shares with a 1 for 1 free attached option exercisable on or before 31 December 2003 to Propwood Pty Ltd as part of the funding package for the Galilee acquisition. This placement will be made at 2 cents per share to raise \$1,200,000 and is subject to shareholder approval at a General Meeting planned for mid December 2002.

Rights Issue

Following approval of the Galilee acquisition by shareholders of Galilee Energy Limited the Company intends to proceed with a non-renounceable rights issue to existing shareholders. The purpose of the funds to be raised by the rights issue is to assist ECU with its funding requirements associated with the proposed acquisition of a shareholding interest in Galilee Energy Limited.

The principal features of the rights issue are as follows:

- The offer will be on the basis of one new share for each existing two shares held in ECU. The record date for determination of entitlements to participate in the rights issue will be announced in mid December 2002.
- The issue price will be 2 cents per share, with the intention of raising approximately \$1.6m.
- The rights issue will also be underwritten by sophisticated investors (not associated with ECU) who have formed a unit trust of which Propwood Pty Ltd is the trustee. The principal investor in Propwood is Brisbane based Gordon Smith, one of the founding investors in the Foxleigh Coal Mine in Central Queensland. A firm undertaking commitment has been given by Propwood to an amount of \$1m with the right to take up any further shortfall over that amount. An underwriting fee of 8% of the funds subscribed by Propwood Pty Ltd as underwriter will apply.
- It is anticipated that the rights issue will open in early January 2003 and close before the end of the January 2003.

Loan and Converting Note issue

On 4 October the Company announced that it had arranged loans amounting to a minimum of \$100,000 and a maximum of \$250,000 from two of its Directors, namely Garry Clark (Managing

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Director) and Alan Phillips (Chairman). The funds are to be used for working capital and to identify and advance new resource projects. Interest payable on the loans is at the rate of 8% per annum.

The loans have been provided on the basis that they are not repayable before shareholders have had the opportunity of voting for conversion of the loans to converting notes. Subject to shareholder approval, it is proposed that the loans be converted into converting notes on the following terms:

1. The notes will convert into ordinary shares of Eastern Corporation at the conclusion of 12 months at 2 cents per share. The notes may be converted at an earlier date at the election of the note holder.
2. Interest will be payable on the note at the rate of 8% per annum
3. The note will be unsecured.

A resolution will be put to a future General Meeting seeking approval for the conversion of the loans into 12 months Converting Notes.

Eastern Corporation Limited**A.B.N. 11 064 957 419****Report for the Quarter Ending 30 September 2002****Twenty largest shareholders as at 21st October 2002**

The names of the twenty largest holders of ordinary shares are listed below:

Name	No of ordinary shares	%
Propwood Pty Ltd	15,000,000	9.17
Clavell Holdings Pty Ltd	14,710,580	8.99
Mr Christopher Hood	7,775,290	4.75
Mr Albert Lawrence Gerick	4,933,995	3.02
Ms Elizabeth Gerick	4,933,995	3.02
Phillips Exploration Pty Ltd	3,713,478	2.27
Jaldale Pty Ltd	3,610,429	2.21
Maranoa Broadcasting Pty Ltd	3,400,000	2.08
Piranha Nominees Pty Ltd	3,129,500	1.91
Mr Phillip Dickinson	2,924,286	1.79
Devonport Pty Ltd	2,698,251	1.65
Jambet Downs Pty Ltd	2,697,342	1.65
Mr Istvan Sipos	2,652,948	1.62
Clavell Holdings Pty Ltd	1,969,398	1.20
I E Properties Pty Ltd	1,701,495	1.04
Arco Four Investments Pty Ltd	1,700,000	1.04
Deracroft Pty Ltd	1,507,000	0.92
Mr Fergus Hugh Anderson	1,350,000	0.83
JP & KP Nominees Pty Ltd	1,181,773	0.72
Octifil Pty Ltd	1,169,962	0.72
	82,759,722	50.60%

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 2002

Consolidated statement of cash flows

		Current quarter \$A'000	Year to date (3 months) \$A'000
Cash flows related to operating activities			
1.1	Receipts from product sales and related debtors	-	-
1.2	Payments for (a) exploration and evaluation	(15)	(15)
	(b) development	-	-
	(c) production	-	-
	(d) administration	(33)	(33)
1.3	Dividends received	-	-
1.4	Interest and other items of a similar nature received	-	-
1.5	Interest and other costs of finance paid	-	-
1.6	Income taxes paid	10	10
1.7	Other (provide details if material)	-	-
		(38)	(38)
Net Operating Cash Flows			
Cash flows related to investing activities			
1.8	Payment for purchases of:		
	(a)prospects	-	-
	(b)equity nvestments	-	-
	(c) other fixed assets	-	-
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)	-	-
		-	-
Net investing cash flows			
1.13	Total operating and investing cash flows (carried forward)	(38)	(38)

1.13	Total operating and investing cash flows (brought forward)	(38)	(38)
Cash flows related to financing activities			
1.14	Proceeds from issues of shares, options, etc.	-	-
1.15	Proceeds from sale of forfeited shares	-	-
1.16	Proceeds from borrowings	34	34
1.17	Repayment of borrowings	-	-
1.18	Dividends paid	-	-
1.19	Other (provide details if material)	-	-
Net financing cash flows		34	34
Net increase (decrease) in cash held		(4)	(4)
1.20	Cash at beginning of quarter/year to date	18	18
1.21	Exchange rate adjustments to item 1.20	-	-
1.22	Cash at end of quarter	14	14

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	NIL
1.24	Aggregate amount of loans to the parties included in item 1.10	NIL

1.25 Explanation necessary for an understanding of the transactions

NIL

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

NIL

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

NIL

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	NIL	NIL
3.2 Credit standby arrangements	9	9

Estimated cash outflows for next quarter

	\$A'000
4.1 Exploration and evaluation	30
4.2 Development	-
Total	30

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	5	10
5.2 Deposits at call	9	8
5.3 Bank overdraft	-	-
5.4 Other (provide details)	-	-
Total: cash at end of quarter (item 1.22)	14	18

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	NIL		
6.2	Interests in mining tenements acquired or increased	NIL		

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 (description)	NIL			
7.2 Changes during quarter				
(a) Increases through issues	NIL			
(b) Decreases through returns of capital, buy-backs, redemptions	NIL			
7.3 +Ordinary securities	148,610,091	148,610,091		
7.4 Changes during quarter				
(a) Increases through issues	NIL			
(b) Decreases through returns of capital, buy-backs	NIL			
7.5 +Convertible debt securities (description)	NIL			
7.6 Changes during quarter				
(a) Increases through issues	NIL			
(b) Decreases through securities matured, converted	NIL			
7.7 Options (description and conversion factor)			<i>Exercise price</i>	<i>Expiry date</i>
	72,163,386	72,163,386	20 cents	30/6/2003
7.8 Issued during quarter	NIL			
7.9 Exercised during quarter	NIL			
7.10 Expired during quarter	NIL			
7.11 Debentures (totals only)	NIL			
7.12 Unsecured notes (totals only)	NIL			

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:
(Director/Company secretary)

Print name:

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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