

Eastern Corporation Limited

A.B.N. 11 064 957 419

Report for the Quarter Ending 31 December 2002

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.

The agreement for the acquisition of the 51% interest in GEL was approved by ECU shareholders at the Company's Annual General Meeting on 29 November 2002 and by GEL shareholders at a General Meeting on 19 December 2002.

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 on 31 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 provided by the Propwood Unit Trust.
 - Under the placement ECU would issue to Propwood 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 placement was approved by shareholders at a General Meeting held on 18 December 2002 and the shares and options will be issued to Propwood on 31 January 2003
2. A non-renounceable rights issue to ECU shareholders to raise \$1.6 million

The principal features of the rights issue which was dated 19 December 2002 were:

- The offer was on the basis of one new share for each existing two shares held in ECU on the record date, 2 January 2003.

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The issue price was 2 cents per share, with the intention of raising approximately \$1.6 m.

- The rights issue was 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 was 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.
- The rights issue opened on 8 January 2003 and closed for receipt of subscriptions from shareholders on 23 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.

The board believes that with the GEL acquisition, they may well have secured an interest in a project with the potential to benefit shareholders in the future.

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 would 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.

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On 29 December 2002 the Company announced it had signed a revised Heads of Agreement with Sur American Gold Corporation. This agreement superceded the agreement outlined in the Company's announcement of 4 October 2002.

Under the revised agreement, Sur American will have the right to earn a 51% interest in Sabena Limited (Sabena), a subsidiary of ECU by spending \$Can 2,000,000 in exploration on Sabena's Philippine gold and gold/copper projects over a 2.5 year period and by issuing to ECU 5 million common shares in Sur American.

The issue of the 5 million Sur American shares, to be linked to the proposed exploration programme, will be as follows:

- 1.5 million shares as soon as possible after the Commencement Date:
- 1 million shares after 6 months:
- 1.5 million shares after 12 months and
- 1 million shares after completion of the exploration programme in 2.5 years.

The Commencement Date is the date that Sur American has received all necessary regulatory approval and shareholder approval (if required).

Sur American will have the option to increase its interest in Sabena to 70% by spending a further \$Can 2 million on exploration within 5 years of the Commencement Date.

ECU will have the right to nominate two non-executive directors to the Board of Sur American which will comprise a total of five directors.

Sur American will be the project operator during the period it is sole funding the exploration of Sabena's mineral interests.

This agreement is subject to the receipt of all regulatory, board and shareholder approval and to the signing of a formal agreement between ECU and Sur American.

At T'Boli in south-east Mindanao, where earlier exploration by Sabena has outlined an Inferred Resource of 420,000 oz of gold and 1.6 million oz of silver, it is intention of Sur American to focus on establishing a 50 – 100 tonne per day pilot plant to treat ore from a development programme designed to increase the known gold and silver resource by block development (and core drilling) and to obtain the geological, metallurgical and mining data essential for a full feasibility study.

The directors are confident that this farm-in agreement with Sur American will provide the necessary exploration funding to more fully assess the potential of the T'Boli and Sabena tenements and 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.

CHANGES TO BOARD STRUCTURE

On 19 December 2002, Mr David Barwick replaced Mr Alan Phillips as Chairman of the

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Company. Mr Phillips remains on the board as a director.

FUND RAISING

Placement

1. On 17 October 2002 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 made 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 was made at 2 cents per share to raise \$1,200,000 and was approved by shareholders at a General meeting held on 18 December 2002. A fee of 8% applied to this placement

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.

DIRECTORS LOANS

On 4 October 2002 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 and Alan Phillips. The funds are to be used for working capital and to identify and advance new resource projects. A total of \$250,000 was advanced to the Company under this agreement.

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At a General Meeting held on 18 December 2002, shareholders approved the issue of shares at 2 cents per share to repay these loans. 6,250,000 shares were issued to Mr Phillips (or his nominee) and 6,250,000 shares to Mr Clark (or his nominee) on 16 January 2003 in repayment of these loans.

OTHER PLACEMENTS

On 21 November 2002 the Company issued 1,500,000 fully paid shares at 2c per share to Peter Treston in part satisfaction of services provided to the Company.

Following approval by shareholders at a General Meeting on 18 December 2002, the Company issued 2,500,000 shares to Queensland Underwriters Limited (a company associated with Chairman, David Barwick) for services rendered in association with the Galilee acquisition. These shares were issued on 16 January 2003.

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Twenty largest shareholders as at 28 January 2003

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

Name	No of ordinary shares	%
1. Propwood Pty Ltd	15,000,000	8.33
2. Clavell Holdings Pty Ltd	14,710,580	8.17
3. Mr Christopher Hood	7,775,290	4.32
4. Phillips Exploration Pty Ltd	6,262,000	3.48
5. Mr Albert Lawrence Gerick	4,933,995	2.74
6. Oakgrade Pty Ltd	4,478,500	2.49
7. Mrs Elizabeth Gerick	4,433,995	2.46
8. Phillips Exploration Pty Ltd	3,713,478	2.06
9. Jaldale Pty Ltd	3,610,429	2.00
10. Maranoa Broadcasting Pty Ltd	3,400,000	1.89
11. Piranha Nominees Pty Ltd	3,129,500	1.74
12. Mr Phillip Dickinson	2,924,286	1.62
13. Jambet Downs Pty Ltd	2,697,342	1.50
14. Mr Istvan Sipos	2,652,948	1.47
15. Queensland Underwriters Ltd	2,500,000	1.39
16. Clavell Holdings Pty Ltd	1,969,398	1.09
17. Mr Garry James Clark	1,955,100	1.09
18. Arco Four Investments Pty Ltd	1,700,000	0.94
19. I E Properties	1,501,495	0.83
20. Mr Peter John Treston	1,500,000	0.83
	90,848,336	50.44%

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")

31 December 2002

Consolidated statement of cash flows

Cash flows related to operating activities	Current quarter \$A'000	Year to date (6 months) \$A'000
1.1 Receipts from product sales and related debtors	-	-
1.2 Payments for (a) exploration and evaluation	(20)	(35)
(b) development	-	-
(c) production	-	-
(d) administration	(91)	(124)
1.3 Dividends received	-	-
1.4 Interest and other items of a similar nature received	1	1
1.5 Interest and other costs of finance paid	(5)	5
1.6 Income taxes paid	-	-
1.7 Other (provide details if material)	-	-
Net Operating Cash Flows	(115)	(153)
Cash flows related to investing activities		
1.8 Payment for purchases of: (a) prospects	-	-
(b) equity investments	-	-
(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)	(115)	(153)

+ See chapter 19 for defined terms.

1.13	Total operating and investing cash flows (brought forward)	(115)	(153)
Cash flows related to financing activities			
1.14	Proceeds from issues of shares, options, etc.	276	276
1.15	Proceeds from sale of forfeited shares	-	-
1.16	Proceeds from borrowings	-	34
1.17	Repayment of borrowings	-	-
1.18	Dividends paid	-	-
1.19	Other (provide details if material)	-	-
Net financing cash flows		276	310
Net increase (decrease) in cash held		161	157
1.20	Cash at beginning of quarter/year to date	14	18
1.21	Exchange rate adjustments to item 1.20	-	-
1.22	Cash at end of quarter	175	175

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	3
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

Newsletter costs

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

+ See chapter 19 for defined terms.

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	166	5
5.2 Deposits at call	9	9
5.3 Bank overdraft	-	-
5.4 Other (provide details)	-	-
Total: cash at end of quarter (item 1.22)	175	14

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		

+ See chapter 19 for defined terms.

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>	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	165,110,091	165,110,091		
7.4 Changes during quarter				
(a) Increases through issues	16,500,000	16,500,000		
(b) Decreases through returns of capital, buy-backs	Nil			
7.5 +Convertible debt securities <i>(description)</i>	Nil			
7.6 Changes during quarter				
(a) Increases through issues	Nil			
(b) Decreases through securities matured, converted	Nil			
7.7 Options <i>(description and conversion factor)</i>	72,163,386	72,163,386	<i>Exercise price</i> 20 cents	<i>Expiry date</i> 30/6/2003
7.8 Issued during quarter	Nil			
7.9 Exercised during quarter	Nil			
7.10 Expired during quarter	Nil			
7.11 Debentures <i>(totals only)</i>	Nil			
7.12 Unsecured notes <i>(totals only)</i>	Nil			

+ See chapter 19 for defined terms.

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 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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+ See chapter 19 for defined terms.

