



**Eastern Corporation Limited**

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**QUARTERLY REPORT – MARCH 2003**

**INTRODUCTION**

This is the report as to the various activities undertaken by Eastern Corporation Limited (ECU) for the quarterly period ending March 2003. This quarterly period has seen an extensive amount of activity undertaken by ECU and its directors, employees and consultants, as is summarised below.

**BUSINESS ACTIVITIES**

**(a) Galilee Energy Limited**

On 4 February 2003, ECU completed its acquisition of 51% of Galilee Energy Limited (GEL) following payment of an initial tranche of \$2 million and the subsequent allocation of 63,836,732 shares in GEL. ECU has two further instalments (of \$1 million each) payable to GEL by July 2003 and January 2004 respectively, in order to complete the acquisition.

GEL holds a 100% interest in an Authority to Prospect situated in an area comprising approximately 14,000 square kilometres in Central Queensland, which is prospective for coal bed methane and oil. The development of GEL and its activities is now the principal focus of ECU's Board of Directors.

As part of ECU's acquisition of 51% of GEL, three of the five GEL Board members are ECU appointees namely, David Barwick, Gordon Smith and an additional appointee to the GEL Board, Mr Graeme Boyd. Mr Boyd is a past Managing Director of the minerals consultancy firm, Minserve, and has joined the GEL Board in order to provide additional technical expertise.

At the present time, gas well workover operations are being undertaken on site. Well rehabilitation has commenced on the existing five wells and three wells are already at the stage of pumping water to reduce the bottom-hole pressure and allow gas desorption. Prior to commencement of workover and rehabilitation activities, each well was observed to have significant gas pressure in the well casing and when valves were opened, water flowed to the surface with large gas surges in each well. Monitoring of water and gas flow rates has also commenced although it is still some weeks before any meaningful interpretation of data will be available. It is anticipated that each well will be rehabilitated and on-pump before the end of April, with initial significant (and identifiable) gasflows by the middle of May 2003.

ECU's representatives are also conducting discussions with various government departments including the Department of Natural Resources and Mines, Department of Primary Industries, Local Authorities as well as immediately affected landowners to ensure that all necessary statutory approvals are in place and maintained and that the local community is kept fully aware of GEL's activities.

Procedures have also been implemented in order to provide the necessary on-site back up resources including a comprehensive inventory of spare parts, so as to minimise loss of production resulting from machinery breakdowns. In addition, a significantly increased fuel capacity on-site has been established, so as to ensure that any lack of access due to bad weather, does not disrupt activities.

Finally, the Board of Directors of GEL and its advisors have commenced preparation of a strategic plan for establishment of an ongoing well development program. This strategic plan is designed to ensure that GEL has a technical process (and ongoing means of funding that process), in the event of there being sufficient gas reserves identified to justify an ongoing exploration and development program. It is the present intention of both the Boards of ECU and GEL to ensure that (should there be a decision to take gas exploration and development further), that there is sufficient planning and preparation in place so as to ensure a minimum amount of delay in implementation of these activities is experienced.

**(b) Sabena Limited (Philippines)**

As previously notified to the ASX, ECU has completed its agreement with Sur American Gold Corporation (Sur American), a company listed on the Canadian TSX Venture Exchange. The agreement provides Sur American with the right to earn up to a 70% interest in Sabena Limited, a subsidiary of ECU. Sabena is the holder of certain exploration and mining interests in the Philippines.

All conditions precedent to the agreement with Sur American (including formal regulatory approval from the Canadian authorities) have now been met and the project is proceeding in accordance with the terms of that agreement. At this stage, ECU has been issued 1.5 million Sur American shares (currently worth approximately CAN\$150,000 on the TSX Venture Exchange) and in turn, Sur American has acquired its initial 3% interest in Sabena. Sur American established a new executive team with a strong focus on this project and started transferring funds to the Philippines, to enable exploration and feasibility works to be undertaken. The Directors of ECU look forward to the results of those activities over the coming months.

The Directors of ECU are pleased that the Sur American agreement has now been completed and that the initial stage of converting ECU's shareholding interest in Sabena into shares in a TSX Venture Exchange-listed company, has taken place.

**(c) Other Activities**

The Board of ECU are continuing to pursue other potential opportunities in the resources sector. If and when any such activities result in concluded agreements or arrangements, shareholders and the ASX generally, will be advised.

## **CORPORATE ACTIVITIES**

The three month period ending March 2003 (and days leading up to this report) have seen ECU involved in a number of other corporate activities including the following:

**(a) Extraordinary General Meeting of Shareholders of ECU held on 16 April 2003**

At this shareholder meeting approval was obtained for ECU to transfer a 30% shareholding interest in Sabena Limited to interests associated with two former directors, in exchange for the forgiveness of \$240,000 in moneys owing by ECU to those persons on account of unpaid consultancy and directors fees. Completion of this transaction will be effected shortly.

**(b) Employee Incentive Plan**

The Board of Directors of ECU have established an Employee Incentive Fund which will be designed to allocate to employees and consultants of ECU and its subsidiary entities (but not Directors), fully tradeable shares in ECU, in a manner as determined by the Directors of ECU from time to time. A special trust fund has been established as the means of holding the ECU shares and, with an allocation of funds from ECU, an initial "pool" of two million ECU shares has been acquired by the Fund.

Over time, the Board of Directors of ECU believe this capacity to allocate ECU shares to employees and consultants from time to time, will be a valuable means of not only creating incentive for existing personnel, but to attract other persons to the corporate group with the capacity and experience to add further value as projects develop.

**(c) Corporate Office Relocation**

The corporate offices of both ECU and GEL have been relocated to Level 14, 145 Eagle Street Brisbane and the office is fully maintained by both Ms Sam Aarons (ECU's Manager-Corporate Services) and Ms Karen Murray (GEL's Manager, Business Administration).

**(d) Board Changes**

During the period, there have been some considerable changes to the existing Board of Directors of ECU. Alan Phillips and Garry Clark resigned as Directors on 26 March 2003 and the ECU Board now comprises David Barwick – Chairman, Gordon Smith – Executive Director, and Non-Executive Directors Campbell Smith and Paul Williams.

**(e) Strategic Plan**

The Directors of ECU are also in initial stages of preparing a strategic plan for the ongoing promotion and development of ECU's asset holdings. A particular focus of the plan will be the timing and extent of additional funding commitments that ECU may have in coming months, as a consequence of a potential expansion of exploration and development activities in GEL's coal bed methane project. This plan will also have regard to ECU's

capacity to participate in other resources projects, should those opportunities present themselves from time to time.

## **SHAREHOLDING DETAILS**

### **(a) Small Shareholder Buyout**

The Directors of ECU are pleased to report that a buyout of small shareholding interests is now being completed. Existing ECU shareholders (with holdings of 15,000 shares or less) were recently given the opportunity to either maintain those holdings or permit ECU to sell the shares on-market and return the resulting proceeds to those affected shareholders.

As a result of these activities, the Directors of ECU will oversee the transfer of 3,297,491 ECU shares, and the resulting proceeds will be returned to those ECU shareholders who have had their shares sold. This exercise will also reduce ECU's total shareholder numbers from 1489 (prior to commencement of the buyout exercise) to 980. It is expected that this reduction in the overall number of shareholders will produce substantial administrative cost savings moving forward.

### **(b) Top Ten Shareholders**

ECU's current top ten shareholders (as at 31 March, 2003) are as follows:

<b>Name</b>	<b>No. of Shares</b>
Propwood Pty Ltd	142,500,000
Jade Securities Pty Ltd	10,000,000
Clavell Holdings Pty Ltd	9,846,247
Mr David Bird	8,000,000
Phillips Exploration Pty Ltd (Phillips Family A/C)	6,262,000
Oakgrade Pty Ltd	4,528,500
Phillips Exploration Pty Ltd	3,713,478
Roscious Pty Ltd	3,500,000
Maranoa Broadcasting Pty Ltd	3,400,000
Piranha Nominees Pty Ltd	3,129,500

These holdings together represent 62.98% of the total issued shares of ECU.

**(c) Reduction of Chairman's Shareholding**

As recently advised to the ASX the Chairman of ECU, Mr David Barwick (and entities associated with him), recently transferred shares reducing the total of his shareholding interests in ECU back to 1,000,000 shares. In accordance with ECU's corporate governance procedures, the reduction in Mr Barwick's shareholdings is entirely consistent with the notion of maintaining a sufficient level of independence on the ECU Board.

**(d) Propwood Options**

Propwood Pty Ltd (as trustee for the Propwood Unit Trust) is the largest shareholder in ECU, holding 142.5 million shares, which represents approximately 46% of ECU's total shares. Propwood Pty Ltd is also the holder of 60 million options to subscribe for additional ECU shares at 4 cents on or before 31 December 2003. The Directors of Propwood have already indicated to ECU their intention to exercise a further tranche of approximately 30 million of these options on or before 30 June 2003, which will result in ECU raising proceeds of approximately \$1.2 million by that date. Upon exercise of these options, Propwood's total shareholding in ECU will then be 172.5 million shares, comprising approximately 51% of the then total. Propwood has also indicated its intention to exercise the balance 30 million options to meet the final \$1 million payment to GEL which would take Propwood's total shareholding to 202.5 million shares or approximately 55% of the then total.

**FINANCIAL INFORMATION**

Relevant information relating to the financial position of ECU is set out in the attached 5B statement.

A handwritten signature in black ink, appearing to read 'David Barwick', is written over a large, hand-drawn oval shape.

David Barwick  
Chairman

16 April 2003