

**Eastern Corporation Limited**  
**Annual financial report**

ACN 064 957 419

**for the year ended 30 June 2007**

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**Stock exchange**

Australian Securities Exchange  
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**Auditor**

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**Solicitors**

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1 Eagle Street QLD 4000

**Bankers**

National Australia Bank  
9/255 Adelaide Street  
Brisbane QLD 4000

## Directors' report

Your directors present their report on the consolidated entity consisting of Eastern Corporation Limited ("Eastern" or "the Company") and the entities it controlled at the end of, or during, the year ended 30 June 2007.

### Information on Directors

The following persons were directors of Eastern Corporation Limited during the period commencing 1 July 2006 and ending on the date of this report (unless otherwise noted).

#### **Campbell G Smith.** *Managing Director* Age 34.

Appointed Executive Director 10 April 2007

Appointed Managing Director 23 July 2007

Mr Smith has over 15 years involvement in mining operations. As Operations Manager for Brookfield Equipment Company, he was involved in a number of major mining operations such as the Ivanhoe Copper Company's mine in Myanmar as well as the Ernest Henry mine in Queensland. He previously held the position of General Manager of Eastern Coal Holdings (NZ) Limited, overseeing the group's coal operations and exploration activities in New Zealand.

Mr Smith is a Director of Galilee Energy Ltd, Becamal Pty Ltd and Corostar Pty Ltd  
He was also a Director of Propwood Pty Ltd.

Share interests in Eastern: 170,808,709

#### **Richard J May FCA** *Non-Executive Director.* Age 59.

Appointed 22 August 2006.

Mr May had 27 years experience as a partner with KPMG until his retirement on 30 June 2006. He served as a partner with KPMG both in Australia and Papua New Guinea. He has held senior positions within KPMG including a period as National Chairman of the Middle Market Advisory practice and was Partner in Charge of the Brisbane Middle Market Advisory practice for a period of 20 years. Mr May has extensive experience in accounting, taxation, auditing and business advisory matters having provided services to a diverse client base including medium sized and international corporations. He is a Board Member of the Brisbane Lions Foundation and has served as Director of Lifeline Community Care and Indooroopilly Golf Club.

Member and Chairman of the Audit Committee from August 2006.

Share interests in Eastern: 8,818,797

#### **John S McIntyre BEng.** *Non-Executive Director.* Age 57.

Appointed 7 July 2004

Mr McIntyre is a professional mining engineer, with both open pit and underground management experience and expertise in the feasibility evaluation and development of mining projects. He is Managing Director of the Australian subsidiary of US mineral industry consultant, Behre Dolbear, Mr McIntyre has previously held senior positions at the Goonyella and Curragh mines in Queensland's Bowen Basin.

Member of the Audit Committee from August 2007

Other listed company directorships: Takoradi Limited (Director since 1993)

Share interests in Eastern: 8,804,326

**William G Lyne BCom, CA** *Non-Executive Director & Company Secretary.* Age 61.

Appointed as Company Secretary on 12 February 2003 and as a Director on 24 April 2006.  
Resigned as Director on 5 July 2007

Principal of Australian Company Secretary Service, providing company secretarial, compliance and governance services to public companies. Fellow of Chartered Secretaries Australia, a past Queensland State Councillor of CSA and a presenter at CSA and other courses in company secretarial practice. Secretary of a number of other listed companies both in Australia and overseas, including some involved in mining production and exploration.

Other listed company directorships: Global Approach Limited (Director January 2004-November 2006)

**Howard L Stack BA, LLB** *Non-Executive Director.* Age 62

Appointed 22 May 2006  
Resigned 5 July 2007

Mr Stack has 32 years experience as a partner in leading Australian corporate law firms. He currently continues a small corporate legal advisory practice, which provides specialist consultant services to Macquarie Generation, New South Wales' largest coal fired electricity generator. He has served as Chairman of the Brisbane Grammar School Board of trustees since 1991 and on other charitable and government bodies.

Member of the Audit Committee from June 2006 to the date of his resignation

Other current listed company directorships: Magnetica Ltd (Chairman since Dec 2004) and Flight Centre Ltd (Director since 1995)

Former listed company directorships (last 3 years): Data #3 Limited (1999 – 2005) and Voxson Limited (1999 – 2004)

Share interests in Eastern at the time of resignation: 500,000

**Gordon G Smith BEc.** *Executive Chairman.* Age 63.

Appointed Executive Director 12 February 2003 and Executive Chairman on 15 December 2003.  
Resigned as Chairman 19 March 2007.

Appointed Non-Executive Director 19 March 2007  
Deceased 30 March 2007

Mr Smith had extensive experience in the mining industry, spanning more than 30 years. In 1997 Mr Smith and three partners formed CAML Resources Pty Ltd, which established a joint venture to develop the now successful Foxleigh open cut coal mine in the Bowen Basin of Queensland. He was a director of Propwood Pty Ltd.

Share interests in Eastern at the time of death: 249,005,000

#### *Common share interests*

Three directors held a common interest in 238,905,000 shares held in the name of Propwood Pty Ltd of which Mr C G Smith was a director, and all three Eastern directors were unit holders. In September 2007 Propwood Pty Ltd conducted an *In Specie* distribution of those shares to its unit holders on a pro rata basis. The share interest for those directors disclosed above reflects that distribution.

#### *Principal activities*

During the year the principal continuing activities of the consolidated entity consisted of exploration and development of coal prospects in Australia and New Zealand and coal seam methane in the Galilee Basin near Longreach in Queensland. With the acquisition of the Cascade mine in 2005 and the Takitimu mine in September 2006 the group's principal activities have now expanded to include extraction of coal from those mines.

## *Review of Operations*

### **(a) Coal operations**

#### ***Cascade, New Zealand***

On 30 June 2005, Eastern's wholly-owned subsidiary, Cascade Coal Ltd, acquired the Cascade open cut coal mine, located in the historic Buller coalfields region near Westport on the west coast of New Zealand's South Island.

Cascade produces a commercially attractive coal, low in ash and sulphur with a high calorific value. Coal from this mine is in high demand for the domestic industrial markets in New Zealand. Local cement plant, Holcim, is the mine's largest customer but the coal is also transported to users in the Canterbury and Otago regions. The Cascade coal is also successfully blended with coal from the newly acquired Takitimu mine and distributed through Eastern Coal Supplies at Timaru.

A revised resource statement was completed for Cascade which reflected the completion of mining in the Mill creek area and exclusion of the western inferred resource. Based on this production is targeted to 50,000 – 55,000 tonnes per annum for the next four years although work is continuing to maximise resource recovery to extend the life of mine. Activity is also focused on progressing the next stages of development of the nearby Whareatea West permit.

#### ***Takitimu, New Zealand***

In September 2006 the Company completed the purchase of the Nightcaps Mine, north of Invercargill in the South Island, for a total purchase consideration of A\$2.2m (NZ\$2.5m). The purchase comprised three tenements: Nightcaps, Ohai # 14 and Mossbank. The two latter tenements are essentially rehabilitation obligations however the Nightcaps mine, since renamed Takitimu, is now in full production and will continue to ramp up to meet the demands of local industry who rely on the sub bituminous coal produced by the mine as an important source of energy.

A coal resource of 2.82 million tonnes (Measured 2.6 million tonnes and Indicated 0.22 million tonnes)\* has been defined in the current permit area of Takitimu. The company also holds Prospecting Permit 39-321 over an extensive area immediately surrounding the existing licence area which may provide access to additional resource.

In March 2007 New Zealand's largest company, the dairy co-operative, Fonterra, awarded Eastern's New Zealand subsidiary, Eastern Coal Holdings (NZ) Ltd the contract to supply coal from the Takitimu mine to its Clandeboye plant located near Timaru on the east coast. This contract, initially for approximately 130,000 tonnes per annum, commences in September 2008 and will underpin the production from the mine in the coming years. The company has also been successful in tendering for other local commercial contracts. Current production and processing capabilities are being upgraded to meet the increased demand. The existing processing plant has undergone improvements to take its capacity to approximately 70,000 tonnes per annum and an additional plant is under development which will be capable of processing 200,000 tonnes per annum. Offtake from Takitimu is projected to be approximately 50,000 tonnes for the year ending 2008, and 140,000 for the following year.

#### ***Eastern Coal Supplies, Timaru***

Eastern Coal Supplies Limited (formerly Somervilles Fuel Centre) was purchased in September 2006 for a total purchase consideration of A\$2.1m (NZ\$2.4m). It is a coal handling and distribution centre, strategically located mid way between the Cascade and Takitimu mines at Timaru on the east coast of the South Island. Its principal activity is to provide blended and non-blended coal to customers in the region. The yard will also offer the requisite contingency stockpiles and delivery support for the Fonterra contract once supply to the nearby Clandeboye plant commences in September 2008. Eastern Coal Supplies will also house the accounting, administration and sales and transport functions for the company's New Zealand businesses.

### **(b) Exploration Projects - New Zealand**

#### ***Whareatea West, South Island***

Whareatea West is an exploration tenement (EP40-591) held by Eastern subsidiary Rochfort Coal Ltd. It is located 5 kilometres north-west of the Cascade mine in the established Buller coalfields region.

A resource of 25.7 million tonnes\* has been defined (Measured 18 mt and Indicated 7.7 mt). Early indications are that the coal ranges from coking to a high ash thermal product however only 40% of the permit has been explored by the company to date. Further exploration to determine refined variations of coal qualities for particular markets and to fully understand the extent of the resource is planned for 2008. On completion of this, a decision will be taken on whether to proceed with a feasibility study into the development of an export coking coal mine. The company is considering progressing the next stages of exploration at Whareatea West in conjunction with a joint venture partner and discussions are underway with several interested parties to this effect.

### **Ohai/Orepuki, South Island**

Eastern, through wholly-owned subsidiary Rochfort Coal Ltd, holds Prospecting Permits Orepuki 39-319 and Ohai 39-321 in the Southland region of the South Island. Both of these permits are over areas prospective for sub-bituminous coal. The Orepuki permit is located on the south coast, west of Invercargill. The Ohai permit covers a large area surrounding the existing Ohai and Takitimu mines. The coal seams identified within the Takitimu mining tenements extend into this area creating the potential to expand the original resource estimates.

## **(c) Exploration Projects - Australia**

### **Broughton Coal Joint Venture, Queensland**

The Broughton Coal Joint Venture was formed in June 2005 between Eastern's wholly-owned subsidiary Broughton Coal Mining Pty Ltd, and Mitsui Coal Holdings Pty Ltd. A total Measured, Indicated and Inferred Coal Resource of 30 million tonnes \* was identified at Broughton (Measured 16.5 mt, Indicated 8.5 mt and Inferred 5 mt) Coal quality studies have revealed hard and semi-hard coking coal.

During the year, the first stage of a feasibility study into the Broughton project, comprising coal exploration and technical analysis, was completed and it was determined that the project could not sustain the capital cost of the necessary infrastructure on a stand alone basis. The deposit still holds value for the company however and options are being considered for its future development.

Mitsui acquired an initial 10% interest for \$4 million and retains the right to acquire a further 20% for an additional \$11 million on completion of Stage 2 of the Feasibility Study. It is unlikely that this study will be completed in the next 12 months. Mitsui has confirmed that it intends to maintain its current 10% interest in the project.

### **Dorben Project, Queensland**

Wholly-owned Eastern subsidiary, Dorben Pty Ltd holds EPC 861 in the southern region of the Bowen Basin. Dorben is understood to be prospective for low-volatile pulverised coal injection (PCI) coal although it is yet to be determined if the further development of this project is economic. No further activities are planned for Dorben in the short term.

## **(d) Coal Seam Gas**

### **Galilee Energy, Queensland**

Eastern is exploring for coal seam gas, as well as conventional petroleum, through Galilee Energy Limited (Eastern 67%). Galilee holds exploration permits (ATP 529P and ATP 799P) near Longreach in central Queensland.

An exploration hole was drilled in the Rodney Creek region of the ATP in July 2007. Cores have been despatched to a testing facility to determine gas saturation characteristics, absorption isotherms and in-situ permeabilities. Downhole logging and testing has also been completed. Definitive results from this testing are not expected until later in the year. Once these have been received the company will consider future exploration options. Funding for the exploration was by means of a rights issue amongst Galilee shareholders, following which Eastern's holding increased to 67%.

A desktop study of the prospectivity of the area for conventional petroleum has also commenced. The first stage of this has been completed. This identified the existence of geological structures conducive to conventional hydrocarbon containment. This study will be further progressed as a separate project during 2008, once the coal seam methane exploration programme has been determined.

*\*The information in this report that relates to the estimated coal resource for Whareatea West and Takitimu 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. The information in this report that relates to the estimated coal resource for Broughton is based on information compiled by Barry Saunders of Queensland Geological Services Pty Ltd, who is a member of The Australasian Institute of Mining and Metallurgy. Mr Poppitt and Mr Saunders have sufficient experience which is relevant to the style and type of the deposits under consideration and to the activity which they have 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 and Mr Saunders consent to the inclusion in this report of the matters based on their information in the form and context in which it appears.*

**Dividends**

No dividends were paid to members during the financial year. Since the end of the financial year the directors have not recommended the payment of any ordinary dividend.

**Significant changes in the state of affairs**

Other than the acquisitions of the Nightcaps coal mine and the Somervilles Fuel Centre in September 2006 there have been no significant changes in the consolidated entity's state of affairs.

**Matters subsequent to the end of the financial year**

A management restructure took place in July following the resignation of Chief Executive Office, Mr Mike O'Brien. Mr Campbell Smith, who was elected to the board as Executive Director in April 2007 and who previously held the role of General Manager, New Zealand, assumed the role of Managing Director for the consolidated entity. He still holds direct responsibility for the company's New Zealand operations.

An *In Specie* share distribution took place in September whereby the company's largest shareholder, Propwood Pty Ltd, transferred its 203,990,000 shares in Eastern on a pro rata basis to the unit holders which previously comprised the entity. Propwood previously held 33% of Eastern. The company's largest shareholder is now Becamal Pty Ltd with 19%.

**Likely developments**

Information on likely developments in the operations of the consolidated entity and the expected results of operations have not been included in this report because the directors believe it would be likely to result in unreasonable prejudice to the consolidated entity.

**Environmental Regulation**

The Company's operations are regulated by environmental regulations under the laws of the Commonwealth of Australia and of the State of Queensland. Operations are conducted in compliance with the Queensland Petroleum Act and the Mineral Resources Act. Environmental considerations are reviewed with and approved by the Queensland Department of Natural Resources and Mines and Environmental Protection Authority. The Company has not breached any of its environmental licence conditions nor has it been notified of any environmental breaches by any Government agency during the year.

The Australian-based coal and coal seam methane activities are at an exploration stage, so the environmental requirements are established under the terms of the granted exploration tenures held by the consolidated entity. The company's New Zealand based activities are governed by environmental requirements of the Department of Conservation and local and regional authorities. All the company activities in Rochfort, Cascade and Takitimu are fully compliant with all relevant regulations.

**Meetings of Directors**

The numbers of meetings of the Company's board of directors and of the Audit Committee during the year ended 30 June 2007, and the numbers of meetings attended by each Director were :

Director	Full meetings of directors		Audit committee meetings	
	Number of meetings eligible to attend	Number of meetings attended	Number of meetings eligible to attend	Number of meetings attended
C G Smith	6	6		
R J May	9	9	2	2
J S McIntyre	9	6		
W G Lyne	9	9		
H L Stack	9	9	2	0
G G Smith	3	3		

## Remuneration report

The remuneration report is set out under the following main headings:

- A Principles used to determine the nature and amount of remuneration
- B Details of remuneration
- C Service agreements
- D Share-based compensation
- E Additional information (unaudited)

The information provided under headings A-D includes remuneration disclosures that are required under Accounting Standard AASB 124 *Related Party Disclosures*. These disclosures have been transferred from the financial report and have been audited.

### **A Principles used to determine the nature and amount of remuneration (audited)**

The objective of the Group's executive reward framework is to ensure reward for performance is competitive and appropriate for the results delivered. The framework aligns executive reward with achievement of strategic objectives and the creation of value for shareholders, and conforms with market best practice for delivery of reward. The Board ensures that executive reward satisfies the following key criteria for good reward governance practices:

- competitiveness and reasonableness
- acceptability to shareholders
- performance linkage / alignment of executive compensation
- transparency
- capital management.

In consultation with external remuneration consultants when required, the Board determines the remuneration policies of the company, reviews the remuneration of senior management and determines the remuneration of executive directors. Non-executive director remuneration is considered by the Board within the overall limits approved by shareholders.

Alignment to shareholders' interests:

- has economic profit as a core component of plan design
- focuses on sustained growth in shareholder wealth, consisting of dividends and growth in share price, and delivering a constant return on assets as well as focusing the executive on key non-financial drivers of value attracts and retains high calibre executives

Alignment to program participants' interests:

- rewards capability and experience
- reflects competitive reward for contribution to growth in shareholder wealth
- provides a clear structure for earning rewards
- provides recognition for contribution

The framework provides a mix of fixed and variable pay, and long-term incentives.

#### *Non-executive directors*

Fees and payments to non-executive directors reflect the demands which are made on, and the responsibilities of, the directors. Non-executive directors' fees and payments are reviewed annually by the Board to ensure fees are appropriate and in line with the market.

#### *Directors' fees*

The current base remuneration was last reviewed with effect from 1 May 2007. The Chairman's fees are determined independently to the fees of non-executive directors based on comparative roles in the external market. The Chairman is not present at any discussions relating to the determination of his own remuneration.

#### *Executive pay*

The executive pay and reward framework has three components:

- base pay
- long-term incentives through participation in the Eastern Corporation Limited employee and consultants share incentive scheme (note D)
- superannuation and other non-monetary benefits

The combination of these comprises the executive's total remuneration. The Group intends to revisit its long-term equity-linked performance incentives specifically for executives during the year ending 30 June 2008.

### Base pay

Structured as a total employment cost package which may be delivered as a combination of cash and prescribed non-financial benefits at the executives' discretion.

Executives are offered a competitive base pay that comprises the fixed component of pay and rewards. Base pay for senior executives is reviewed annually to ensure the executive's pay is competitive with the market. An executive's pay is also reviewed on promotion.

There are no guaranteed base pay increases included in any senior executives' contracts.

### Superannuation and other non-monetary benefits

Included in the employment package for key management personnel is the statutory obligation for superannuation as required by the *Superannuation Guarantee Charge Act 1992*.

## B Details of remuneration (audited)

### Amounts of remuneration

Details of the remuneration of the directors and the key management personnel (as defined in AASB 124 *Related Party Disclosures*) of Eastern Corporation Limited and the Eastern Group are set out in the following tables.

The key management personnel of Eastern Corporation Limited and of the Eastern Corporation Group includes the directors as per page 4 above and the following executives that reported directly to the Chief Executive Officer. These executive officers are also the highest paid executives of the entity:

- M R O'Brien – *Chief Executive Officer (appointed CEO on 28 April 2006, resigned 23 July 2007)*
- C R Smith – *Chief Financial Officer (resigned 26 March 2007)*
- C G Smith – *General Manager – New Zealand (appointed Managing Director 23 July 2007)*
- W A Parker – *Chief Financial Officer (commenced on a consultancy basis 21 March 2007)*
- S Aarons – *Business Development and Corporate Relations Manager*
- K F Poynter – *Operations Manager – New Zealand*

### Key management personnel of Eastern Corporation Limited and of the Group

2007	Short-term benefits			Post-employment benefits		Share-based payment	Total \$
	Cash salary and fees \$	Resignation payment \$	Non-monetary benefits \$	Super-annuation \$	Retirement benefits \$	Shares \$	
<i>Non-executive directors</i>							
J S McIntyre	27,522	-	-	2,478	-	-	30,000
H L Stack	27,522	-	-	2,478	-	-	30,000
W G Lyne	27,522	-	-	2,478	-	-	30,000
R J May	25,846	-	-	-	-	-	25,846
<b>Sub-total non-executive directors</b>	<b>108,412</b>	<b>-</b>	<b>-</b>	<b>7,434</b>	<b>-</b>	<b>-</b>	<b>115,846</b>
<i>Executive directors</i>							
G G Smith – Chairman (deceased 30 March 2007)	20,642	-	3,214	1,858	-	-	25,714
C G Smith	170,137	-	-	8,429	-	-	178,566
<i>Other key management personnel</i>							
M R O'Brien (resigned 27 July 2007)	366,973	-	3,099	33,027	-	-	403,099
C R Smith (resigned 26 March 2007)	131,612	-	3,124	11,845	-	-	146,581
K F Poynter	134,724	-	-	-	-	-	134,724
S Aarons	120,000	-	14,197	10,800	-	-	144,997
W A Parker	48,155	-	-	-	-	-	48,155
<b>Totals</b>	<b>1,100,655</b>	<b>-</b>	<b>23,634</b>	<b>73,393</b>	<b>-</b>	<b>-</b>	<b>1,197,682</b>

**Key management personnel of Eastern Corporation Limited and of the Group**

2006	Short-term benefits			Post-employment benefits		Share-based payment	Total \$
	Cash salary and fees \$	Resignation payment \$	Non-monetary benefits \$	Super-annuation \$	Retirement benefits \$	Shares \$	
<i>Non-executive directors</i>							
J S McIntyre	27,523	-	-	2,477	-	-	30,000
H L Stack	3,058	-	-	275	-	-	3,333
W G Lyne	5,066	-	-	456	-	-	5,522
<b>Sub-total non-executive directors</b>	<b>35,647</b>	<b>-</b>	<b>-</b>	<b>3,208</b>	<b>-</b>	<b>-</b>	<b>38,855</b>
<i>Executive directors</i>							
G G Smith – Chairman	27,523	-	2,739	2,477	-	-	32,739
P R Williams (resigned 28 April 2006)	360,820	250,000	2,316	28,125	-	-	641,261
<i>Other key management personnel</i>							
M R O'Brien	194,502	-	2,723	8,188	-	16,000	221,413
C R Smith	154,551	-	1,554	13,910	-	-	170,015
C G Smith	139,760	-	1,450	9,909	-	-	151,119
S Aarons	91,748	-	18,961	8,257	-	-	118,966
<b>Totals</b>	<b>1,004,551</b>	<b>250,000</b>	<b>29,743</b>	<b>74,074</b>	<b>-</b>	<b>16,000</b>	<b>1,374,368</b>

**C Service agreements (audited)**

Remuneration and other terms of employment for the key management personnel are set out below.

*C G Smith, Managing Director*

- Term of agreement – open ended agreement commencing 1 July 2003
- Base salary, inclusive of superannuation, for the year ended 30 June 2007 of \$178,566, to be reviewed annually by the board. Full remuneration from 23 July 2007 as Managing Director \$220,000.
- The agreement does not provide for termination benefits

*J S McIntyre, Director*

- Term of agreement – open ended agreement commencing 7 July 2004
- Base salary, inclusive of superannuation, for the year ended 30 June 2007 of \$30,000, to be reviewed annually by the board
- The agreement does not provide for termination benefits

*RJ May, Director*

- Term of agreement – open ended agreement commencing 23 August 2006
- Base salary, inclusive of superannuation, for the year ended 30 June 2007 of \$30,000, to be reviewed annually by the board
- The agreement does not provide for termination benefits

*W G Lyne, Director (Resigned 5 July 2007)*

- Term of agreement – open ended agreement commencing 24 April 2006
- Base salary, inclusive of superannuation, for the year ended 30 June 2007 of \$30,000, to be reviewed annually by the board
- The agreement does not provide for termination benefits

*H L Stack, Director (Resigned 5 July 2007)*

- Term of agreement – open ended agreement commencing 22 May 2006
- Base salary, inclusive of superannuation, for the year ended 30 June 2007 of \$30,000, to be reviewed annually by the board
- The agreement does not provide for termination benefits

*G G Smith, Executive Chairman (Deceased 30 March 2007)*

- Term of agreement – open ended agreement commencing 12 February 2003
- Base salary, inclusive of superannuation, for the year ended 30 June 2007 of \$30,000, to be reviewed annually by the board
- The agreement does not provide for termination benefits

M R O'Brien, *Chief Executive Officer (Resigned 23 July 2007)*

- Term of agreement – open ended contract commencing 14 November 2005. Appointed as CEO on 28 April 2006
- Base salary, inclusive of superannuation, for the year ended 30 June 2007 of \$400,000, to be reviewed annually by the board. The agreement also provides the opportunity for a cash bonus on a project by project basis of \$25,000 per project, subject to the achievement of agreed performance measures. No such bonus arrangement was paid in the year.
- Base salary is inclusive of \$30,000 paid as directors fees for Galilee Energy Ltd.
- Received a payment on resignation in July 2007 of \$260,265 as agreed by the board.

S Aarons, *Business Development and Corporate Relations Manager*

- Term of agreement – open ended agreement commencing 1 September 2004
- Base salary, inclusive of superannuation, for the year ended 30 June 2007 of \$130,800, to be reviewed annually by the board
- The agreement does not provide for termination benefits

W A Parker, *Chief Financial Officer (Appointed 21 March 2007)*

- Term of agreement - employed on a consultancy basis as agreed by the board
- Remuneration is on submission of invoice

C R Smith, *Chief Financial Officer (resigned 26 March 2007)*

- Term of agreement – open ended contract commencing 25 July 2005
- Base salary, inclusive of superannuation, for the year ended 30 June 2007 of \$180,000, to be reviewed annually by the board
- The agreement does not provide for termination benefits

K F Poynter, *Operations Manager, NZ*

- Term of agreement – open ended agreement commencing 1 August 2006
- Base salary, exclusive of superannuation, for the year ended 30 June 2007 of \$123,750 to be reviewed annually by the board.
- The agreement does not provide for termination benefits

## **D Share based compensation (audited)**

### *Employee and consultants share incentive scheme*

The Company has established an employee and consultants share incentive scheme. The scheme is administered by way of a separate trust. During the year ended 30 June 2003 the Company provided funds to the trust to enable the latter to purchase shares that are then awarded to employees and consultants by the trust from time to time. The directors of the Company from time to time are the trustees of this trust but have no right to participate in any shares held by the trust. These shares carry full dividend and voting rights.

During the year ended 30 June 2007 no shares were issued to any employee or consultant (2006: 250,000 shares at a value of \$16,000 were issued to the Chief Executive Officer, M R O'Brien).

## **E Additional information (unaudited)**

### *Principles used to determine the nature and amount of remuneration: relationship between remuneration and company performance*

Other than as described in D above or as set out in the employment agreement for Mr M R O'Brien (refer C above) there is no direct link between the remuneration of the key management personnel and company performance. The group is still in exploration mode in Australia and its operations in New Zealand have only recently reached commercially sustainable status so opportunities for broad performance based incentives have been limited to date.

## **Directors and Officers insurance**

The Company has agreed to indemnify the Directors and secretaries of Eastern Corporation group and its subsidiaries against all liabilities to another person (other than the Company or a related body corporate) that may arise from their position as Director or officer of the Company and its controlled entities, except where the liability arises out of conduct involving a lack of good faith. The agreement stipulates that the Company will meet the full amount of any such liabilities, including costs and expenses.

During the financial year, the Company paid premiums for Directors' and Officers' liability insurance. Details of the nature of the liabilities covered or the amount of the premium paid in respect of the Directors' and Officers' liability insurance contracts are not disclosed as such disclosure is prohibited under the terms of the contract.

## Non-audit services

The company may decide to employ the auditor on assignments additional to their statutory audit duties where the auditor's expertise and experience with the company and/or the Group are important.

Details of the amounts paid or payable to the auditor (PricewaterhouseCoopers) for audit and non-audit services provided during the year are set out below.

The board of directors has considered the position and, in accordance with the advice received from the audit committee, is satisfied that the provision of the non-audit services is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*. The directors are satisfied that the provision of non-audit services by the auditor, as set out below, did not compromise the auditor independence requirements of the *Corporations Act 2001* for the following reasons:

- all non-audit services have been reviewed by the audit committee to ensure they do not impact the impartiality and objectivity of the auditor
- none of the services undermine the general principles relating to auditor independence as set out in Professional Statement F1, including reviewing or auditing the auditor's own work, acting in a management or a decision-making capacity for the company, acting as advocate for the company or jointly sharing economic risk and rewards

During the year the following fees were paid or payable for services provided by the auditor of the parent company, its related practices and non-related audit firms:

Assurance services	Consolidated	
	2007	2006
	\$	\$
<b>1. Audit services</b> PricewaterhouseCoopers Australian firm: Audit and review of financial reports and other audit work under the <i>Corporations Act 2001</i>	<b>194,257</b>	73,990
<b>2. Other assurance services</b> PricewaterhouseCoopers Australian firm: Due diligence, tax and advisory services	<b>50,301</b>	103,528

## Auditors' independence declaration

A copy of the auditors' independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 14.

## Auditor

PricewaterhouseCoopers continues in office in accordance with section 327 of the *Corporations Act 2001*.

This report is made in accordance with a resolution of the directors.



C.G Smith  
Managing Director

Brisbane  
20 September 2007

## Auditor's Independence Declaration

As lead auditor for the audit of Eastern Corporation Limited for the year ended 30 June 2007, I declare that to the best of my knowledge and belief, there have been:

- (a) no contraventions of the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and
- (b) no contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Eastern Corporation Limited and the entities it controlled during the period.



Stephen R Snook  
Partner  
PricewaterhouseCoopers

Brisbane  
20 September 2007

Liability limited by a scheme approved under Professional Standards Legislation

**Eastern Corporation Limited** ABN 064 957 419  
**Annual financial report – 30 June 2007**

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This financial report covers both Eastern Corporation Limited as an individual entity and the consolidated entity consisting of Eastern Corporation Limited and its subsidiaries. The financial report is presented in the Australian currency.

Eastern Corporation Limited is a company limited by shares, incorporated and domiciled in Australia. Its registered office and principal place of business is:

Eastern Corporation Limited  
Level 2, 895 Ann St  
Fortitude Valley QLD 4006.

A description of the nature of the consolidated entity's operations and its principal activities is included in the directors' report on pages 4 - 6, which is not part of this financial report.

The financial report was authorised for issue by the directors on 20 September 2007. The company has the power to amend and reissue the financial report.

Through the use of the internet, we have ensured that our corporate reporting is timely, complete, and available globally at minimum cost to the company. All press releases, financial reports and other information are available on our website: [www.easterncorp.com.au](http://www.easterncorp.com.au).

**Eastern Corporation Limited**  
**Income statements**  
For the year ended 30 June 2007

	Notes	Consolidated		Parent company	
		2007	2006	2007	2006
		\$	\$	\$	\$
<b>Revenue from continuing operations</b>	5	<b>4,222,788</b>	4,691,867	<b>1,965,831</b>	2,353,392
Other income	6	<b>20,075</b>	4,014,642	-	-
Changes in inventories of finished goods and work in progress		<b>670,448</b>	424,622	-	-
Raw materials and consumables used		<b>(373,228)</b>	(322,947)	<b>(2,428)</b>	(8,874)
Employee benefits expense		<b>(2,315,351)</b>	(2,127,561)	<b>(1,224,865)</b>	(1,570,994)
Depreciation and amortisation expense	7	<b>(667,257)</b>	(806,977)	<b>(19,226)</b>	(5,221)
Exploration and evaluation expenses		<b>(1,419,221)</b>	(554,195)	<b>(152,752)</b>	(52,181)
Director's fees		<b>(205,844)</b>	(154,080)	<b>(145,844)</b>	(68,855)
Corporate and investor relations expenses		<b>(87,482)</b>	(126,886)	<b>(87,058)</b>	(126,886)
Consulting fees		<b>(284,838)</b>	(488,837)	<b>(129,406)</b>	(168,382)
Mining contractors		<b>(803,896)</b>	-	-	-
Insurance		<b>(82,526)</b>	(81,135)	<b>(17,084)</b>	(13,765)
Finance costs	7	<b>(140,395)</b>	(110,348)	<b>(43)</b>	-
Repairs and restoration		<b>(281,117)</b>	(238,212)	-	(445)
Licences and levies		<b>(142,957)</b>	(171,707)	-	-
Freight		<b>(388,631)</b>	(639,323)	-	-
Equipment hire		<b>(43,926)</b>	(189,854)	-	-
Travel and accommodation		<b>(224,636)</b>	(216,575)	<b>(73,238)</b>	(87,336)
Net foreign exchange gains/(losses)	7	<b>3,965</b>	(74,675)	<b>793,831</b>	(593,872)
Accounting and auditing		<b>(354,880)</b>	(266,071)	<b>(110,085)</b>	(153,158)
Marketing		<b>(40,928)</b>	-	<b>(9,181)</b>	-
Telecommunications and IT		<b>(121,243)</b>	(135,635)	<b>(82,589)</b>	(102,780)
Other expenses		<b>(414,902)</b>	(207,225)	<b>(214,901)</b>	(128,776)
<b>Profit/(loss) before income tax</b>		<b>(3,475,982)</b>	2,218,888	<b>490,962</b>	(728,133)
Income tax (expense)/benefit	8	<b>524,183</b>	(422,037)	<b>(193,171)</b>	788,849
<b>Profit/(loss) for the year</b>		<b>(2,951,799)</b>	1,796,851	<b>297,791</b>	60,716
Loss attributable to minority interest	25	-	229,723	-	-
<b>Profit/(loss) attributable to members of Eastern Corporation Limited</b>	24(b)	<b>(2,951,799)</b>	2,026,574	<b>297,791</b>	60,716

		Cents	Cents
<b>Earnings/(loss) per share for profit/(loss) attributable to the ordinary equity holders of the company:</b>			
Basic earnings per share	37	<b>(0.41)</b>	0.32
Diluted earnings per share	37	<b>(0.41)</b>	0.32

*The above income statements should be read in conjunction with the accompanying notes.*

**Eastern Corporation Limited**  
**Balance sheets**  
As at 30 June 2007

	Notes	Consolidated		Parent company	
		2007 \$	2006 \$	2007 \$	2006 \$
<b>ASSETS</b>					
<b>Current assets</b>					
Cash and cash equivalents	9	1,153,481	8,774,910	237,447	4,904,689
Trade and other receivables	10	860,028	1,315,634	571,729	1,063,899
Current tax asset		96,475	-	-	-
Inventories	11	1,219,534	478,902	-	-
<b>Total current assets</b>		<b>3,329,518</b>	<b>10,569,446</b>	<b>809,176</b>	<b>5,968,588</b>
<b>Non-current assets</b>					
Receivables	12	306,810	184,288	6,455	1,076,444
Exploration and evaluation expenditure	13	762,158	541,673	-	-
Other financial assets	14	-	-	12,649,828	5,928,384
Property, plant and equipment	15	5,728,703	3,317,166	123,585	64,419
Deferred tax assets	16	500,115	104,717	-	103,089
Intangible assets	17	4,347,804	2,090,460	-	-
<b>Total non-current assets</b>		<b>11,645,590</b>	<b>6,238,304</b>	<b>12,779,868</b>	<b>7,172,336</b>
<b>Total assets</b>		<b>14,975,108</b>	<b>16,807,750</b>	<b>13,589,044</b>	<b>13,140,924</b>
<b>LIABILITIES</b>					
<b>Current liabilities</b>					
Trade and other payables	18	1,845,851	1,488,863	335,917	236,905
Borrowings	19	581,996	295,560	-	-
Current tax liabilities		-	189,142	-	-
<b>Total current liabilities</b>		<b>2,427,847</b>	<b>1,973,565</b>	<b>335,917</b>	<b>236,905</b>
<b>Non-current liabilities</b>					
Borrowings	20	868,276	1,121,444	-	-
Deferred tax liabilities	21	312,335	239,072	41,517	-
Provisions and deferred income	22	212,068	24,673	9,800	-
<b>Total non-current liabilities</b>		<b>1,392,679</b>	<b>1,385,189</b>	<b>51,317</b>	<b>-</b>
<b>Total liabilities</b>		<b>3,820,526</b>	<b>3,358,754</b>	<b>387,234</b>	<b>236,905</b>
<b>Net assets</b>		<b>11,154,582</b>	<b>13,448,996</b>	<b>13,201,810</b>	<b>12,904,019</b>
<b>EQUITY</b>					
Contributed equity	23	40,181,997	40,181,997	40,200,853	40,200,853
Reserves	24(a)	201,947	(455,438)	-	-
Accumulated losses	24(b)	(29,229,362)	(26,277,563)	(26,999,043)	(27,296,834)
Parent company interest		11,154,582	13,448,996	13,201,810	12,904,019
Minority interest	25	-	-	-	-
<b>Total equity</b>		<b>11,154,582</b>	<b>13,448,996</b>	<b>13,201,810</b>	<b>12,904,019</b>

The above balance sheets should be read in conjunction with the accompanying notes.

**Eastern Corporation Limited**  
**Statements of changes in equity**  
For the year ended 30 June 2007

Notes	Consolidated		Parent company	
	2007	2006	2007	2006
	\$	\$	\$	\$
<b>Total equity at the beginning of the financial year</b>	<b>13,448,996</b>	6,333,092	<b>12,904,019</b>	7,260,149
Exchange differences on translation of foreign operations	24(a) <b>657,385</b>	(509,824)	-	-
<b>Net income recognised directly in equity</b>	<b>657,385</b>	(509,824)	-	-
<b>Profit/(loss) for the year</b>	<b>(2,951,799)</b>	1,796,851	<b>297,791</b>	60,716
<b>Total recognised income and expense for the year</b>	<b>(2,294,414)</b>	1,287,027	<b>297,791</b>	60,716
Transactions with equity holders in their capacity as equity holders:				
Contributions of equity, net of transaction costs and deferred tax				
Parent company	23 -	5,583,154	-	5,583,154
Minority interest	25 -	229,723	-	-
		5,812,877	-	5,583,154
Employee shares	26(d) -	16,000	-	-
		5,828,877	-	5,583,154
<b>Total equity at the end of the financial year</b>	<b>11,154,582</b>	13,448,996	<b>13,201,810</b>	12,904,019
Total recognised income and expense for the year is attributable to:				
Members of Eastern Corporation Limited	<b>(2,294,414)</b>	1,287,027	<b>297,791</b>	60,716
Minority interest	-	-	-	-
	<b>(2,294,414)</b>	1,287,027	<b>297,791</b>	60,716
Total equity at the end of the financial year is attributable to:				
Members of Eastern Corporation Limited before transfer of minority shortfall	<b>13,624,825</b>	15,353,299	<b>13,201,810</b>	12,904,019
Transfer of minority interest shortfall	25 <b>(2,470,243)</b>	(1,904,303)	-	-
Members of Eastern Corporation Limited after transfer of minority shortfall	<b>11,154,582</b>	13,448,996	<b>13,201,810</b>	12,904,019

The above statements of changes in equity should be read in conjunction with the accompanying notes.

**Eastern Corporation Limited**  
**Cash flow statements**  
For the year ended 30 June 2007

	Notes	Consolidated		Parent company	
		2007	2006	2007	2006
		\$	\$	\$	\$
<b>Cash flows from operating activities</b>					
Receipts from customers and/or subsidiaries (inclusive of goods and services tax)		4,744,978	4,024,892	609,925	600,000
Payments to suppliers and employees (inclusive of goods and services tax)		(7,581,609)	(5,738,115)	(2,290,020)	(2,610,648)
Interest received		210,772	238,892	372,888	137,766
Other revenue		120	14,642	-	-
Interest paid		(140,350)	(110,348)	(43)	-
Income taxes (paid)/refunded		(144,820)	-	(48,565)	-
Withholding taxes paid		(41,957)	(8,481)	(41,957)	-
<b>Net cash outflow from operating activities</b>	35	<b>(2,952,866)</b>	<b>(1,578,518)</b>	<b>(1,397,772)</b>	<b>(1,872,882)</b>
<b>Cash flows from investing activities</b>					
Payments in connection with the acquisitions of businesses	31	(4,222,420)	-	-	-
Payments for property, plant and equipment		(339,117)	(500,991)	(89,398)	(71,317)
Proceeds from disposal of property, plant and equipment		220,918	4,451	828	5,410
Purchase of additional shares in controlled entity		-	-	-	(510,000)
Payment for exploration expenditure	13	(220,485)	(541,673)	-	-
Proceeds from sale of interest in mining tenement	6	-	4,000,000	-	-
Payments for bonds and deposits		(122,522)	(45,324)	(6,455)	(5,955)
Re-draw of bonds and deposits		-	10,250	-	6,750
Loans to subsidiaries		-	-	(4,593,261)	(1,290,604)
Loan repayments by subsidiaries		-	-	1,418,816	1,204,296
<b>Net cash (outflow) inflow from investing activities</b>		<b>(4,683,626)</b>	<b>2,926,713</b>	<b>(3,269,470)</b>	<b>(661,420)</b>
<b>Cash flows from financing activities</b>					
Proceeds from issues of shares		-	5,882,786	-	5,653,154
Proceeds from applications for shares	9	368,198	-	-	-
Share issue expenses		-	(100,000)	-	(100,000)
Payments for finance leases		(248,866)	(237,164)	-	-
Repayment of borrowings		-	(20,520)	-	-
<b>Net cash inflow from financing activities</b>		<b>119,332</b>	<b>5,525,102</b>	<b>-</b>	<b>5,553,154</b>
<b>Net increase (decrease) in cash and cash equivalents</b>		<b>(7,517,160)</b>	<b>6,873,297</b>	<b>(4,667,242)</b>	<b>3,018,852</b>
Cash and cash equivalents at the beginning of the financial year		8,774,910	2,150,123	4,904,689	1,885,837
Effects of exchange rate changes on cash and cash equivalents		(153,622)	(248,510)	-	-
<b>Cash and cash equivalents at end of year</b>	9	<b>1,104,128</b>	<b>8,774,910</b>	<b>237,447</b>	<b>4,904,689</b>
Non-cash investing and financing activities	36				

The above cash flow statements should be read in conjunction with the accompanying notes.

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## 1 Summary of significant accounting policies

The principal accounting policies adopted in the preparation of the financial report are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated. The financial report includes separate financial statements for Eastern Corporation Limited as an individual entity and the consolidated entity consisting of Eastern Corporation Limited and its subsidiaries.

### (a) Basis of preparation

This general purpose financial report has been prepared in accordance with Australian equivalents to International Financial Reporting Standards (AIFRS), other authoritative pronouncements of the Australian Accounting Standards Board, Urgent Issues Group Interpretations and the *Corporations Act 2001*.

#### (i) Compliance with IFRS

Australian Accounting Standards include AIFRS. Compliance with AIFRS ensures that the consolidated financial statements and notes of Eastern Corporation Limited comply with International Financial Reporting Standards (IFRS). The parent company financial statements and notes also comply with IFRS except that it has elected to apply the relief provided to parent entities in respect of certain disclosure requirements contained in AASB 132 *Financial Instruments: Presentation and Disclosure*.

#### (ii) Historical cost convention

These financial statements have been prepared under the historical cost convention.

#### (iii) Critical accounting estimates

The preparation of financial statements in conformity with AIFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in Note 3.

### (b) Principles of consolidation

#### (i) Subsidiaries

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Eastern Corporation Limited ("company" or "parent company") as at 30 June 2007 and the results of all subsidiaries for the year then ended. Eastern Corporation Limited and its subsidiaries together are referred to in this financial report as the Group or the consolidated entity.

Subsidiaries are all those entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one-half of the voting rights.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group (refer to note 1(h)).

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

The interest of minority shareholders is stated at the minority's proportion of the fair values of the assets and liabilities recognised. Where losses applicable to the minority shareholders exceed the minority interest in the subsidiary's equity the excess and any further losses applicable to the minority are allocated against the majority interest except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses. If the subsidiary subsequently reports profits, such profits are allocated to the majority interest until the minority share of losses, previously absorbed by the majority, have been recovered.

Investments in subsidiaries are accounted for at cost in the individual financial statements of Eastern Corporation Limited.

#### (ii) Joint ventures – Jointly controlled assets

The proportionate interests in the assets, liabilities and expenses of a joint venture activity have been incorporated in the financial statements under the appropriate headings. Details of the joint venture are set out in note 33.

### (c) Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment and is subject to risks and returns that are different from those of segments operating in other economic environments.

## 1 Summary of significant accounting policies (continued)

### (d) Foreign currency translation

#### (i) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). Unless otherwise stated, the consolidated financial statements are presented in Australian dollars, which is Eastern Corporation Limited's functional and presentation currency.

#### (ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except when deferred in equity as qualifying net investment hedges.

#### (iii) Group companies

The results and financial position of all the Group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- income and expenses for each income statement are translated at average exchange rates (unless this is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- all resulting exchange differences are recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of any net investment in foreign entities, and of borrowings and other financial instruments designated as hedges of such investments, are taken to shareholders' equity. When a foreign operation is sold or any borrowings forming part of the net investment are repaid, a proportionate share of such exchange differences are recognised in the income statement, as part of the gain or loss on sale where applicable.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entities and translated at the closing rate.

### (e) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Amounts disclosed as revenue are net of returns, trade allowances and amounts collected on behalf of third parties. Revenue is recognised for the major business activities as follows:

#### (i) Sale of goods

A sale is recorded when goods have been delivered to the customer, the customer has accepted the goods and collectability of the related receivables is probable.

#### (ii) Interest income

Interest income is recognised on a time proportion basis using the effective interest method, see note 1(m). When a receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loans is recognised using the original effective interest rate.

#### (iii) Provision of management services

Fees from management services are recognised when the service has been provided and agreed with the customer and collectability of the related receivable is probable.

#### (iv) Dividends

Dividends are recognised as revenue when the right to receive payment is established.

### (f) Income tax

The income tax expense or revenue for the period is the tax payable on the current period's taxable income based on the national income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements, and to unused tax losses.

## 1 Summary of significant accounting policies (continued)

### (f) Income tax (continued)

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to apply when the assets are recovered or liabilities are settled, based on those tax rates which are enacted or substantively enacted for each jurisdiction. The relevant tax rates are applied to the cumulative amounts of deductible and taxable temporary differences to measure the deferred tax asset or liability. An exception is made for certain temporary differences arising from the initial recognition of an asset or a liability. No deferred tax asset or liability is recognised in relation to these temporary differences if they arose in a transaction, other than a business combination, that at the time of the transaction did not affect either accounting profit or taxable profit or loss.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in subsidiaries where the parent company is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Current and deferred tax balances attributable to amounts recognised directly in equity are also recognised directly in equity.

#### *Tax consolidation legislation*

Eastern Corporation Limited and its controlled Australian resident entities have implemented the tax consolidation legislation.

The head entity, Eastern Corporation Limited, and the subsidiaries in the tax consolidated group continue to account for their own current and deferred tax amounts. These tax amounts are measured as if each entity in the tax consolidated group continues to be a stand alone taxpayer in its own right.

In addition to its own current and deferred tax amounts, Eastern Corporation Limited also recognises the current tax liabilities (or assets) and the deferred tax assets arising from unused tax losses and unused tax credits assumed from subsidiaries in the tax consolidated group.

Assets or liabilities arising under tax funding agreements with the tax consolidated entities are recognised as amounts receivable from or payable to other entities in the group. Details about the tax funding agreement are disclosed in note 8.

Any difference between the amounts assumed and amounts receivable or payable under the tax funding agreement are recognised as a contribution to (or distribution from) wholly-owned tax consolidated entities.

### (g) Leases

Leases of property, plant and equipment where the Group as lessee has substantially all the risks and rewards of ownership are classified as finance leases (notes 19 and 20). Finance leases are capitalised at the lease's inception at the lower of the fair value of the leased property and the present value of the minimum lease payments. The corresponding rental obligations, net of finance charges, are included in other long-term payables. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases is depreciated over the shorter of the asset's useful life and the lease term.

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases (note 29). Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

## **1 Summary of significant accounting policies (continued)**

### **(h) Business combinations**

The purchase method of accounting is used to account for business combinations regardless of whether equity instruments or other assets are acquired. Cost is measured as the fair value of the assets given, shares issued or liabilities incurred or assumed at the date of exchange plus costs directly attributable to the acquisition. Where equity instruments are issued in an acquisition, the fair value of the instruments is their published market price as at the date of exchange unless, in rare circumstances, it can be demonstrated that the published price at the date of exchange is an unreliable indicator of fair value and that other evidence and valuation methods provide a more reliable measure of fair value. Transaction costs arising on the issue of equity instruments are recognised directly in equity.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the Group's share of the fair value of the identifiable net assets of the subsidiary acquired, the difference is recognised directly in the income statement, but only after a reassessment of the identification and measurement of the net assets acquired.

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used is the entity's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions.

Business Combinations under Common Control have been excluded from the scope of AASB 3 Business Combinations. When accounting for business combinations under common control the group has elected to apply the scope exclusion in AASB 3. Common control transactions are accounted for in the consolidated accounts prospectively from the date of obtaining the ownership interest. Assets and liabilities are recognised on consolidation at their carrying amounts in the financial statements of the ultimate parent entity, measured in accordance with Australian equivalents to International Financial Reporting Standards. Any difference between the cost of acquisition (fair value of consideration paid), and the amounts at which the assets and liabilities are recorded has been recognised directly in equity as part of a Business Combinations under Common Control Reserve.

### **(i) Impairment of assets**

Goodwill and intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

### **(j) Cash and cash equivalents**

For cash flow statement presentation purposes, cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

### **(k) Trade receivables**

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost, less provision for doubtful debts. Trade receivables are normally due for settlement no more than 30 days from the date of recognition.

Inter company trade receivables are settled as and when the debtor company has surplus operating cash to make payment.

Collectability of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off. A provision for doubtful receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. Cash flows relating to short-term receivables are not discounted if the effect of discounting is immaterial. The amount of the provision is recognised in the income statement.

## 1 Summary of significant accounting policies (continued)

### (l) Inventories

#### *Raw materials and stores, work in progress and finished goods*

Raw materials and stores, work in progress and finished goods are stated at the lower of cost and net realisable value. Cost comprises direct materials, direct labour and an appropriate proportion of variable and fixed overhead expenditure, the latter being allocated on the basis of normal operating capacity.

Costs incurred in the removal of overburden in advance of coal recovery are deferred and recorded as work in progress, then amortised on a unit of production basis as the underlying coal is recovered. Any balance is subject to impairment testing in accordance with the group's policy per note 1(i).

Costs are assigned to individual items of inventory on the basis of weighted average costs. Costs of purchased inventory are determined after deducting rebates and discounts. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

### (m) Investments and other financial assets

#### *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of selling the receivable. They are included in current assets, except for those with maturities greater than 12 months after the balance sheet date which are classified as non-current assets. Loans and receivables are included in receivables in the balance sheet (note 12 and note 14).

#### *Recognition and derecognition*

Regular purchases and sales of financial assets are recognised on trade-date the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or losses are initially recognised at fair value and transaction costs are expensed in the income statement. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

### (n) Fair value estimation

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement or for disclosure purposes.

The fair value of financial instruments that are not traded in an active market is determined using estimated discounted cash flows. The Group makes assumptions that are based on market conditions existing at each balance date.

### (o) Property, plant and equipment

Land is stated at cost and is not subject to depreciation. All other property, plant and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

With the exception of certain equipment which is depreciated on a units of use basis, depreciation is calculated on a declining basis to allocate the cost of each asset, net of its residual values, over its estimated useful life. The following rates of depreciation are used:

- Buildings	2.5% - 4%
- Leasehold improvements	18%
- Motor vehicles	15% - 26%
- Furniture and fittings	22% - 40%
- Office equipment	33% - 48%
- Major mobile plant and equipment	Units of use
- Other plant and equipment	5% - 26%
- Leased plant and equipment	Units of use

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (note 1(i)).

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the income statement.

## 1 Summary of significant accounting policies (continued)

### (p) Intangible assets

#### *Mining licences*

Mining licences have a finite useful life and are carried at cost less accumulated amortisation and impairment losses. Amortisation is calculated using a units of use basis to allocate the cost of licences over the recoverable reserves to which they relate. Any balance is subject to impairment testing in accordance with the Group's policy per Note 1(i).

#### *Goodwill*

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary at the date of the acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill is not amortised. Instead, goodwill is tested for impairment annually, or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. Each of those cash-generating units represents the Group's investment in each country of operation by each primary reporting segment (note 4).

Any balance is subject to impairment testing in accordance with the Group's policy per Note 1(i).

### (q) Exploration and evaluation expenditure

The group applies the 'area of interest' method in accounting for exploration and evaluation expenditure. Under this method all costs are carried forward provided that rights to tenure of the area of interest are current and such costs are expected to be recouped either through successful development and exploitation of the area of interest, or by its sale, or the exploration and evaluation activities in the area have not at balance date reached a stage which permits a reasonable assessment of the existence or otherwise of economically recoverable reserves, and active and significant operations in, or in relation to, the area of interest are continuing. All other exploration and evaluation expenditure is expensed as incurred.

Exploration and evaluation expenditure incurred subsequent to acquisition in respect of an exploration asset acquired, is accounted for in accordance with the policy outlined above for exploration expenditure incurred by or on behalf of the entity.

Acquired exploration assets are not written down below acquisition cost until such time as the acquisition cost is not expected to be recovered. Exploration expenditure which no longer satisfies the above policy is written off. In addition, a provision may be raised against exploration expenditure where the directors are of the opinion that the carry forward net cost may not be recoverable.

Where an area of interest is abandoned, any expenditure carried forward in respect of that area is written off firstly against any existing provision for that expenditure, with any remaining balance being charged to the income statement.

Only costs, both direct and indirect, arising from exploration and evaluation activities and specifically related to an area of interest, are allocated to an area of interest. General and administrative costs are allocated to particular areas of interest only to the extent that they can be related directly to operational activities in those areas. In all other cases, they are expensed when incurred.

Research and development grants or claims received in respect of exploration and evaluation expenditure are credited to the carrying amount of capitalised exploration and development costs to the extent there is such a carrying amount.

### (r) Trade and other payables

These amounts represent liabilities for goods and services provided to the Group prior to the end of financial year which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition.

### (s) Borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in the income statement over the period of the borrowings using the effective interest method. Fees paid on the establishment of loan facilities, which are not incremental cost relating to the actual draw-down of the facility, are recognised as prepayments and amortised on a straight-line basis over the term of the facility.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

Borrowing costs are expensed as incurred.

## 1 Summary of significant accounting policies (continued)

### (t) Provisions

A provision is recognised when: the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the balance sheet date. The discount rate used to determine the present value reflects current market assessments of the time value of money and the risks specific to the liability. The increase in the provision due to the passage of time is recognised as interest expense.

### (u) Employee benefits

#### (i) Wages and salaries and annual leave

Liabilities for wages and salaries, including non-monetary benefits and annual leave expected to be settled within 12 months of the reporting date are recognised in other payables in respect of employees' services up to the reporting date and are measured at the amounts expected to be paid when the liabilities are settled.

#### (ii) Retirement benefit obligations

Contributions to defined contribution superannuation plans are expensed when incurred.

#### (iii) Profit sharing and bonus plans

Equity-based compensation benefits are provided to employees via the employee and consultants share incentive scheme. The scheme is administered by way of a separate trust whereby shares in the Company are awarded to employees and consultants by the trust from time to time. As a controlled entity the trust is included in the consolidated financial statements as set out in note 1(b). The fair value cost to the Company of issuing these shares to the employee is expensed when awarded. The change in fair value of shares between the date of purchase and the date issued to employees and consultants is reflected in the share based payments reserve.

The Group recognises a liability and an expense for bonuses based on a formula that takes into consideration sales volumes. The Group recognises a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

### (v) Contributed equity

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds. Incremental costs directly attributable to the issue of new shares or options for the acquisition of a business are not included in the cost of the acquisition as part of the purchase consideration.

The consolidated contributed equity is increased by the fair value of shares issued to employees and contractors under the arrangements supported by the employees and consultants share incentive scheme. Refer note 23(e).

If the entity reacquires its own equity instruments, eg as the result of a share buy-back, those instruments are deducted from equity and the associated shares are cancelled. No gain or loss is recognised in the profit or loss and the consideration paid including any directly attributable incremental costs (net of income taxes) is recognised directly in equity.

### (w) Earnings per share

#### (i) Basic earnings per share

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the company, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year.

#### (ii) Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

## 1 Summary of significant accounting policies (continued)

### (x) Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the taxation authority. In this case it is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the taxation authority is included with other receivables or payables in the balance sheet.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to the taxation authority, are presented as operating cash flow.

### (y) New accounting standards and UIG interpretations

Certain new accounting standards and UIG interpretations have been published that are not mandatory for 30 June 2007 reporting periods. The Group's assessment of the impact of these new standards and interpretations is set out below.

#### (i) AASB-I 10 *Interim Financial Reporting and Impairment*

AASB-I 10 applies to annual reporting periods ending on or after 1 November 2006. It prohibits impairment losses recognised in an interim reporting period on goodwill, investments in equity instruments and investments in financial assets carried at cost to be reversed at a subsequent balance sheet. The Group will apply AASB-I 10 from 1 July 2007 but it is not expected to have any impact on the Group's financial statements.

#### (ii) AASB 7 *Financial Instruments: Disclosures* and AASB 2005-10 *Amendments to Australian Accounting Standards [AASB 132, AASB 101, AASB 114, AASB 117, AASB 133, AASB 139, AASB 1, AASB 4, AASB 1023 & AASB 1038]*

AASB 7 and AASB 2005-10 are applicable to annual reporting periods beginning on or after 1 January 2007. AASB 7 introduces new disclosures to improve the information about financial instruments. It requires the disclosure of qualitative and quantitative information about exposure to risks arising from financial instruments, including specified minimum disclosures about credit risk, liquidity risk and market risk, including sensitivity analysis to market risk. It replaces AASB 130 *Disclosures in the Financial Statements of Banks and Similar Financial Institutions* and the disclosure requirements in IAS 32 *Financial Instruments: Disclosure and Presentation*. It is applicable to all reporting entities. The amendment to AASB 101 introduces disclosures about the level of an entity's capital and how it manages capital. The Group assessed the impact of AASB 7 and the amendment to AASB 101 and concluded that the main additional disclosures will be the sensitivity analysis to market risk and the capital disclosures required by the amendment of AASB 101. The Group will apply the standards from annual reporting periods beginning 1 July 2007.

#### (iii) Revised AASB 101 *Presentation of Financial Statements*

A revised AASB 101 was issued in October 2006 and is applicable to annual reporting periods beginning on or after 1 January 2007. The Group has not adopted the standard early. Application of the revised standard will not affect any of the amounts recognised in the financial statements, but will remove some of the disclosures currently required, including the disclosure about economic dependencies.

#### (iv) AASB-I 11 *AASB 2 - Group and Treasury Share Transactions* and AASB 2007-1 *Amendments to Australian Accounting Standards arising from AASB Interpretation 11*

AASB-I 11 and AASB 2007-1 are effective for annual reporting periods commencing on or after 1 March 2007. AASB-I 11 addresses whether certain types of share-based payment transactions should be accounted for as equity-settled or as cash settled transactions and specifies the accounting in a subsidiary's financial statements for share-based payment arrangements involving equity instruments of the parent. The Group will apply AASB-I 11 from 1 July 2007, but it is not expected to have any impact on the Group's financial statements.

#### (v) AASB-I 12 *Service Concession Arrangements*, AASB 2007-1 *Amendments to Australian Accounting Standards arising from AASB Interpretation 12*, revised UIG 4 *Determining whether an Arrangement contains a Lease* and revised UIG 129 *Service Concession Arrangements: Disclosures*

AASB-I 12, AASB 2007-2, UIG 4 and the revised UIG 129 are all effective for annual reporting periods commencing on or after 1 January 2008. AASB-I 12 provides guidance on the accounting by operators for public-to-private service concession arrangements under which private sector entities participate in the development, financing, operation and maintenance of infrastructure for the provision of public services, such as transport, water and energy facilities. UIG 4 has been amended to exclude public-to-private service concession arrangements from its scope and UIG 129 was revised to require some additional disclosures. The Group will apply AASB-I 12 and the related amended standards and interpretations from 1 July 2007. Application of AASB-I 12 is not expected to have any impact on the Group's financial statements.

## 1 Summary of significant accounting policies (continued)

### (y) New accounting standards and UIG interpretations (continued)

#### **(vi) AASB 8 Operating Segments and AASB 2007-3 Amendments to Australian Accounting Standards arising from AASB 8**

AASB 8 and AASB 2007-3 are effective for annual reporting periods commencing on or after 1 January 2009. AASB 8 will result in a significant change in the approach to segment reporting, as it requires adoption of a "management approach" to reporting on the financial performance. The information being reported will be based on what the key decision-makers use internally for evaluating segment performance and deciding how to allocate resources to operating segments. The Group has not yet decided when to adopt AASB 8. Application of AASB 8 may result in different segments, segment results and different type of information being reported in the segment note of the financial report. However, it will not affect any of the amounts recognised in the financial statements.

#### **(vii) AASB 2007-4 Amendments to Australian Accounting Standards arising from ED 151 and Other Amendments and AASB 2007-7 Amendments to Australian Accounting Standards [AASB 1, AASB 2, AASB 4, AASB 5, AASB 107 & AASB 128]**

AASB 2007-4 and AASB 2007-7 are applicable to annual reporting periods beginning on or after 1 July 2007. The amendments introduce a number of options that existed under IFRS but had not been included in the original Australian equivalents to IFRS and remove many of the additional Australian disclosure requirements, for example the detailed disclosures in relation to the financial position and funding of defined benefit superannuation plans.

The financial statements may be affected by:

the ability to use the proportionate consolidation method for interests in joint venture entities

the ability to use the indirect method for presenting cash flow statements

the ability to recognise government grants of non-monetary assets at nominal amounts and present assets and expenses net of related government grants, and

a possible exemption from the requirement to prepare consolidated financial reports for intermediate parent entities,

provided they are wholly-owned or all shareholders agree and they are not the ultimate Australian parent entity in the group

discount rates for employee benefits obligations to be based on corporate bonds if there is a deep market in Australia

(previous guidance mandated the use of government bond rates).

The Group will adopt the amendments arising from AASB 2007-4 and AASB 2007-7 for the financial year ending 30 June 2008. However, it does not intend to apply any of the new options now available. As a consequence, application of the revised standards will not affect any of the amounts recognised in the financial statements, but it may remove some of the disclosures that are currently required. In relation to the discount rates used in the measurement of employee benefit obligations, the Group has not yet reached a conclusion as to whether there is a deep market in corporate bonds in Australia and hence has not yet determined the financial effect, if any, on the obligations from the adoption of AASB 2007-4.

#### **(viii) Revised AASB 123 Borrowing Costs and AASB 2007-6 Amendments to Australian Accounting Standards arising from AASB 123 [AASB 1, AASB 101, AASB 107, AASB 111, AASB 116 & AASB 138 and Interpretations 1 & 12]**

The revised AASB 123 is applicable to annual reporting periods commencing on or after 1 January 2009. It has removed the option to expense all borrowing costs and - when adopted - will require the capitalisation of all borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset. This will be a change to the Group's current accounting policy which is to expense all borrowing costs as incurred. The Group will apply the revised AASB 123 from 1 July 2009 and capitalise its borrowing costs relating to all qualifying assets for which the commencement date for capitalisation is on or after this date. The impact on the financial statements will depend on the amount of qualifying assets and related borrowing costs in the first year of application. Had the revised standard been applied in the current financial year, no amount would have been capitalised in property, plant and equipment rather than being expensed. Reported profit would have been unchanged this year and in following years.

The Group has not adopted the standards early. Application of the standards will not affect any of the amounts recognised in the financial statements, but will impact the type of information disclosed in relation to the Group's and the parent company's financial instruments.

## 2 Financial risk management

The Group's activities expose it to a variety of financial risks; market risk (including currency risk and price risk), credit risk, liquidity risk and cash flow and fair value interest rate risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Group.

Risk management is carried out under policies approved by the Board of Directors. The Board provides principles for overall risk management, as well as policies covering specific areas, such as mitigating foreign exchange, interest rate and credit risks, use of derivative financial instruments and investing excess liquidity.

### (a) Market risk

#### (i) Foreign exchange risk

Foreign exchange risk arises when future commercial transactions and recognised assets and liabilities are denominated in a currency that is not the entity's functional currency.

The Group operates internationally and is exposed to foreign exchange risk arising from currency exposures to the New Zealand dollar.

The Group has not implemented a risk management policy as operations have only recently reached sustainable commercial status.

#### (ii) Price risk

The Group is not exposed to significant commodity price risk because coal is not exported from New Zealand.

### (b) Credit risk

The Group has no significant concentrations of credit risk. The Group has policies in place to ensure that sales of products and services are made to customers with an appropriate credit history. Cash transactions are limited to high credit quality financial institutions.

### (c) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities and the availability of funding through an adequate amount of committed credit facilities. Due to the dynamic nature of the underlying businesses the Group aims at maintaining flexibility in funding by arranging appropriate banking facilities as and when required.

### (d) Cash flow and fair value interest rate risk

As the Group has no significant interest-bearing assets, other than cash and cash equivalents, the Group's income and operating cash flows are not materially exposed to changes in market interest rates.

Subsequent to the year end, and as per note 34, the group has arranged loan financing in New Zealand. An appropriate policy is currently being determined to ensure that the group is not adversely affected by changes in interest rates.

### 3 Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other other factors, including expectations of future events that may have a financial impact on the entity and that are believed to be reasonable under the circumstances.

*(i) Estimated impairment of goodwill*

The Group tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy stated in note 1 (i). The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of assumptions. Refer to note 17 for details of these assumptions and the potential impact of changes to the assumptions.

*(ii) Amortisation of mining licences*

The group amortises the cost of mining licences over the estimated life of the recoverable reserves to which they relate (refer note 17).

*(iii) Income tax*

The Group has recognised deferred tax assets relating to carried forward tax losses to the extent that there are sufficient deferred tax liabilities relating to the same taxation authority and the same tax group against which the unused tax losses can be utilised. However, utilisation of the tax losses also depends on the ability of the tax group to satisfy certain tests at the time the losses are recouped. If the tax group fails to satisfy the tests, carried forward tax losses of \$569,248 would have to be written off to income tax expense.

### 4 Segment information

#### (a) Description of segments

##### **Business segments**

The consolidated entity is organised on a global basis into the following divisions by activity:

*Operating coal mines*

Operation of two coal mines and a coal distribution facility on New Zealand's south island (2006: Operation of one coal mine on New Zealand's south island).

*Exploration and evaluation*

Exploration and evaluation of coal and coal seam methane deposits.

##### **Geographical segments**

Although the consolidated entity's divisions are managed on a global basis they operate in two main geographical areas:

*Australia*

The home country of the parent company which is also the main operating entity. The areas of operation are principally exploration and evaluation.

*New Zealand*

The activities in New Zealand comprise operating two coal mines, a coal distribution facility, and the exploration and evaluation of coal deposits.

## 4 Segment information (continued)

### (b) Primary reporting format - business segments

	Coal mine operations \$	Exploration and evaluation \$	Inter- segment eliminations/ unallocated \$	Consolidated \$
<b>2007</b>				
Revenue from sales to external customers	3,975,896	36,000	-	4,011,896
Other revenue/income	-	88,874	122,018	210,892
Gains on sales of assets	20,075	-	-	20,075
Total segment revenue/income	<u>3,995,971</u>	<u>124,874</u>	<u>122,018</u>	<u>4,242,863</u>
Segment result	<u>(1,078,256)</u>	<u>(2,213,517)</u>	<u>(184,209)</u>	<u>(3,475,982)</u>
Unallocated revenue less unallocated expenses				-
Profit before income tax				(3,475,982)
Income tax expense/(benefit)				524,183
Profit for the year				<u>(2,951,799)</u>
Segment assets	<u>12,971,878</u>	<u>1,848,190</u>	<u>155,040</u>	<u>14,975,108</u>
Unallocated assets				-
Total assets				<u>14,975,108</u>
Segment liabilities	<u>10,130,441</u>	<u>1,223,807</u>	<u>(7,533,722)</u>	<u>3,820,526</u>
Unallocated liabilities				-
Total liabilities				<u>3,820,526</u>
Acquisitions of property, plant and equipment, intangibles and other non-current segment assets	<u>4,226,463</u>	<u>220,485</u>	<u>89,398</u>	<u>4,536,346</u>
Depreciation and amortisation expense	<u>646,350</u>	<u>1,681</u>	<u>19,226</u>	<u>667,257</u>
<b>2006</b>				
Revenue from sales to external customers	4,357,900	66,000	-	4,423,900
Other revenue/income	15,130	4,150,698	116,781	4,282,609
Total segment revenue/income	<u>4,373,030</u>	<u>4,216,698</u>	<u>116,781</u>	<u>8,706,509</u>
Segment result	<u>518,966</u>	<u>1,932,240</u>	<u>(232,318)</u>	<u>2,218,888</u>
Unallocated revenue less unallocated expenses				-
Profit before income tax				2,218,888
Income tax expense				(422,037)
Profit for the year				<u>1,796,851</u>
Segment assets	<u>7,422,601</u>	<u>4,039,648</u>	<u>5,345,501</u>	<u>16,807,750</u>
Unallocated assets				-
Total assets				<u>16,807,750</u>
Segment liabilities	<u>7,113,568</u>	<u>6,306,149</u>	<u>(10,060,963)</u>	<u>3,358,754</u>
Unallocated liabilities				-
Total liabilities				<u>3,358,754</u>
Acquisitions of property, plant and equipment, intangibles and other non-current segment assets	<u>2,178,471</u>	<u>48,262</u>	<u>71,316</u>	<u>2,298,049</u>
Depreciation and amortisation expense	<u>639,406</u>	<u>162,350</u>	<u>5,221</u>	<u>806,977</u>

## 4 Segment information (continued)

### (c) Secondary reporting format - geographical segments

	Segment revenues from sales to external customers		Segment assets		Acquisitions of property, plant and equipment, intangibles and other non-current segment assets	
	2007	2006	2007	2006	2007	2006
	\$	\$	\$	\$	\$	\$
Australia	36,000	66,000	2,003,230	8,897,709	309,883	117,979
New Zealand	3,985,069	4,357,900	12,971,878	7,910,041	4,226,463	2,180,070
	<u>4,021,069</u>	<u>4,423,900</u>	<u>14,975,108</u>	<u>16,807,750</u>	<u>4,536,346</u>	<u>2,298,049</u>
Unallocated assets			-	-		
Total assets			<u>14,975,108</u>	<u>16,807,750</u>		

Segment revenues are allocated based on the country in which the customer is located. Segment assets and capital expenditure are allocated based on where the assets are located.

## 5 Revenue

	Consolidated		Parent company	
	2007	2006	2007	2006
	\$	\$	\$	\$
<b>From continuing operations</b>				
<i>Operating revenue</i>				
Revenue from the sale of goods	3,975,896	4,357,900	-	-
Management fees				
Services to subsidiaries	-	-	726,305	976,487
Joint venture operator	36,000	66,000	360,000	660,000
	<u>4,011,896</u>	<u>4,423,900</u>	<u>1,086,305</u>	<u>1,636,487</u>
<i>Other revenue</i>				
Interest received or receivable				
Subsidiaries	-	-	779,993	608,458
Short term deposits	210,892	267,967	99,533	108,447
	<u>210,892</u>	<u>267,967</u>	<u>879,526</u>	<u>716,905</u>
Total revenue from continuing operations	<u>4,222,788</u>	<u>4,691,867</u>	<u>1,965,831</u>	<u>2,353,392</u>

## 6 Other income

	Consolidated		Parent company	
	2007	2006	2007	2006
	\$	\$	\$	\$
Gain on sale of interest in mining tenement (Refer note (a) below)	-	4,000,000	-	-
Gains on sales of assets	20,075	-	-	-
Sundry equipment hire	-	14,642	-	-
	<u>20,075</u>	<u>4,014,642</u>	<u>-</u>	<u>-</u>

### (a) Gain on sale of interest in mining tenement

In the previous year, in August 2005, the conditions precedent under the Joint Venture Agreement between Broughton Coal Mining Pty Ltd and Mitsui Coal Holdings Pty Ltd dated 21 June 2005, were satisfied and Mitsui paid the \$4m proceeds to acquire its initial 10% in the mining tenement for the Broughton Project, EPC 818.

## 7 Expenses

	Consolidated		Parent company	
	2007	2006	2007	2006
	\$	\$	\$	\$
<b>Profit/(loss) before income tax includes the following specific expenses:</b>				
<i>Depreciation</i>				
Buildings and leasehold improvements	27,655	6,463	-	234
Plant and equipment	404,512	400,272	-	-
Plant and equipment under finance leases	126,106	100,925	-	-
Vehicles	39,380	23,672	-	-
Furniture, fittings and equipment	30,793	13,658	19,226	4,987
Total depreciation	628,446	544,990	19,226	5,221
<i>Amortisation</i>				
Mining licenses	161,469	261,987	-	-
Total depreciation and amortisation	789,915	806,977	19,226	5,221
Less: Depreciation classified as exploration and evaluation expenses	122,658	-	-	-
	667,257	806,977	19,226	5,221
<i>Finance costs</i>				
Interest and finance charges paid/payable	140,395	110,348	43	-
<i>Net loss on disposals of property, plant and equipment</i>	10,273	38,102	10,273	3,446
<i>Rental expense relating to operating leases</i>				
Minimum lease payments	106,525	95,526	90,801	78,328
<i>Employee benefits</i>				
Resignation benefit	-	250,000	-	250,000
<i>Foreign exchange gains and losses</i>				
Net foreign exchange gains/(losses)	3,965	(74,675)	793,831	(593,872)

## 8 Income tax expense

	Consolidated		Parent company	
	2007	2006	2007	2006
	\$	\$	\$	\$
<b>(a) Income tax expense/(benefit)</b>				
Current tax	-	267,278	-	(823,763)
Deferred tax	(370,609)	154,759	144,605	34,914
Adjustments for current tax of prior periods	(153,574)	-	48,566	-
	(524,183)	422,037	193,171	(788,849)
Deferred income tax (revenue) expense included in income tax expense comprises:				
Decrease (increase) in deferred tax assets (note 16)	(464,102)	(3,286)	27,067	30,083
Increase in deferred tax liabilities (note 21)	93,493	158,045	117,538	4,831
	(370,609)	154,759	144,605	34,914

## 8 Income tax expense (continued)

	Consolidated		Parent company	
	2007	2006	2007	2006
	\$	\$	\$	\$
<b>(b) Numerical reconciliation of income tax expense to prima facie tax payable</b>				
Profit/(loss) from continuing operations before income tax (expense)/benefit	<b>(3,475,982)</b>	2,218,888	<b>490,962</b>	(728,133)
Tax at the Australian tax rate of 30% (2006 - 30%)	<b>(1,042,794)</b>	665,666	<b>147,289</b>	(218,440)
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:				
Accrued interest	-	56,045	-	56,045
Unrealised exchange losses	-	37,426	<b>(176,687)</b>	176,687
Entertainment	<b>3,091</b>	4,192	<b>2,990</b>	3,543
Sundry items	<b>1,643</b>	1,513	-	-
Accrued expenses	-	858	-	-
Option fee	<b>3,563</b>	7,887	-	7,887
Management fees – subsidiaries	-	(207,518)	-	(207,518)
Interest – subsidiaries	-	(135,795)	-	(135,795)
	<b>(1,034,497)</b>	430,274	<b>(26,408)</b>	(317,591)
Difference in overseas tax rates	<b>(43,343)</b>	16,734	-	-
Effect of income tax rate change on deferred tax assets and liabilities	<b>20,440</b>	-	-	-
Current year tax losses not recognised	<b>739,575</b>	798,792	<b>171,013</b>	352,505
Previously unrecognised and unused tax losses and tax offsets – now recognised as deferred tax assets	<b>(52,784)</b>	-	-	-
Prior year tax losses not recognised now recouped	-	(823,763)	-	(823,763)
Adjustments for current tax of prior periods	<b>(153,574)</b>	-	<b>48,566</b>	-
Income tax expense/(benefit)	<b>(524,183)</b>	422,037	<b>193,171</b>	(788,849)
<b>(c) Amounts recognised directly in equity</b>				
Aggregate deferred tax arising in the reporting period and not recognised in net profit or loss but directly credited to equity				
Net deferred tax – debited/(credited) directly to equity (note 24)	<b>61,251</b>	(30,000)	-	(30,000)
<b>(d) Tax losses</b>				
Unused tax losses for which no deferred tax asset has been recognised	<b>19,440,657</b>	18,661,311	<b>3,552,327</b>	3,496,286
Potential tax benefit at country rates of tax	<b>5,832,197</b>	5,621,719	<b>1,065,698</b>	1,048,886
<b>(e) Unrecognised temporary differences</b>				
Temporary differences relating to investments in subsidiaries for which deferred tax liabilities have not been recognised				
Foreign currency translation	-	-	-	-
Undistributed earnings	-	-	-	-
	-	-	-	-

## 8 Income tax expense (continued)

### (f) Tax consolidation legislation

Eastern Corporation Limited and its controlled, Australian resident, entities have implemented the tax consolidation legislation. The accounting policy in relation to this legislation is set out in note 1(f).

On adoption of the tax consolidation legislation, the entities in the tax consolidated group entered into a tax sharing agreement which, in the opinion of the directors, limits the joint and several liability of the wholly-owned entities in the case of a default by the head entity, Eastern Corporation Limited.

The entities have also entered into a tax funding agreement under which the wholly-owned entities fully compensate Eastern Corporation Limited for any current tax payable assumed and are compensated by Eastern Corporation Limited for any current tax receivable and deferred tax assets relating to unused tax losses or unused tax credits that are transferred to Eastern Corporation Limited under the tax consolidation legislation. The funding amounts are determined by reference to the amounts recognised in the wholly-owned entities' financial statements.

The amounts receivable/payable under the tax funding agreement are due upon receipt of the funding advice from the head entity, which is issued as soon as practicable after the head entity has determined its funding needs. The head entity may also require payment of interim funding amounts to assist with its obligations to pay tax instalments. The funding amounts are recognised as current intercompany receivables or payables where it is expected funding will be required from member entities in the next 12 months, otherwise they are classified as non-current.

## 9 Current assets - Cash and cash equivalents

	Consolidated		Parent company	
	2007	2006	2007	2006
	\$	\$	\$	\$
Cash at bank and in hand	525,937	2,794,255	75,272	1,529,042
Deposits at call	259,346	5,980,655	162,175	3,375,647
Share applications account	368,198	-	-	-
	<b>1,153,481</b>	<b>8,774,910</b>	<b>237,447</b>	<b>4,904,689</b>

### (a) Reconciliation to cash at the end of the year

The above figures are reconciled to cash at the end of the financial year as shown in the statement of cash flows as follows:

	Consolidated		Parent company	
	2007	2006	2007	2006
	\$	\$	\$	\$
Balances as above	1,153,481	8,774,910	237,447	4,904,689
Bank overdrafts	(49,353)	-	-	-
Balances per statement of cash flows	<b>1,104,128</b>	<b>8,774,910</b>	<b>237,447</b>	<b>4,904,689</b>

### (b) Cash at bank and on hand

These funds are bearing floating interest rates between 0% and 6.0% (2006 – between 5.25% and 6.0%).

### (c) Deposits at call

The deposits are bearing floating interest rates between 5.2% and 6.36% (2006 – between 5.5% and 7.0%). These deposits have an average maturity of 75 days.

### (d) Share applications account

Prior to the end of the financial year, Galilee Energy Limited, a subsidiary company, commenced a rights issue to raise funds for exploration activities. The issue was open as at 30th June 2007 and remained open until 13th July 2007. As at 30th June 2007, \$368,198 had been received from members and was lodged by Galilee in a Share Applications Account pending allotment of the shares applied for by members.

## 10 Current assets - Trade and other receivables

	Consolidated		Parent company	
	2007	2006	2007	2006
	\$	\$	\$	\$
Trade receivables*	626,175	838,885	55,559	1,365
Intercompany receivables	-	-	353,012	954,009
Other receivables	115,259	38,991	80,246	22,560
Prepayments	118,594	437,758	82,912	85,965
	<b>860,028</b>	<b>1,315,634</b>	<b>571,729</b>	<b>1,063,899</b>

\* Refer to note 12 for the non-current portions of these receivables.

### Effective interest rates and credit risk

Information concerning the effective interest rate and credit risk of both current and non-current receivables is set out in the non-current receivables note (note 12).

## 11 Current assets – Inventories

	Consolidated		Parent company	
	2007	2006	2007	2006
	\$	\$	\$	\$
Raw materials and stores - at cost	20,841	26,057	-	-
Work in progress - at cost	734,988	127,162	-	-
Finished goods – at cost	463,705	325,683	-	-
	<b>1,219,534</b>	<b>478,902</b>	<b>-</b>	<b>-</b>

## 12 Non-current assets – Receivables

	Consolidated		Parent company	
	2007	2006	2007	2006
	\$	\$	\$	\$
Intercompany receivables	-	-	-	1,076,444
Other receivables	306,810	184,288	6,455	-
	<b>306,810</b>	<b>184,288</b>	<b>6,455</b>	<b>1,076,444</b>

Other receivables relates to environmental bonds. The timing as to when these amounts will be received in the future can not be reliably determined as at the reporting date.

### (a) Fair values

The fair values and carrying values of non-current receivables of the Group are as follows:

	2007		2006	
	Carrying amount	Fair value	Carrying amount	Fair value
	\$	\$	\$	\$
Other receivables	306,810	306,810	184,288	184,288
	<b>306,810</b>	<b>306,810</b>	<b>184,288</b>	<b>184,288</b>

## 12 Non-current assets – Receivables (continued)

### (b) Interest rate risk

The Group's exposure to interest rate risk and the effective weighted average interest rate by maturity periods is set out in the following tables.

2007	Floating interest rate (over 5 years) \$	Non- interest bearing \$	Total \$
Trade receivables	-	626,175	626,175
Other receivables	60,377	361,692	422,069
Prepayments	-	118,594	118,594
	<u>60,377</u>	<u>1,106,461</u>	<u>1,166,838</u>
Weighted average interest rate	<u>7.0%</u>		

2006	Floating interest rate (over 5 years) \$	Non- interest bearing \$	Total \$
Trade receivables	-	838,885	838,885
Other receivables	60,377	162,902	223,279
	<u>60,377</u>	<u>1,001,787</u>	<u>1,062,164</u>
Weighted average interest rate	<u>7.0%</u>		

## 13 Non-current assets – Exploration and evaluation expenditure

	Consolidated		Parent	
	2007 \$	2006 \$	2007 \$	2006 \$
<b>Movements in exploration and evaluation expenses</b>				
Opening net book amount	541,673	-	-	-
Additions / purchases	220,485	541,673	-	-
Closing net book amount	<u>762,158</u>	<u>541,673</u>	-	-
<b>Closing balance</b>				
Cost	762,158	541,673	-	-
Accumulated amortisation	-	-	-	-
Net book amount	<u>762,158</u>	<u>541,673</u>	-	-

Ultimate recoupment of exploration and evaluation expenditure carried forward is dependent on successful development and commercial exploitation, or alternatively, sale of the respective areas. The directors have considered the expenditure, particularly in relation to future exploration and evaluation activities, and are confident the amounts will be realised either through sale or future cash flows from the successful development of the areas of interest.

Details of the economic entity's areas of interest are disclosed in note 29.

## 14 Non-current assets - Other financial assets

	Consolidated		Parent company	
	2007	2006	2007	2006
	\$	\$	\$	\$
Shares in subsidiaries at cost (note 32)	-	-	8,713,054	4,631,607
Provision for diminution	-	-	(4,020,120)	(4,020,120)
	-	-	4,692,934	611,487
Loans to subsidiaries	-	-	11,070,829	8,430,832
Provision for doubtful debts	-	-	(3,113,935)	(3,113,935)
	-	-	7,956,894	5,316,897
	-	-	12,649,828	5,928,384
<b>(a) Shares in subsidiaries</b>				
Opening net book amount	-	-	611,487	101,487
Additions – Shares in Galilee Energy Limited	-	-	-	510,000
Additions – Shares in Eastern Coal Holdings (NZ) Ltd	-	-	4,081,542	-
Foreign exchange differences	-	-	(95)	-
Closing net book amount	-	-	4,692,934	611,487
<b>(b) Loans to subsidiaries</b>				
Opening net book amount	-	-	5,316,897	4,860,734
Advances to subsidiaries	-	-	7,347,226	2,159,423
Additional shares purchased	-	-	(4,081,542)	-
Repayments by subsidiaries	-	-	(1,418,816)	(1,204,295)
Foreign exchange differences	-	-	793,129	(498,965)
Closing net book amount	-	-	7,956,894	5,316,897

## 15 Non-current assets - Property, plant and equipment

Consolidated	Buildings and leasehold improvements			
	Freehold land	Plant and equipment	Leased plant & equipment	
	\$	\$	\$	
<b>At 1 July 2005</b>				
Cost	8,000	113,664	2,587,860	-
Accumulated depreciation	-	(3,328)	(804,884)	-
Net book amount	8,000	110,336	1,782,976	-
<b>Year ended 30 June 2006</b>				
Opening net book amount	8,000	110,336	1,782,976	-
Exchange differences	(9,696)	(11,130)	(125,808)	(200,204)
Additions	104,258	80,328	158,570	1,797,058
Disposals	-	-	(32,942)	-
Depreciation charge	-	(6,463)	(394,762)	(106,435)
Closing net book amount	102,562	173,071	1,388,034	1,490,419
<b>At 30 June 2006</b>				
Cost	102,562	182,496	2,559,648	1,589,095
Accumulated depreciation	-	(9,425)	(1,171,614)	(98,676)
Net book amount	102,562	173,071	1,388,034	1,490,419

## 15 Non-current assets - Property, plant and equipment (continued)

Consolidated (continued)	Vehicles \$	Office furniture and equipment \$	Total \$
<b>At 1 July 2005</b>			
Cost	83,164	13,464	2,806,152
Accumulated depreciation	(30,761)	(5,032)	(844,005)
Net book amount	<u>52,403</u>	<u>8,432</u>	<u>1,962,147</u>
<b>Year ended 30 June 2006</b>			
Opening net book amount	52,403	8,432	1,962,147
Exchange differences	(6,529)	(2,120)	(355,487)
Additions	64,480	93,355	2,298,049
Disposals	-	(9,611)	(42,553)
Depreciation charge	(23,669)	(13,659)	(544,988)
Closing net book amount	<u>86,685</u>	<u>76,397</u>	<u>3,317,168</u>
<b>At 30 June 2006</b>			
Cost	140,174	92,691	4,666,666
Accumulated depreciation	(53,489)	(16,294)	(1,349,498)
Net book amount	<u>86,685</u>	<u>76,397</u>	<u>3,317,168</u>

Consolidated	Freehold land \$	Buildings and leasehold improvements \$	Plant & equipment \$	Leased plant & equipment \$
<b>Year ended 30 June 2007</b>				
Opening net book amount	102,562	173,071	1,388,034	1,490,419
Exchange differences	39,299	41,079	145,430	163,638
Additions on acquisitions of businesses	640,971	555,935	877,275	-
Additions	-	78,987	207,736	232,781
Disposals	(94,560)	(73,832)	(18,461)	-
Depreciation charge	-	(27,421)	(405,856)	(129,535)
Closing net book amount	<u>688,272</u>	<u>747,819</u>	<u>2,194,158</u>	<u>1,757,303</u>
<b>At 30 June 2007</b>				
Cost or fair value	688,272	786,175	3,821,925	1,994,936
Accumulated depreciation	-	(38,356)	(1,627,767)	(237,633)
Net book amount	<u>688,272</u>	<u>747,819</u>	<u>2,194,158</u>	<u>1,757,303</u>

Consolidated	Vehicles \$	Office furniture and equipment \$	Total \$
<b>Year ended 30 June 2007</b>			
Opening net book amount	86,685	76,397	3,317,168
Exchange differences	17,476	2,374	409,296
Additions on acquisitions of businesses	205,965	-	2,280,146
Additions	30,925	21,469	571,898
Disposals	(33,624)	(878)	(221,355)
Depreciation charge	(43,662)	(21,976)	(628,450)
Closing net book amount	<u>263,765</u>	<u>77,386</u>	<u>5,728,703</u>
<b>At 30 June 2007</b>			
Cost or fair value	363,715	116,566	7,771,589
Accumulated depreciation	(99,950)	(39,180)	(2,042,886)
Net book amount	<u>263,765</u>	<u>77,386</u>	<u>5,728,703</u>

## 15 Non-current assets - Property, plant and equipment (continued)

Parent company	Leasehold improvements \$	Office furniture and equipment \$	Total \$
<b>At 1 July 2005</b>			
Cost	-	11,155	11,155
Accumulated depreciation	-	(3,976)	(3,976)
Net book amount	-	7,179	7,179
<b>Year ended 30 June 2006</b>			
Opening net book amount	-	7,179	7,179
Additions	10,690	60,627	71,317
Disposals	-	(8,856)	(8,856)
Depreciation charge	(234)	(4,987)	(5,221)
Closing net book amount	10,456	53,963	64,419
<b>At 30 June 2006</b>			
Cost	10,690	61,284	71,974
Accumulated depreciation	(234)	(7,321)	(7,555)
Net book amount	10,456	53,963	64,419

Parent company	Leasehold improvements \$	Office furniture and equipment \$	Total \$
<b>Year ended 30 June 2007</b>			
Opening net book amount	10,456	53,963	64,419
Additions	73,840	15,558	89,398
Disposals	(10,690)	(878)	(11,568)
Depreciation charge	234	(18,898)	(18,664)
Closing net book amount	73,840	49,745	123,585
<b>At 30 June 2007</b>			
Cost	73,840	75,964	149,804
Accumulated depreciation	-	(26,219)	(26,219)
Net book amount	73,840	49,745	123,585

### (a) Non-current assets pledged as security

Refer to note 20 for information on non-current assets pledged as security by the parent company and its subsidiaries.

## 16 Non-current assets - Deferred tax assets

	Consolidated		Parent company	
	2007	2006	2007	2006
	\$	\$	\$	\$
<b>The balance comprises temporary differences attributable to:</b>				
<i>Amounts recognised in profit or loss</i>				
Intangibles	24,762	25,966	-	-
Employee benefits	51,631	29,174	22,677	18,440
Accrued expenses	40,108	23,296	14,146	6,600
Provision for rehabilitation	60,680	8,140	-	-
Amortisation of share issue expense	(150,218)	(111,368)	(150,218)	(111,368)
Property, plant and equipment	214,200	-	-	-
Finance leases	1,108	-	-	-
Unused tax losses	569,248	-	-	-
	<b>811,519</b>	<b>(24,732)</b>	<b>(113,395)</b>	<b>(86,328)</b>
<i>Amounts recognised directly in equity</i>				
Share issue expenses	194,248	194,248	194,248	194,248
	<b>1,005,767</b>	<b>169,516</b>	<b>80,853</b>	<b>107,920</b>
Set-off of deferred tax liabilities pursuant to set-off provisions (note 21)	(505,652)	(64,799)	(80,853)	(4,831)
Net deferred tax assets	<b>500,115</b>	<b>104,717</b>	<b>-</b>	<b>103,089</b>
<b>Movements:</b>				
Opening balance at 1 July	169,516	140,367	107,920	108,003
Credited/(charged) to the income statement (note 8(a))	542,781	3,286	(27,067)	(30,083)
Credited/(charged) to the income statement due to income tax rate change (note 8(a))	(78,679)	-	-	-
Credited to equity	-	30,000	-	30,000
Acquisition of subsidiary (note 31(c))	326,023	-	-	-
Exchange differences	46,124	(4,137)	-	-
Closing balance at 30 June	<b>1,005,765</b>	<b>169,516</b>	<b>80,853</b>	<b>107,920</b>
Deferred tax assets to be recovered after more than 12 months	824,464	117,017	5,180	82,879
Deferred tax assets to be recovered within 12 months	181,303	52,499	75,673	25,041
	<b>1,005,767</b>	<b>169,516</b>	<b>80,853</b>	<b>107,920</b>

## 17 Non-current assets - Intangible assets

2007	Goodwill	Cascade	Takitimu	Total
	\$	Mine Licence \$	Mine Licence \$	
<b>Movements in intangible assets</b>				
Opening balance 1 July	-	2,090,460	-	<b>2,090,460</b>
Additions on acquisitions of businesses	568,309	-	1,514,445	<b>2,082,754</b>
Amortisation charge *	-	(157,215)	(4,254)	<b>(161,469)</b>
Exchange differences	34,847	208,528	92,684	<b>336,059</b>
Closing balance 30 June	<u>603,156</u>	<u>2,141,773</u>	<u>1,602,875</u>	<b><u>4,347,804</u></b>
<b>Closing balance</b>				
Cost	603,156	2,568,822	1,607,304	<b>4,779,282</b>
Accumulated amortisation	-	(427,049)	(4,429)	<b>(431,478)</b>
Net book amount	<u>603,156</u>	<u>2,141,773</u>	<u>1,602,875</u>	<b><u>4,347,804</u></b>
2006		Cascade		Total
		Mine Licence \$		\$
<b>Movements in intangible assets</b>				
Opening balance 1 July		2,602,579		<b>2,602,579</b>
Amortisation charge *		(261,987)		<b>(261,987)</b>
Exchange differences		(250,132)		<b>(250,132)</b>
Closing balance 30 June		<u>2,090,460</u>		<b><u>2,090,460</u></b>
<b>Closing balance</b>				
Cost		2,602,579		<b>2,602,579</b>
Accumulated amortisation and exchange differences		<u>(512,119)</u>		<b><u>(512,119)</u></b>
Net book amount		<u>2,090,460</u>		<b><u>2,090,460</u></b>

\* The amortisation charge is included in the income statement.

Goodwill is allocated to the cash-generating unit (CGU) to which it relates. The applicable CGU has been determined to be coal mining and distribution in New Zealand. The recoverable amount of the CGU is based on financial budgets approved by management covering a five year period. Cash flows beyond the five year period are extrapolated using a growth rate of 2.5%. The pre-tax discount rate applied to the cash flow projections is 18.0%.

## 18 Current liabilities - Trade and other payables

	Consolidated		Parent company	
	2007	2006	2007	2006
	\$	\$	\$	\$
Trade payables	<b>1,231,229</b>	1,340,556	<b>217,781</b>	149,979
Funds held in advance of rights issue (note 9)	<b>368,168</b>	-	-	-
Other payables and accrued expenses	<b>101,129</b>	62,833	<b>60,546</b>	33,976
Employee benefits payable - annual leave	<b>123,487</b>	62,414	<b>57,590</b>	52,950
Employee benefits payable - bonuses	<b>21,838</b>	23,060	-	-
	<u><b>1,845,851</b></u>	<u>1,488,863</u>	<u><b>335,917</b></u>	<u>236,905</u>

## 19 Current liabilities – Borrowings

	Consolidated		Parent company	
	2007	2006	2007	2006
	\$	\$	\$	\$
<b>Secured</b>				
Bank overdraft	49,353	-	-	-
Lease liabilities (note 29)	532,643	295,560	-	-
	<b>581,996</b>	<b>295,560</b>	<b>-</b>	<b>-</b>

### (a) Interest rate risk exposures

Details of the Group's exposure to interest rate changes on borrowings are set out in note 20.

### (b) Security

Details of the security relating to each of the secured liabilities are set out in note 29.

## 20 Non-current liabilities – Borrowings

	Consolidated		Parent company	
	2007	2006	2007	2006
	\$	\$	\$	\$
<b>Secured</b>				
Lease liabilities (note 29)	868,276	1,121,444	-	-
	<b>868,276</b>	<b>1,121,444</b>	<b>-</b>	<b>-</b>

### (a) Total secured liabilities

The total secured liabilities (current and non-current) are as follows:

	Consolidated		Parent company	
	2007	2006	2007	2006
	\$	\$	\$	\$
Lease liabilities	1,400,919	1,417,004	-	-
	<b>1,400,919</b>	<b>1,417,004</b>	<b>-</b>	<b>-</b>

### (b) Assets pledged as security

Lease liabilities are effectively secured as the rights to the leased assets recognised in the financial statements revert to the lessor in the event of default. The carrying amount of leased assets pledged as security for the lease liabilities is \$1,757,303 (2006: \$1,490,419). Refer note 15.

### (c) Interest rate risk exposures

The following table sets out the Group's exposure to interest rate risk and the effective weighted average interest rate by maturity periods.

Exposures arise predominantly from liabilities bearing variable interest rates as the Group intends to hold fixed rate liabilities to maturity.

## 20 Non-current liabilities – Borrowings (continued)

2007	Fixed interest rate							Total
	Floating interest rate	1 year or less	Over 1 to 2 years	Over 2 to 3 years	Over 3 to 4 years	Over 4 to 5 years	Over 5 years	
	\$	\$	\$	\$	\$	\$	\$	\$
Lease liabilities (notes 19, 20 and 29)	-	532,643	273,078	181,024	414,174	-	-	1,400,919
Weighted average interest rate	-	8.7%	6.7%	8.5%	9.0%	-	-	8.4%

  

2006	Fixed interest rate							Total
	Floating interest rate	1 year or less	Over 1 to 2 years	Over 2 to 3 years	Over 3 to 4 years	Over 4 to 5 years	Over 5 years	
	\$	\$	\$	\$	\$	\$	\$	\$
Lease liabilities (notes 19, 20 and 29)	-	295,560	244,780	159,242	124,560	592,862	-	1,417,004
Weighted average interest rate	-	9.8%	8.3%	8.2%	9.2%	9.2%	-	9.6%

### (d) Fair value

The carrying amounts and fair values of borrowings at balance date are:

	2007		2006	
	Carrying amount	Fair value	Carrying amount	Fair value
	\$	\$	\$	\$
<b>On-balance sheet</b>				
<i>Non-traded financial liabilities</i>				
Bank overdraft	49,353	49,353	-	-
Lease liabilities	1,400,919	1,400,919	1,417,004	1,417,004
	<b>1,450,272</b>	<b>1,450,272</b>	<b>1,417,004</b>	<b>1,417,004</b>
On-balance sheet				

The fair value of borrowings is based upon market prices where a market exists or by discounting the expected future cash flows by the current interest rates for liabilities with similar risk profiles.

## 21 Non-current liabilities – Deferred tax liabilities

	Consolidated		Parent company	
	2007	2006	2007	2006
	\$	\$	\$	\$
<b>The balance comprises temporary differences attributable to:</b>				
<i>Amounts recognised in profit or loss</i>				
Property, plant and equipment	71,880	110,492	-	-
Finance leases	93,609	26,046	-	-
Receivables	61,119	4,832	61,119	4,831
Unrealised exchange gains	-	-	61,251	-
Intangibles	313,850	-	-	-
Exploration and evaluation expenditure	216,278	162,501	-	-
	<b>756,736</b>	<b>303,871</b>	<b>122,370</b>	<b>4,831</b>
<i>Amounts recognised directly in equity</i>				
Unrealised exchange gains	61,251	-	-	-
	<b>817,987</b>	<b>303,871</b>	<b>122,370</b>	<b>4,831</b>
Set-off of deferred tax liabilities of parent company pursuant to set-off provisions (note 16)	(505,652)	(64,799)	(80,853)	(4,831)
Net deferred tax liabilities	<b>312,335</b>	<b>239,072</b>	<b>41,517</b>	<b>-</b>
<b>Movements:</b>				
Opening balance at 1 July	303,871	162,240	4,831	-
Charged/(credited) to the income statement (note 8(a))	151,730	158,045	117,539	4,831
Charged/(credited) to the income statement due to income tax rate change (note 8(a))	(58,237)	-	-	-
Debited to equity	61,251	-	-	-
Acquisition of subsidiary (note 31(c))	326,023	-	-	-
Exchange differences	33,349	(16,414)	-	-
Closing balance at 30 June	<b>817,987</b>	<b>303,871</b>	<b>122,370</b>	<b>4,831</b>
Deferred tax liabilities to be settled after more than 12 months	883,807	299,039	61,251	-
Deferred tax liabilities to be settled within 12 months	(65,820)	4,832	61,119	4,831
	<b>817,987</b>	<b>303,871</b>	<b>122,370</b>	<b>4,831</b>

## 22 Non-current liabilities – Provisions

	Consolidated		Parent company	
	2007	2006	2007	2006
	\$	\$	\$	\$
Provision for rehabilitation	202,268	24,673	-	-
Provision for make-good under lease agreement	9,800	-	9,800	-
	<b>212,068</b>	<b>24,673</b>	<b>9,800</b>	<b>-</b>

## 22 Non-current liabilities – Provisions (continued)

### a) Movement in provision for rehabilitation

	Consolidated		Parent company	
	2007	2006	2007	2006
	\$	\$	\$	\$
Opening balance 1 July	24,673	-	-	-
Amount recognised on acquisition of a business (note 31(c))	164,943	24,673	-	-
Amounts used	-	-	-	-
Exchange variance	12,652	-	-	-
Closing balance 30 June	<u>202,268</u>	<u>24,673</u>	<u>-</u>	<u>-</u>

The amount represents the obligation to restore land disturbed during mining activities to the conditions specified in the mining licence.

### b) Movement in provision for make-good under lease agreement

	Consolidated		Parent company	
	2007	2006	2007	2006
	\$	\$	\$	\$
Opening balance 1 July	-	-	-	-
Amount recognised	9,800	-	9,800	-
Amounts used	-	-	-	-
Closing balance 30 June	<u>9,800</u>	<u>-</u>	<u>9,800</u>	<u>-</u>

The provision for make-good represents the company's obligation under the lease agreement to return the property to its original condition upon termination of the lease.

## 23 Contributed equity

	Parent company		Parent company	
	2007	2006	2007	2006
	Shares	Shares	\$	\$
Ordinary shares	<u>717,853,187</u>	<u>717,853,187</u>	<u>40,200,853</u>	<u>40,200,853</u>

### (b) Movements in ordinary share capital:

Date	Details	Notes	Number of shares	Issue price	\$
1 July 2005	Balance		623,633,978		34,617,699
1 July 2005	Recognition of share option reserve	(d)			(1,318,030)
28 February 2006	Placement		70,000,000	\$0.06	4,200,000
	Exercise of 2006 options				
25 May 2006	Funds received	(d)	567,000	\$0.06	34,020
25 May 2006	Transfer from share option reserve				7,938
14 June 2006	Funds received	(d)	768,000	\$0.06	46,080
14 June 2006	Transfer from share option reserve				10,752
15 June 2006	Funds received	(d)	150,000	\$0.06	9,000
15 June 2006	Transfer from share option reserve				2,100
28 June 2006	Funds received	(d)	115,000	\$0.06	6,900
28 June 2006	Transfer from share option reserve				1,610
30 June 2006	Funds received	(d)	22,619,209	\$0.06	1,357,154
30 June 2006	Transfer from share option reserve				316,666
30 June 2006	Transfer from share option reserve for 2006 options that lapsed				978,964
			<u>717,853,187</u>		<u>40,270,853</u>

## 23 Contributed equity (continued)

### (b) Movements in ordinary share capital (continued)

Date	Details	Notes	Number of shares	Issue price	\$
28 February 2006	Transaction costs arising on share placement		-		(100,000)
	Deferred tax credit recognised directly in equity		-		30,000
30 June 2006	Balance		717,853,187		40,200,853
30 June 2007	Balance		717,853,187		40,200,853

### (c) Ordinary shares

Ordinary shares entitle the holder to participate in dividends and the proceeds on winding up of the company in proportion to the number of and amounts paid on the shares held.

On a show of hands every holder of ordinary shares present at a meeting in person or by proxy, is entitled to one vote, and upon a poll each share is entitled to one vote.

### (d) 2006 Options

At 30 June 2005 the number of unissued ordinary shares relating to options not exercised was 98,420,000. These options were exercisable during the year ended 30 June 2006 at \$0.06 per share. During the year ended 30 June 2006 24,219,209 of these options were exercised and the balance of 74,200,791 lapsed. No options existed during the year ended 30 June 2007.

### (e) Treasury stock

The summary of movements in shares acquired and issued by the Eastern Corporation Limited Employee Incentive Fund is as follows:

	2007 \$	2006 \$
Parent company contributed equity at 30 June	40,200,853	40,200,853
Shares acquired by the Fund – at cost	(60,100)	(60,100)
Shares issued by the Fund – at cost	41,244	41,244
Consolidated contributed equity at 30 June	40,181,997	40,181,997

There have been no shares issued by the Fund during the year (2006: \$41,244).

## 24 Reserves and accumulated losses

	Consolidated		Parent company	
	2007 \$	2006 \$	2007 \$	2006 \$
Share option reserve	-	-	-	-
Share based payments reserve	52,635	52,635	-	-
Foreign currency translation reserve	149,312	(508,073)	-	-
	201,947	(455,438)	-	-

### (a) Reserves

## 24 Reserves and accumulated losses (continued)

### Movements:

	Consolidated		Parent company	
	2007	2006	2007	2006
	\$	\$	\$	\$
<i>Share option reserve (note 23(d))</i>				
Opening balance 1 July	-	-	-	-
Recognition of options on issue at 1 July 2006	-	1,318,030	-	1,318,030
Transfer to contributed equity for options exercised during the year				
25 May 2006	-	(7,938)	-	(7,938)
14 June 2006	-	(10,752)	-	(10,752)
15 June 2006	-	(2,100)	-	(2,100)
28 June 2006	-	(1,610)	-	(1,610)
30 June 2006	-	(316,666)	-	(316,666)
Transfer to contributed equity for options which lapsed on 30 June 2006	-	(978,964)	-	(978,964)
Closing balance 30 June	-	-	-	-
<i>Share based payments reserve</i>				
Balance 1 July	52,635	44,135	-	-
Fair value change on shares issued by the employee share incentive scheme (note 1(u)(iii))	-	8,500	-	-
Balance 30 June	52,635	52,635	-	-
<i>Foreign currency translation reserve</i>				
Balance 1 July	(508,073)	1,751	-	-
Currency translation differences arising during the year	718,636	(509,824)	-	-
Less: Deferred tax loss on currency transaction (note 8(c))	(61,251)	-	-	-
Balance 30 June	149,312	(508,073)	-	-

### (b) Accumulated losses

Movements in accumulated losses were as follows:

	Consolidated		Parent company	
	2007	2006	2007	2006
	\$	\$	\$	\$
Balance 30 June 2006	26,277,563	28,304,137	27,296,834	27,357,550
Net (profit)/loss for the year	2,951,799	(2,026,574)	(297,791)	(60,716)
Balance 30 June 2007	29,229,362	26,277,563	26,999,043	27,296,834

### (c) Nature and purpose of reserves

#### (i) Share option reserve

The reserve represents the value attaching to the unexercised options, as described in note 23(d). As options are exercised the reserve is reduced and contributed equity is increased.

#### (ii) Share based payments reserve

This reserve reflects the change in fair value, between the date of purchase and the date of issue, of shares awarded to employees and consultants under the share incentive scheme.

#### (iii) Foreign currency translation reserve

Exchange differences arising on translation of the foreign subsidiaries are taken to the foreign currency translation reserve, as described in note 1(d). The reserve is recognised in profit and loss when the net investment is disposed of.

## 25 Minority interest

	Consolidated		Parent company	
	2007	2006	2007	2006
	\$	\$	\$	\$
Interest in:				
Contributed equity	8,130,716	8,130,716	-	-
Accumulated losses	(10,600,959)	(10,035,019)	-	-
	<b>(2,470,243)</b>	<b>(1,904,303)</b>	-	-

Movements in minority interest were as follows:

	Consolidated		Parent company	
	2007	2006	2007	2006
	\$	\$	\$	\$
(Shortfall)/surplus at 1 July	(1,904,303)	(1,803,522)	-	-
Share of loss for the year	(565,940)	(330,504)	-	-
Share issue during the year	-	229,723	-	-
Shortfall as at 30 June	<b>(2,470,243)</b>	<b>(1,904,303)</b>	-	-
Transfer of shortfall to members of Eastern Corporation Limited	<b>2,470,243</b>	1,904,303	-	-
Balance 30 June	-	-	-	-

## 26 Key management personnel disclosures

### (a) Directors

The following persons were directors of Eastern Corporation Limited during the financial year:

*(i) Chairman – executive*

G G Smith (resigned as Chairman 19 March 2007, remained as non-executive director, died 30 March 2007)

*(ii) Chairman - non-executive*

H L Stack (appointed to the Board 22 May 2006, appointed Chairman 19 March 2007, resigned 5 July 2007)

*(iii) Managing director*

C G Smith (appointed to the Board 10 April 2007, appointed Managing Director 23 July 2007)

*(vi) Non-executive directors*

J S McIntyre

W G Lyne (appointed 24 April 2006, resigned 5 July 2007)

R J May (appointed 23 August 2006)

### (b) Other key management personnel

The following persons also had authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly, during the financial year:

<i>Name</i>	<i>Position</i>	<i>Employer</i>
M R O'Brien	Chief Executive Officer (resigned 23 July 2007)	Eastern Corporation Limited
C R Smith	Chief Financial Officer (joined 25 July 2005, resigned 26 March 2007)	Eastern Corporation Limited
K F Poynter	Operations Manager, New Zealand	Eastern Coal Holdings (NZ) Limited
W A Parker	Chief Financial Officer (joined 21 March 2007)	Eastern Corporation Limited
S Aarons	Business Development and Corporate Relations Manager	Eastern Corporation Limited

## 26 Key management personnel disclosures (continued)

### (c) Key management personnel compensation

	Consolidated		Parent company	
	2007	2006	2007	2006
	\$	\$	\$	\$
Short-term employee benefits	1,124,289	1,284,294	1,064,289	1,254,627
Post-employment benefits	73,393	74,074	73,393	74,074
Share-based payments	-	16,000	-	16,000
	<b>1,197,682</b>	<b>1,374,368</b>	<b>1,137,682</b>	<b>1,344,701</b>

The company has taken advantage of the relief provided by the Corporations Regulations CR 2M.6.04 and has transferred the detailed remuneration disclosures to the directors' report. The relevant information can be found in sections A-D of the remuneration report on pages 9 to 12.

### (d) Equity instrument disclosures relating to key management personnel

#### (i) Employee and consultants share incentive scheme

The Company has established an employee and consultants share incentive scheme. The scheme is administered by way of a separate trust. During the year ended 30 June 2003 the Company provided funds to the trust to enable the latter to purchase shares that are then awarded to employees and consultants by the trust from time to time. The directors of the Company from time to time are the trustees of this trust but have no right to participate in any shares held by the trust. These shares carry full dividend and voting rights.

During the year ended 30 June 2007 no shares were issued to any employee or consultant (2006: 250,000 shares at a value of \$16,000 were issued to the Chief Executive Officer, M R O'Brien).

#### (ii) Option holdings

The numbers of options over ordinary shares in the company held during the financial year by each director of Eastern Corporation Limited and other key management personnel of the Group, including their personally related parties, are set out below.

2007

No options existed during the financial year ended 30 June 2007.

2006	Balance at the start of the year	Granted during the year	Exercised during the year	Other changes during the year	Balance at the end of the year	Vested and exercisable at the end of the year
Name						
<b>Directors of Eastern Corporation Limited</b>						
Propwood Unit Trust	11,820,000	410,000	(12,230,000)	-	-	-
Interests in above units:						
G G Smith (53.5%)						
C G Smith (12.4%)						
J S McIntyre (2.4%)						
P R Williams (1.6%)						
Readlink Pty Ltd of which J S McIntyre is a director and shareholder	-	-	(2,457,000)	2,457,000	-	-

#### (iii) Share holdings

The numbers of shares in the company held during the financial year by each director of Eastern Corporation Limited and other key management personnel of the Group, including their personally related parties, are set out below. Other than as noted in 26(d)(i) above there were no shares granted during the reporting period as compensation.

## 26 Key management personnel disclosures (continued)

2007		Received during the year on the exercise of options	Other changes during the year	Balance at the end of the year
Name	Balance at the start of the year			
<b>Directors of Eastern Corporation Limited</b>				
<b>Ordinary shares</b>				
Propwood Unit Trust	238,905,000	-	-	238,905,000
Interest in above units:				
G G Smith (61.5%); C G Smith (15.4%)				
J S McIntyre (2.5%); R J May (0.6%)				
Becamal Pty Ltd of which G G Smith was C G Smith is a director	7,000,000	-	3,100,000	10,100,000
J S McIntyre	350,000	-	-	350,000
Readlink Pty Ltd of which J S McIntyre is a director and shareholder	2,457,000	-	-	2,457,000
Tuaguba Holdings Pty Ltd of which R J May is a director and shareholder	-	-	648,000	648,000
Polvran Investments Pty Ltd of which H L Stack is a director and shareholder	-	-	500,000	500,000
C G Smith	597,388	-	-	597,388
<b>Other key management personnel of the Group</b>				
<b>Ordinary shares</b>				
M R O'Brien	250,000	-	-	250,000
S Aarons	1,373,000	-	-	1,373,000

Subsequent to the year end, an in specie share distribution took place in September whereby the company's largest shareholder, Propwood Pty Ltd, transferred its 203,990,000 shares in Eastern on a pro-rata basis to the unit-holders which previously comprised the entity. Propwood previously held 33% of Eastern. The company's largest shareholder is now Becamal Pty Ltd with 19%.

2006		Received during the year on the exercise of options	Other changes during the year	Balance at the end of the year
Name	Balance at the start of the year			
<b>Directors of Eastern Corporation Limited</b>				
<b>Ordinary shares</b>				
Propwood Unit Trust	226,265,000	12,230,000	410,000	238,905,000
Interest in above units:				
G G Smith (53.5%); C G Smith (12.4%)				
J S McIntyre (2.4%); P R Williams (1.6%)				
Becamal Pty Ltd of which G G Smith and C G Smith are directors	5,000,000	-	2,000,000	7,000,000
J S McIntyre	350,000	-	-	350,000
Readlink Pty Ltd of which J S McIntyre is a director and shareholder	-	2,457,000	-	2,457,000
C G Smith	597,738	-	-	597,388
<b>Other key management personnel of the Group</b>				
<b>Ordinary shares</b>				
M R O'Brien	-	-	250,000	250,000
S Aarons	373,000	-	1,000,000	1,373,000

## 26 Key management personnel disclosures (continued)

### (e) Other transactions with key management personnel

A director, Mr J S McIntyre, is a director of Behre Dolbear Australia Pty Limited, consulting engineers. Behre Dolbear Australia Pty Ltd has provided technical consulting services to Eastern Corporation Limited to the value of \$Nil (2006: \$55,582). The contract was based on normal commercial terms and conditions.

A former Chairman, Mr G G Smith, was a director of Storth Pty Ltd, a company that has provided charter air services to Eastern Corporation Limited and one of its subsidiaries to the value of \$Nil (2006: \$34,585). These services are based on normal commercial terms and conditions.

A former director, Mr W G Lyne, has provided company secretarial services to Eastern Corporation Limited and its subsidiaries through his services company, Australian Company Secretarial Services Pty Ltd to the value of \$26,096 (2006: \$9,562). These services are based on normal commercial terms and conditions.

Aggregate amounts of each of the above types of other transactions with key management personnel of Eastern Corporation Limited are:

	2007 \$	2006 \$
<b>Amounts recognised as expense</b>		
Consulting services	26,096	65,144
Travel expenses	-	34,585
	<u>26,096</u>	<u>99,729</u>

There are no amounts owing to, or receivable from, key management personnel at 30 June 2007 in respect of the above services.

## 27 Remuneration of auditors

During the year the following fees were paid or payable for services provided by the auditor of the parent company, its related practices and non-related audit firms:

	Consolidated		Parent company	
	2007 \$	2006 \$	2007 \$	2006 \$
<b>Assurance services</b>				
<i>Audit services</i>				
PricewaterhouseCoopers Australian firm				
Audit and review of financial reports and other audit work under the <i>Corporations Act 2001</i>	<u>194,257</u>	73,990	<u>61,533</u>	34,250
<i>Other assurance services</i>				
PricewaterhouseCoopers Australian firm				
Due diligence, tax and advisory	<u>50,301</u>	103,528	<u>15,500</u>	84,855

It is the Group's policy to employ PricewaterhouseCoopers on assignments additional to their statutory audit duties where PricewaterhouseCoopers' expertise and experience with the Group are important. These assignments are principally tax advice and due diligence reporting on acquisitions, or where PricewaterhouseCoopers is awarded assignments on a competitive basis. It is the Group's policy to seek competitive tenders for all major consulting projects.

## 28 Contingent liabilities

### (a) Financial support for subsidiaries

The ability of subsidiaries Galilee Energy Limited and Rochfort Coal Mining Limited to continue as going concerns and successfully develop their coal assets depends entirely on their ability to raise additional funds. These additional funds are likely to be sourced from existing shareholders and possible external sources, but most likely by way of a rights or other entitlements issue to existing shareholders.

Eastern Corporation Limited has given a commitment to the directors of both companies that it will continue to provide financial support by way of contributing its share of funds toward further raisings from existing shareholders as well as assisting with any shortfall.

#### *Galilee Energy Limited*

The Australian Tax Office ("ATO") is currently reviewing the 2004 research and development ("R&D") claim submitted by two of Galilee's controlled entities, Capricorn Energy Pty Ltd and Beaconsfield Energy Development Pty Ltd. The 2004 R&D claim resulted in a cash receipt by each company from the ATO of \$263,645. The cash was received in the 2004/05 financial year.

The ATO, upon review of the claim documentation, is contesting the basis of the companies R&D claim which, if successful, will have the effect that instead of receiving cash, the tax losses of those companies should have been increased by the amount of the cash received. The companies dispute the ATO's view. The companies are working with specialist R&D advisors and believe that ultimately the matter will be resolved in the group's favour.

### (b) Guarantees

Eastern Corporation Limited has provided unsecured guarantees for finance lease obligations entered into by a subsidiary company. The liability for finance leases at 30 June 2007 is shown in note 20.

## 29 Commitments

### (a) Lease commitments : Group as lessee

	Consolidated		Parent company	
	2007	2006	2007	2006
	\$	\$	\$	\$
Commitments in relation to leases contracted for at the reporting date but not recognised as liabilities, payable:				
Within one year	<b>268,706</b>	211,902	<b>151,064</b>	77,061
Later than one year but not later than five years	<b>777,218</b>	265,149	<b>651,631</b>	74,904
Later than five years	<b>332,771</b>	-	<b>332,771</b>	-
	<b>1,378,695</b>	477,051	<b>1,135,466</b>	151,965
Representing:				
Non-cancellable operating leases	<b>1,135,466</b>	171,415	<b>1,135,466</b>	151,965
Cancellable operating leases	<b>30,495</b>	-	-	-
Future finance charges on finance leases	<b>212,734</b>	305,636	-	-
	<b>1,378,695</b>	477,051	<b>1,135,466</b>	151,965

## 29 Commitments (continued)

### (i) Operating leases

The Group leases offices, equipment and vehicles under non-cancellable operating leases expiring within three years. The leases have varying terms, escalation clauses and renewal rights. On renewal, the terms of the leases are renegotiated.

	Consolidated		Parent company	
	2007	2006	2007	2006
	\$	\$	\$	\$
Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:				
Within one year	170,262	86,789	151,064	77,061
Later than one year but not later than five years	662,928	84,626	651,631	74,904
Later than five years	332,771	-	332,771	-
	<b>1,165,961</b>	171,415	<b>1,135,466</b>	151,965

### (ii) Finance leases

The Group leases various plant and equipment with a carrying amount of \$1,757,303 (2006 - \$1,490,419) under finance leases expiring within two to five years. Under the terms of the leases, the Group has the option to acquire the leased assets for an agreed percentage of their agreed fair value on expiry of the leases. These percentages range from 10% to 48%. This option lapses in the event the Group fails to maintain its credit rating at the level prevailing at inception of the lease.

	Consolidated		Parent company	
	2007	2006	2007	2006
	\$	\$	\$	\$
Commitments in relation to finance leases are payable as follows:				
Within one year	631,088	420,673	-	-
Later than one year but not later than five years	982,565	1,301,967	-	-
Later than five years	-	-	-	-
Minimum lease payments	<b>1,613,653</b>	1,722,640	-	-
Future finance charges	(212,734)	(305,636)	-	-
Recognised as a liability	<b>1,400,919</b>	1,417,004	-	-
Representing lease liabilities:				
Current (note 19)	532,643	295,560	-	-
Non-current (note 20)	868,276	1,121,444	-	-
	<b>1,400,919</b>	1,417,004	-	-

The weighted average interest rate implicit in the leases is 8.36% (2006 – 9.68%).

## (b) Exploration commitments

### (i) Galilee Energy Limited

In order to maintain current rights to tenure to exploration and mining tenements, the consolidated entity has the following discretionary exploration expenditure requirements up until expiry of tenement holdings. These obligations, which are subject to renegotiation upon expiry of ATP 529P on 30 November 2008 and ATP 799P in 28 February 2010, are not provided for in the financial statements.

If the consolidated entity decides to relinquish certain leases and/or does not meet these obligations, assets recognised in the balance sheet may require review to determine the appropriateness of carrying values. The sale, transfer or farm-out of exploration rights to third parties will reduce or extinguish these obligations.

Expenditure targets both annual and for the period of the term can be reduced by the relinquishment of unwanted blocks, nominated by the ATP holder. The expenditure reduction is proportional to the number of blocks relinquished. This gives the ATP holder the ability to manage expenditure against the most prospective areas.

The total expenditure commitment for ATP529P for the term of four years to November 2008 is \$5,400,000. Due to extended delays in the exploration program because of a lack of suitable drilling rigs, expenditure scheduled for 2006 has been rescheduled to occur in 2007. The Department of Natural Resources and Mines has been advised of the change in the work program relating to ATP529P.

## 29 Commitments (continued)

	Consolidated		Parent company	
	2007	2006	2007	2006
	\$	\$	\$	\$
Commitments in relation to exploration permits ATP 529 are as follows:				
Within one year	2,885,647	1,431,250	-	-
Later than one year but not later than five years	1,522,634	3,138,281	-	-
Minimum payments	4,408,281	4,569,531	-	-

	Consolidated		Parent company	
	2007	2006	2007	2006
	\$	\$	\$	\$
Commitments in relation to exploration permits ATP 799 are as follows:				
Within one year	811,632	868,833	-	-
Later than one year but not later than five years	3,219,167	3,219,167	-	-
Minimum payments	4,030,799	4,088,000	-	-

### (ii) Broughton Coal Mining Pty Ltd

Broughton Coal Mining Pty Ltd currently holds EPC 818 which was renewed on 22 November 2005 for a period of 3 years to 21 November 2008. The exploration area covers 17 sub-blocks.

	Consolidated		Parent company	
	2007	2006	2007	2006
	\$	\$	\$	\$
Commitments in relation to exploration permits EPC 818 are as follows:				
Within one year	-	70,000	-	-
Later than one year but not later than five years	420,000	350,000	-	-
Minimum payments	420,000	420,000	-	-

### (iii) Dorben Pty Ltd

Dorben Pty Ltd currently holds EPC 861 which was granted on 28 April 2005 for a period of 4 years to 27 April 2009. The exploration area covers 60 sub-blocks

	Consolidated		Parent company	
	2007	2006	2007	2006
	\$	\$	\$	\$
Commitments in relation to exploration permits EPC 861 are as follows:				
Within one year	-	71,666	-	-
Later than one year but not later than five years	230,000	143,334	-	-
Minimum payments	230,000	215,000	-	-

### 30 Related party transactions

#### (a) Parent entities

The parent company within the Group and the ultimate parent company is Eastern Corporation Limited.

#### (b) Subsidiaries

Interests in subsidiaries are set out in note 32.

#### (c) Key management personnel

Disclosures relating to key management personnel are set out in note 26.

#### (d) Transactions with related parties

The following transactions occurred with related parties:

	Consolidated		Parent company	
	2007	2006	2007	2006
	\$	\$	\$	\$
<i>Provision of goods and services</i>				
Joint venture operator services	36,000	66,000	360,000	660,000
Interest on loans to subsidiaries	-	-	799,993	608,458
Management services to subsidiaries	-	-	726,305	976,487
<i>Tax consolidation legislation</i>				
Current tax payable assumed from wholly-owned tax consolidated entities	-	-	-	868,816
Tax losses assumed from wholly-owned tax consolidated entities (@ 30%)	-	-	-	-
<i>Superannuation contributions</i>				
Contributions to superannuation funds on behalf of employees and directors	151,918	94,831	151,918	94,831

#### (e) Outstanding balances arising from sales/purchases of goods and services

The following balances are outstanding at the reporting date in relation to transactions with subsidiaries for the provision of goods and services:

	Consolidated		Parent company	
	2007	2006	2007	2006
	\$	\$	\$	\$
Current receivables	-	-	353,012	954,009
Non-current receivables	-	-	-	1,076,445

No provisions for doubtful debts have been raised in relation to any outstanding balances, and no expense has been recognised in respect of bad or doubtful debts due from related parties in the current year.

#### (f) Loans to/from related parties

	Consolidated		Parent company	
	2007	2006	2007	2006
	\$	\$	\$	\$
<i>Loans to subsidiaries</i>				
Opening balance 1 July	-	-	8,430,832	7,974,669
Loans advanced	-	-	7,347,226	2,159,423
Loan repayments received	-	-	(1,418,816)	(1,204,295)
Loan used to purchase shares issued by subsidiary company	-	-	(4,081,542)	-
Foreign exchange differences	-	-	793,129	(498,965)
Closing balance 30 June	-	-	11,070,829	8,430,832

A provision for doubtful debts of \$3,113,935 was raised at 30 June 2005 for the full amount owing by Galilee Energy Limited. No further provisions have since been raised.

### 30 Related party transactions (continued)

#### (g) Guarantees

Guarantees given by Eastern Corporation Limited in favour of subsidiaries are disclosed in note 28.

#### (h) Terms and conditions

The terms and conditions of the tax funding agreement are set out in note 8(f).

All other transactions were made on normal commercial terms and conditions and at market rates, except that there are no fixed terms for the repayment of loans between the parties. The average interest rate on loans during the year was 9.5% (2006 – 10%).

Outstanding balances are unsecured and are repayable in cash.

### 31 Business combinations

#### (a) Summary of acquisitions

##### *Takitimu Coal Mine*

On 8<sup>th</sup> September 2006 Takitimu Coal Limited, a subsidiary company formed for this purpose, acquired the business assets of the Straith Coal Mines for a total purchase price of AUD2.2m (NZD2.5m). Takitimu Coal contributed revenue of AUD349,647 (NZD401,935) and a trading loss after tax of AUD371,777 (NZD426,800) to the Group's results for the financial year. The vendors of the Straith Coal Mines (now renamed Takitimu coal mine) have operated the mines at insignificant production levels over the last few years. The mines are in a start up phase and the revenue and net loss contributed since the date of acquisition to 30 June 2007 are not reflective of expected future operations. It is the Group's intention to significantly increase output and sales of coal. Given the start up stage of the mines and their history of low activity it has been impracticable to determine the revenue and net profit (or loss) that would have been contributed to the year's result if the acquisition had occurred on 1 July 2006.

##### *Eastern Coal Supplies Limited*

On 13<sup>th</sup> September 2006 Eastern Coal Supplies Limited ("ECS"), a subsidiary company formed for this purpose, acquired the business assets of the Somerville Fuel Centre for a cash consideration of AUD2.1 (NZD2.4m). ECS contributed revenues of AUD110,297 (NZD126,621) and a trading loss after tax of AUD219,776 (NZD252,291) to the Group's results for the financial year. It is the Group's intention to operate ECS as a distribution facility for the output of the two mines at Cascade and Takitimu and it has not been practicable to estimate the revenue and net profit (or loss) that would have been contributed to the year's result if the acquisition had occurred on 1 July 2006.

Details of the fair value of the assets and liabilities acquired and goodwill are as follows:

	Takitimu Coal Mine	Eastern Coal Supplies
	\$	\$
Purchase consideration (refer to (b) below):		
Cash paid	1,713,519	2,054,213
Direct costs relating to the acquisition	441,032	13,656
Total purchase consideration	2,154,551	2,067,869
Fair value of net identifiable assets acquired (refer to (c) below)	2,154,551	1,499,560
Goodwill	-	568,309

### 31 Business combinations (continued)

#### (b) Purchase consideration

	<b>Consolidated</b>	
	<b>2007</b>	<b>2006</b>
	<b>\$</b>	<b>\$</b>
Outflow of cash to acquire businesses, net of cash acquired		
<i>Takitimu coal mine</i>		
Cash consideration	2,154,551	-
Less: Balances acquired	-	-
Cash	<u>2,154,551</u>	<u>-</u>
<i>Somerville Fuel Centre</i>		
Cash consideration	2,067,869	-
Less: Balances acquired	-	-
Cash	<u>2,067,869</u>	<u>-</u>
Total outflow of cash	<u>4,222,420</u>	<u>-</u>

#### (c) Assets and liabilities acquired

The fair values of the assets and liabilities arising from the acquisitions are as follows:

	Takitimu Coal Mine \$	Eastern Coal Supplies \$	Total \$
Inventories	4,263	21,166	25,429
Property, plant, equipment and vehicles	800,786	1,479,361	2,280,147
Net deferred tax	-	-	-
Intangible assets: mining licences	1,514,445	-	1,514,445
Provision for rehabilitation	(164,943)	-	(164,943)
Provision for employee entitlements	-	(967)	(967)
Net assets	<u>2,154,551</u>	<u>1,499,560</u>	<u>3,654,111</u>

## 32 Subsidiaries

The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiaries in accordance with the accounting policy described in note 1(b):

Name of entity	Country of incorporation	Class of equity	Equity holding	
			2007 %	2006 %
Beaconsfield Energy Development Pty Ltd	Australia	Ordinary	61	61
Broughton Coal Mining Pty Ltd	Australia	Ordinary	100	100
Capricorn Energy Pty Ltd	Australia	Ordinary	61	61
Cascade Coal Limited	New Zealand	Ordinary	100	100
Cascade West Limited (dormant)	New Zealand	Ordinary	100	100
Dorben Pty Ltd (dormant)	Australia	Ordinary	100	100
Eastern Corporation Employee Incentive Fund	Australia	Units	100	100
Eastern Coal Holdings (NZ) Limited *	New Zealand	Ordinary	100	-
Eastern Coal Supplies Limited	New Zealand	Ordinary	100	-
Galilee Energy Ltd **	Australia	Ordinary	61	61
Rochfort Coal Mining Limited	New Zealand	Ordinary	100	100
Roverwich Pty Ltd (dormant)	Australia	Ordinary	100	100
Takitimu Coal Limited	New Zealand	Ordinary	100	100

\* Eastern Coal Holdings (NZ) Limited is the intermediate parent company of Eastern Corporation Limited's New Zealand group. Cascade Coal Limited, Takitimu Coal Limited, Eastern Coal Supplies Limited and Rochfort Coal Mining Limited are all wholly owned and directly held by Eastern Coal Holdings (NZ) Limited and indirectly by Eastern Corporation Limited.

\*\* Galilee Energy is the intermediate parent company of Beaconsfield Energy Development Pty Ltd and Capricorn Energy Pty Ltd. These two companies are wholly owned and held directly by Galilee Energy Limited and indirectly by Eastern Corporation Limited.

All of the above-mentioned subsidiaries have the same reporting date as the parent, Eastern Corporation Limited, at 30 June.

## 33 Interests in joint ventures

### Jointly controlled assets

A subsidiary has entered into a joint venture called Broughton Coal Joint Venture to develop the coal reserves in exploration permit, EPC 818. The subsidiary has a 90% participating interest in this joint venture and is entitled to 90% of its outputs of coal. The Group's interests in the assets employed in the joint venture are included in the consolidated balance sheet, in accordance with the accounting policy described in note 1(b), under the following classifications:

	Consolidated		Parent company	
	2007 \$	2006 \$	2007 \$	2006 \$
<b>Current assets</b>				
Cash and cash equivalents	8,685	25,009	-	-
Receivables	10,042	-	-	-
	<b>18,727</b>	25,009		
<b>Non-current assets</b>				
Exploration and evaluation expenditure	720,924	541,673	-	-
<b>Current liabilities</b>				
Trade payables	(11,635)	(172,112)	-	-
Share of net assets employed in joint venture	<b>728,016</b>	394,570	-	-

### 34 Events occurring after the balance sheet date

#### *Galilee Energy Limited*

Since the end of the financial year Galilee has raised \$2,583,487 from shareholders through a rights issue. These funds will be directed towards the costs associated with Galilee's proposed exploration programmes and for ongoing working capital. The amount raised was based on the current best estimates of the cost of the programmes.

#### *Eastern Coal Holdings (NZ) Limited*

In July 2007 the Group obtained bank finance in New Zealand to assist with its on-going working capital requirements. Details of the borrowings are as follows:

	Consolidated \$	Parent \$
<b>a) Secured liabilities</b>		
Bank overdraft facility	907,029	-
Term loans	2,721,088	-
Lease liabilities taken over by the bank	1,118,367	-
	<hr/>	<hr/>
Total bank finance available	4,746,484	-
Existing lease liabilities not taken over by the bank	362,773	-
	<hr/>	<hr/>
<b>Total secured liabilities</b>	<b>5,109,257</b>	<b>-</b>

#### **b) Assets pledged as security**

The bank loans and overdraft are secured by an all obligations General Security Agreement (incorporating cross guarantees) given by the Group's New Zealand subsidiaries, under which all New Zealand subsidiaries grant to the bank a first ranking security interest over all their present and future acquired property (including proceeds) and undertakings, and a registered first and exclusive mortgage over the property at Timaru NZ owned by subsidiary company Eastern Coal Supplies Limited.

### 35 Reconciliation of profit after income tax to net cash inflow from operating activities

	Consolidated		Parent company	
	2007	2006	2007	2006
	\$	\$	\$	\$
Profit/(loss) for the year	(2,951,799)	1,796,851	297,791	60,716
Depreciation and amortisation	789,915	806,977	19,226	5,221
(Loss)/ gain on disposal of property, plant and equipment	(9,173)	38,102	10,273	3,446
Gain on sale of interest in mining tenement	-	(4,000,000)	-	-
Net exchange differences	(3,965)	74,675	(793,831)	593,872
Changes in operating assets and liabilities:				
(Increase) decrease in trade and other receivables	190,538	(867,961)	489,118	(1,703,516)
(Increase) decrease in prepayments	319,163	(256,706)	3,052	(77,324)
(Increase) decrease in inventories	(740,632)	(477,979)	-	-
(Increase) decrease in deferred tax asset	(395,398)	33,286	103,089	34,914
(Decrease) increase in trade and other payables	(125,156)	711,552	94,372	13,243
Increase (decrease) in provision for current taxes payable	(285,617)	222,225	-	(823,763)
Increase (decrease) in deferred tax liability	12,012	158,045	41,517	-
(Decrease) increase in employee entitlements	59,851	52,833	4,640	20,309
(Decrease) increase in other provisions	187,395	129,582	9,800	-
Capitalised intercompany interest and management fees	-	-	(1,676,819)	-
	<hr/>	<hr/>	<hr/>	<hr/>
Net cash (outflow) inflow from operating activities	<b>(2,952,866)</b>	<b>(1,578,518)</b>	<b>(1,397,772)</b>	<b>(1,872,882)</b>

### 36 Non-cash investing and financing activities

	Consolidated		Parent company	
	2007	2006	2007	2006
	\$	\$	\$	\$
Acquisition of plant and equipment by means of finance leases	232,781	1,797,058	-	-

### 37 Earnings per share

	Consolidated	
	2007	2006
	Cents	Cents
<b>(a) Basic earnings per share</b>		
Profit/(loss) for the year	(0.41)	0.28
Loss attributable to minority interest	-	0.04
Profit/(loss) attributable to the ordinary equity holders of the company	<u>(0.41)</u>	<u>0.32</u>

<b>(b) Diluted earnings per share</b>		
Profit/(loss) for the year	(0.41)	0.28
Loss attributable to minority interest	-	0.04
Profit/(loss) attributable to the ordinary equity holders of the company	<u>(0.41)</u>	<u>0.32</u>

#### (c) Reconciliations of earnings used in calculating earnings per share

	Consolidated	
	2007	2006
	\$	\$
<i>Basic and diluted earnings per share</i>		
Profit/(loss) for the year	(2,951,799)	1,796,851
Loss attributable to minority interest	-	229,723
Profit/(loss) attributable to the ordinary equity holders of the company	<u>(2,951,799)</u>	<u>2,026,574</u>

There were no adjustments made to the profit/(loss) attributable to the ordinary equity holders of the company for the calculation of diluted earnings per share.

#### (d) Weighted average number of shares used as the denominator

	Consolidated	
	2007	2006
	Number	Number
Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share	717,853,187	646,502,421
Adjustments for calculation of diluted earnings per share:		
Options	-	-
Weighted average number of ordinary shares and potential ordinary shares used as the denominator in calculating diluted earnings per share	<u>717,853,187</u>	<u>646,502,421</u>

At 30 June 2007 there are no options on issue. At 30 June 2006 the outstanding options had no dilutive effect as they were out of the money as at that date (refer note 23(d)).

In the directors' opinion:

- (a) the financial statements and notes set out on pages 15 to 62 are in accordance with the *Corporations Act 2001*, including:
  - (i) complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements; and
  - (ii) giving a true and fair view of the company's and consolidated entity's financial position as at 30 June 2007 and of its performance, as represented by the results of their operations, changes in equity and their cash flows, for the financial year ended on that date; and
- (b) there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable; and
- (c) the audited remuneration disclosures set out on pages 9 to 12 of the directors' report comply with Accounting Standards AASB 124 *Related Party Disclosures* and the *Corporations Regulations 2001*; and

The directors have been given the declarations by the chief executive officer and chief financial officer required by section 295A of the *Corporations Act 2001*.

This declaration is made in accordance with a resolution of the directors.



C G Smith  
Managing Director

Brisbane  
20 September 2007

**Independent auditor's report  
to the members of Eastern Corporation Limited**

**Report on the financial report and the AASB 124 Remuneration  
disclosures contained in the directors' report**

We have audited the accompanying financial report of Eastern Corporation Limited (the company), which comprises the balance sheet as at 30 June 2007, and the income statement, statement of changes in equity and cash flow statement for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration for both Eastern Corporation Limited and the Eastern Corporation Limited Group (the consolidated entity). The consolidated entity comprises the company and the entities it controlled at the year's end or from time to time during the financial year.

We have also audited the remuneration disclosures contained in the directors' report. As permitted by the *Corporations Regulations 2001*, the company has disclosed information about the remuneration of directors and executives ("remuneration disclosures"), required by Accounting Standard AASB 124 *Related Party Disclosures*, under the heading "remuneration report" in pages 9 to 12 of the directors' report and not in the financial report.

*Directors' responsibility for the financial report and the AASB 124 Remunerations disclosures contained in the directors' report*

The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In Note 1(a), the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that compliance with the Australian equivalents to International Financial Reporting Standards ensures that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards.

The directors of the company are also responsible for the remuneration disclosures contained in the directors' report.

*Auditor's responsibility*

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement. Our responsibility is to also express an opinion on the remuneration disclosures contained in the directors' report based on our audit.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report and the remuneration disclosures contained in the directors' report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report and the remuneration disclosures contained in the directors' report,

whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report and the remuneration disclosures contained in the directors' report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report and the remuneration disclosures contained in the directors' report.

Our procedures include reading the other information in the Annual Report to determine whether it contains any material inconsistencies with the financial report.

For further explanation of an audit, visit our website <http://www.pwc.com/au/financialstatementaudit>.

Our audit did not involve an analysis of the prudence of business decisions made by directors or management.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

*Independence*

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*.

We confirm that the independence declaration required by the *Corporations Act 2001*, provided to the directors of Eastern Corporation Limited on 20 September 2007, would be in the same terms if provided to the directors as at the date of this auditor's report.

*Auditor's opinion on the financial report*

In our opinion:

- (a) the financial report of Eastern Corporation Limited is in accordance with the *Corporations Act 2001*, including:
  - (i) giving a true and fair view of the company's and consolidated entity's financial position as at 30 June 2007 and of their performance for the year ended on that date; and
  - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*.
- (b) the consolidated financial statements and notes also comply with International Financial Reporting Standards as disclosed in Note 1(a).

*Auditor's opinion on the AASB 124 Remuneration disclosures contained in the directors' report*

In our opinion, the remuneration disclosures that are contained in pages 9 to 12 of the directors' report comply with Accounting Standard AASB 124.



PricewaterhouseCoopers



Stephen R Snook  
Partner

Brisbane  
21 September 2007