

Eastern Corporation Limited

ACN 064 957 419

Financial report for the half-year ended 31 December 2007

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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 half-year ended 31 December 2007.

Directors

The following persons were directors of Eastern Corporation Limited during the whole of the half-year and up to the date of this report (except where indicated otherwise):

CG Smith (appointed Managing Director 23 July 2007)
JS McIntyre
HL Stack (resigned 5 July 2007)
WG Lyne (resigned 5 July 2007)
RJ May

Review of operations

Broughton Coal Joint Venture

The Broughton Coal Joint Venture ("BCJV") was formed in June 2005 between Eastern's wholly owned subsidiary Broughton Coal Mining Pty Ltd ("BCM") and Mitsui Coal Holdings Pty Ltd ("Mitsui"). The current Joint Venture interests are BCM 90% and Mitsui 10%.

The BCJV holds EPC818 which is an coking coal exploration permit situated immediately to the south of Rio Tinto's Hail Creek coal project, approximately 100km west of Mackay in the Northern part of Queensland's Bowen Basin.

On 26 February 2007 Eastern announced that it would not be proceeding to develop the Broughton coal resource as a stand alone project and commenced a review of options to realise value for the EPC going forward. These options included the sale of Eastern's interest in the project.

Subsequent to period end it was announced that the Eastern had entered into a non binding Memorandum of Understanding with Rio Tinto Coal Australia for the sale of BCM for a consideration of \$10 million. The agreement is subject to a due diligence which is currently being conducted.

At 31 December 2007 the carrying amount of capitalised exploration and evaluation expenditure in the consolidated balance sheet relating to the Broughton project was \$722,576. The directors are confident that this amount can be recovered in the future by sale of the tenement.

Dorben

Dorben (a wholly-owned Eastern subsidiary) held EPC861, situated adjacent to Cockatoo Coal's Dingo Project in the Southern region of Queensland's Bowen Basin.

Results of preliminary studies indicated that further exploration was not warranted and the permit was relinquished during the period.

Cascade Coal Ltd ("Cascade")

The Cascade open cut coal mine is situated in the historical Buller Coalfields region near the township of Westport on the west coast of New Zealand's South Island. The coal produced at Cascade is low ash and low sulphur with a high calorific value. It is sold into the domestic industrial market, the largest offtake being to the Holcim cement plant at Westport.

Mining in the Fire Pit area was completed during the period with approximately 30,000 tonnes extracted. Rehabilitation of the area has now commenced with backfilling of overburden underway. Activities were then focused on the Gravel Pit area. Work undertaken included diverting the existing creek and realignment of the haul road. Stripping has exposed the next block of coal and coal winning is on target for 50,000 – 55,000 tonnes per annum.

Directors' report

New pumping equipment was installed at the washery and a new water supply connected further to the diversion of the creek.

During the period rehabilitation was completed in the Mill Creek area. A programme of hydro seeding was successful in establishing natives and long rotation brown top grass on all exposed surfaces.

The sound health and safety performance has continued at the mine site with no lost time injuries recorded. No environmental incidents were recorded during the period.

Coal Extracted tonnes	Overburden tonnes	Sales tonnes	Sales NZ\$
29,270	242,720	22,204	2,025,042

Takitimu Coal Limited ("Takitimu")

The Takitimu coal mine is located in the Ohai / Nightcaps area in the far south of the South Island of New Zealand. The market for Takitimu's sub-bituminous coal is expanding with the contract to supply 20,000 tonnes to New Zealand Dairies new plant at Studholme being awarded during the period, and the supply to Fonterra's dairy processing plant at Clandeboye to commence later this year. Coal from Takitimu is also blended with the hotter Cascade coal for supply to industrial users in the Canterbury region.

In August, Mr John Marnane was appointed as Mine Manager for Takitimu. Mr Marnane has extensive experience mining coal in the region. His family company operated the mine, then known as Nightcaps, during the mid 1990's.

Infrastructure upgrades continued during the period including the installation of new screens and conveyors for the existing coal processing plant to increase its capabilities by approximately 50%. Designs for a new modular plant to process 300,000 tpa were finalised and upgrades to the existing buildings and weighbridge were completed. Rocktek have now been contracted to construct the plant which is due for completion in June.

Earthworks undertaken included the extension of the pads for Run of Mine coal storage and the construction of haul roads. Work also commenced on the haul road to the load out area on the site of the proposed rail siding.

Stripping was completed in Block One and commenced in Block Two in October. Coal winning continued in Block One with good recovery in exposed blocks of Upper Morley One and Upper Morley Two. To date Upper Morley Three presents as a virgin seam with no contamination from previous underground workings. Coal analysis of the rider Beaumont seam in Block Two indicates that contrary to earlier evaluation, coal from that seam will also meet specification. Overburden removal in Block Two is on schedule to expose the coal required for the commencement of the Fonterra contract.

The current stripping contractor, Stracon, has been re-engaged for a further two year term.

Coal Extracted tonnes	Overburden tonnes	Sales tonnes	Sales NZ\$
15,526	195,797	12,477	869,715

Rochfort Coal Mining Ltd ("Rochfort")

Rochfort, a wholly-owned subsidiary of Eastern, holds the Whareatea West Exploration Permit (EP 40-591). The Permit covers an area of 820 hectares situated on the Denniston Plateau near the company's Cascade mine. An extensive coal resource has been identified at Whareatea West however only 40% of the permit has been explored to date.

An information memorandum has been prepared and negotiations entered into with parties interested in forming a joint venture to fund the next stages of exploration at Whareatea West. Further drilling is planned to define the extent of the resource. Cores will be obtained for quality analysis which will include coke oven tests and washabilities. Future exploration activities will be determined in conjunction with the Department of Conservation who hold tenure over the land.

Directors' report

Ohai / Orepuki

Eastern holds Prospecting Permit 39 319 at Orepuki on the coast, south west of Takitimu and 39 321 at Ohai, which covers an extensive area surrounding the Takitimu mining tenements. Both regions are prospective for sub-bituminous coal. Exploration programmes are to be devised for the development of these tenements in the future although no immediate activities are planned until the upgrade of the Takitimu mine is fully completed.

Eastern Coal Supplies Limited ("ECS")

ECS is a coal handling and distribution centre in Timaru, on the East Coast of New Zealand's South Island. Timaru is located approximately half way between the Cascade and Takitimu mines and is well placed to service several large industrial operations in the South Canterbury/Otago region. ECS will be a strategic link in the distribution chain for the Fonterra contract when it commences later this year. A contingency stockpile will also be located on site.

An extension to the office buildings has recently been completed to house Eastern's New Zealand administration functions which transferred to Timaru from Westport during 2007.

Galilee Energy Limited ("Galilee")

Galilee Energy holds Authorities to Prospect (ATP 529P and ATP 799P) covering an area of approximately 14,000 sq km near Longreach in Central Queensland. The areas are prospective for coal seam methane and conventional hydrocarbons.

During the period an exploration hole was successfully drilled at Rodney Creek 8 to a total depth of 1,100 metres. Results to date indicate :

- Pipeline quality gas of 97 – 98% pure methane
- Coal permeabilities of up to 120 millidarcies
- Median gas content of 4.4 m³/t on a raw coal basis
- Aggregate 24.7m of coal measures with a high degree of seam continuity throughout the tenement

A complete report from the drilling programme is imminent however based on results received to date a further programme has been devised comprising a 5 spot production pilot and 4 additional appraisal wells. Drilling is planned for the final quarter 2008.

Corporate

In December 2007 the Company completed a 1:10 share consolidation. As a result, there was a total of 71,785,401 new ordinary fully paid shares on issue held by 1,771 shareholders (as of 3 March 2008).

Board / Senior Management Changes

In July Mr Howard Stack and Mr Bill Lyne resigned from the Eastern Board. Mr Lyne continues as Company Secretary. Also in July Executive Director, Campbell Smith, assumed the role of Managing Director, replacing Mr Mike O'Brien who retired as Chief Executive Officer.

In August Mr Ken Dovestone was appointed to the role of Financial Controller for Eastern Coal Holdings (NZ) Ltd based in Timaru. Also in August, Mr John Marnane was appointed mine manager for the Takitimu mine.

Subsequent to period end, New Zealand Operations Manager, Mr Kevin Poynter resigned. He will be replaced in this role by Mr Craig Pilcher, previously Transport and Marketing Manager.

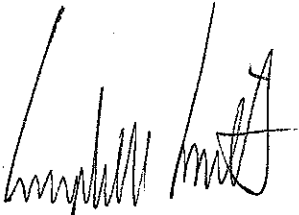
Directors' report

Auditor's independence declaration

The auditor's independence declaration is included on page 5 of the half-year financial report.

Signed in accordance with a resolution of directors made pursuant to s.306(3) of the Corporations Act 2001.

On behalf of the Directors

A handwritten signature in black ink, appearing to read 'C G Smith', is written over a faint, illegible background.

C G Smith
Director

Brisbane
14 March 2008

PricewaterhouseCoopers
ABN 52 780 433 757

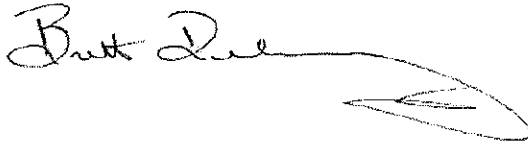
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Auditor's Independence Declaration

As lead auditor for the review of Eastern Corporation Limited for the half year ended 31 December 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 review; and
- b) no contraventions of any applicable code of professional conduct in relation to the review.

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



Brett S Delaney
Partner
PricewaterhouseCoopers

Brisbane
14 March 2008

Consolidated income statements

For the half-year ended 31 December 2007

	Note	Half-year	
		2007 \$	2006 \$
Revenue from continuing operations		2,780,500	2,197,647
Other income		-	-
Changes in inventories of finished goods and work in progress		173,521	57,828
Raw materials and consumables used		(330,308)	(115,362)
Employee benefits expense		(1,380,889)	(1,116,039)
Exploration and evaluation expense		(1,327,243)	(171,298)
Consulting fees		(320,712)	(429,698)
Licenses, permits and levies		(89,049)	(83,565)
Mining contractors		(728,124)	(144,525)
Repairs, maintenance and restoration		(171,292)	(211,622)
Freight and haulage costs		(219,935)	(164,338)
Equipment hire		(199,324)	(7,696)
Depreciation and amortisation expense		(479,277)	(383,128)
Other operating expenses		(32,095)	(27,317)
Finance costs		(228,832)	(71,222)
Accounting and auditing		(183,580)	(71,682)
Travel and accommodation		(152,506)	(106,031)
Telecommunications and IT		(59,217)	(71,359)
Corporate and investor relations expense		(63,227)	(57,542)
Insurance		(56,604)	(32,928)
Directors' fees		(55,416)	(100,846)
Net foreign exchange gains/(losses)		2,252	(35,260)
Other administration expense		(206,488)	(169,157)
(Loss)/profit before income tax		(3,327,845)	(1,315,140)
Income tax (expense)/benefit		264,861	182,589
(Loss)/profit for the year		(3,062,984)	(1,132,551)
Loss attributable to minority interest		725,568	-
(Loss)/profit attributable to members of Eastern Corporation Limited		(2,337,416)	(1,132,551)
Earnings per share for the (loss)/profit attributable to the ordinary equity holders of the company	3		
Basic (cents per share)		(3.26)	(1.57)
Diluted (cents per share)		(3.26)	(1.57)

Notes to the financial statements are included on pages 10 to 12.

Consolidated balance sheets

As at 31 December 2007

	Note	31 December 2007 \$	30 June 2007 \$
ASSETS			
Current assets			
Cash and cash equivalents		792,460	1,153,481
Trade and other receivables		1,210,200	860,028
Current tax asset		93,680	96,475
Inventories		1,386,903	1,219,534
		<u>3,483,243</u>	<u>3,329,518</u>
Non-current assets classified as held for sale	4	722,576	720,924
Total current assets		<u>4,205,819</u>	<u>4,050,442</u>
Non-current assets			
Receivables		263,843	306,810
Exploration and evaluation expenditure		104,379	41,234
Property, plant and equipment		5,411,698	5,728,703
Deferred tax assets		717,723	500,115
Intangible assets		4,003,838	4,347,804
		<u>10,501,481</u>	<u>10,924,666</u>
Total non-current assets		<u>10,501,481</u>	<u>10,924,666</u>
Total assets		<u>14,707,300</u>	<u>14,975,108</u>
LIABILITIES			
Current liabilities			
Trade and other payables		1,333,394	1,845,851
Borrowings	5	3,557,342	581,996
		<u>4,890,736</u>	<u>2,427,847</u>
Total current liabilities		<u>4,890,736</u>	<u>2,427,847</u>
Non-current liabilities			
Borrowings		754,708	868,276
Deferred tax liabilities		225,390	312,335
Provisions		206,207	212,068
		<u>1,186,305</u>	<u>1,392,679</u>
Total non-current liabilities		<u>1,186,305</u>	<u>1,392,679</u>
Total liabilities		<u>6,077,041</u>	<u>3,820,526</u>
Net assets		<u>8,630,259</u>	<u>11,154,582</u>
EQUITY			
Contributed equity		40,181,997	40,181,997
Reserves		15,040	201,947
Accumulated losses		(31,566,778)	(29,229,362)
		<u>8,630,259</u>	<u>11,154,582</u>
Parent entity interest		8,630,259	11,154,582
Minority interest		-	-
Total equity		<u>8,630,259</u>	<u>11,154,582</u>

Notes to the financial statements are included on pages 10 to 12.

Consolidated statements of changes in equity

For the half-year ended 31 December 2007

	Half-year	
	2007 \$	2006 \$
Total equity at the beginning of the half-year	11,154,582	13,448,996
Exchange differences on translation of foreign operations	(186,907)	596,467
Net income recognised directly in equity	(186,907)	596,467
(Loss)/profit for the half-year	(3,062,984)	(1,132,551)
Total recognised income and expense for the year	(3,249,891)	(536,084)
Transactions with equity holders in their capacity as equity holders:		
Contributions of equity, net of transaction costs and deferred tax		
Minority interest	725,568	-
Total equity at the end of the half-year	8,630,259	12,912,912
Total recognised income and expense for the half-year is attributable to:		
Members of Eastern Corporation Limited	(3,249,881)	(536,084)
Minority interests	-	-
	(3,249,881)	(536,084)

Notes to the financial statements are included on pages 10 to 12.

Consolidated cash flow statements

For the half-year ended 31 December 2007

	Note	Half-year	
		2007	2006
		\$	\$
Cash flows from operating activities			
Receipts from customers		2,767,127	1,967,239
Payments to suppliers and employees		(6,494,824)	(3,228,078)
Interest received		80,154	146,283
Interest and other costs of finance paid		(228,832)	(72,269)
Tax paid		-	(163,410)
Net cash used in operating activities		(3,876,375)	(1,350,235)
Cash flows from investing activities			
Payments in connection with the acquisitions of businesses	7	-	(4,143,151)
Payments for property, plant and equipment		(152,839)	(132,549)
Proceeds from sale of property, plant and equipment		4,648	215,284
Payments for exploration expenditure		(64,797)	(157,737)
Payments for bonds & deposits		1,534	(90,351)
Net cash (used in)/provided by investing activities		(211,454)	(4,308,504)
Cash flows from financing activities			
Proceeds from minority shareholders on issue of equity securities		725,568	-
Proceeds from borrowing		2,642,241	-
Repayment of borrowings		(159,141)	(149,396)
Net cash (used in)/provided by financing activities		3,208,668	(149,396)
Net (decrease)/increase in cash and cash equivalents		(857,602)	(5,808,135)
Cash and cash equivalents at the beginning of the half-year		1,145,561	8,774,910
Effects of exchange rate changes on cash and cash equivalents		98,029	81,179
Cash and cash equivalents at the end of the half-year		364,429	3,047,954

Notes to the financial statements are included on pages 10 to 12.

Notes to the financial statements

1. Going concern

The company has experienced net losses of \$2,337,416 and net cash outflows from operating activities of \$3,876,375 during the period ended 31 December 2007. At that date the company had net current liabilities of \$684,917. The continuing viability of the Company and its ability to continue to operate as a going concern and meet its debts and commitments as they fall due are dependent on

- i) its ability to raise additional funds from existing shareholders by way of rights issues or from other external sources for its exploration programs;
- ii) the successful servicing of existing and potential supply contracts for its coal mining activities; and
- iii) achieving sufficient future cash flows to enable its obligations to be met, including the successful disposal of its majority interest in Broughton Coal Mining Pty Ltd.

Should the Company not be successful in achieving the matters identified above, there is uncertainty as to whether the Company will be able to continue as a going concern and it may be required to realise its assets and extinguish its liabilities other than in the normal course of business and at amounts that may be different to those stated in the financial report. However, the directors believe that the Company will be successful in the above matters and, accordingly have prepared the financial report on a going concern basis. At this time, the directors are of the opinion that no asset is likely to be realised for an amount less than the amount at which it is recorded in the financial report at 31 December 2007. Accordingly, no adjustments have been made to the financial report relating to the recoverability and classification of the asset carrying amounts or the amounts and classification of liabilities that might be necessary should the Company not continue as a going concern.

2. Basis of preparation

The half-year financial report is a general purpose financial report prepared in accordance with the Corporations Act 2001 and AASB 134 'Interim Financial Reporting'.

The half-year financial report does not include all the notes of the type normally included in an annual financial report and should be read in conjunction with the annual financial report for the year ended 30 June 2007 and any public announcements made by Eastern Corporation Limited during the interim reporting period in accordance with the continuous disclosure requirements of the Corporations Act 2001.

The accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period.

3. Earnings per Share

The parent company completed a 10 for 1 share consolidation in December 2007. Accordingly earnings per share have been calculated based on the new number of shares issued, 71,785,401. The comparative figure for 30 June 2007 has been re-stated based on the new number.

4. Non-current asset classified as held for sale

The group's majority interest in Broughton Coal Mining Pty Ltd is classified as held for sale as it is being actively marketed. Please refer to the Directors' Report for further information.

5. Borrowings

The group's New Zealand bankers have made available a term loan facility of NZD3,000,000 (AUD2,642,241). Under the terms of the loan agreement, repayments of principal are not required until January 2009. Usually a facility of this type would be classified as a Non Current Liability. However the directors have classified the facility as a Current Liability in the financial report, because the company is technically in breach of a covenant requiring its shareholders' funds in New Zealand to be kept in excess of 40% of its net tangible assets in New Zealand. At 31 December 2007 the ratio was 37%. The directors believe the relationship with the NZ bankers remains strong and do not expect the bank to take any action as a result of the breach, but have classified the loan as a current liability in the financial report because under the terms of the loan agreement the bank does have the right to demand repayment.

Notes to the financial statements

6. Segment information

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

(i) *Operating coal mines*

Operation of coal mines on New Zealand's south island.

(ii) *Exploration and evaluation*

Exploration and evaluation of coal and coal seam methane deposits.

Half-year 2007	Coal mine operations \$	Exploration and evaluation \$	Inter- segment eliminations/ unallocated \$	Consolidated \$
Revenue from sales to external customers	2,700,046	-	-	2,700,046
Other revenue	30,215	35,837	14,402	80,454
Total segment revenue	<u>2,730,261</u>	<u>35,837</u>	<u>14,402</u>	<u>2,780,500</u>
Segment result – losses before income tax	<u>(1,041,077)</u>	<u>(1,850,203)</u>	<u>(436,565)</u>	<u>(3,327,845)</u>
Income tax benefit				264,861
(Loss) for the period				<u>(3,062,984)</u>

Half-year 2006	Coal mine operations \$	Exploration and evaluation \$	Inter- segment eliminations/ unallocated \$	Consolidated \$
Revenue from sales to external customers	2,054,184	-	-	2,054,184
Other revenue	6,767	83,319	53,377	143,463
Total segment revenue	<u>2,060,951</u>	<u>83,319</u>	<u>53,377</u>	<u>2,197,647</u>
Segment result – losses before income tax	<u>(287,205)</u>	<u>(894,933)</u>	<u>(133,002)</u>	<u>(1,315,140)</u>
Income tax benefit				182,589
(Loss) for the period				<u>(1,132,551)</u>

7. Business combinations

(a) Acquisition of Straith Coal Mines

In the previous half-year, on 8 September 2006 Eastern Corporation Limited completed the acquisition of all the business assets of the Straith Coal Mines, for a total purchase price of A\$2.2m (NZ\$2.5m).

Details of net assets acquired and goodwill are as follows:

	\$
Purchase consideration	
Cash paid	1,713,519
Direct costs relating to the acquisition	441,032
Total purchase consideration	<u>2,154,551</u>
Fair value of net identifiable assets acquired (refer below)	<u>(2,154,551)</u>
Goodwill	-

The assets and liabilities arising from the acquisition are as follows:

	Fair value \$
Inventory	4,263
Property, plant and equipment	800,786
Mining licences, permits and consents	1,514,445
Provision for rehabilitation	<u>(164,943)</u>
Net identifiable assets acquired	<u>2,154,551</u>

The vendors of the Straith Coal Mines (now renamed as Takitimu coal mines) had operated these mines at insignificant production levels over the some years prior to their sale. The mines are therefore still in a start up phase and so the revenue of \$554,152 (2006 half-year: \$2,244) and net loss of \$552,644 (2006 half-year: \$173,997) contributed during the half-year to 31 December 2007 are not reflective of the expected future operations. It is the Group's intention to significantly increase output and sales of coal.

Notes to the financial statements

7. Business combinations (continued)

(b) Acquisition of Somervilles Fuel Centre

Also in the previous half-year, on 13 September 2006 Eastern Corporation Limited acquired all the business assets of the Somervilles Fuel Centre, for a cash consideration of A\$2.1m (NZ\$2.4m).

Details of net assets acquired and goodwill are as follows:

	\$
Purchase consideration	
Cash paid	2,054,213
Direct costs relating to the acquisition	13,655
Total purchase consideration	<u>2,067,869</u>
Fair value of net identifiable assets acquired (refer below)	<u>(1,499,560)</u>
Goodwill	<u>568,309</u>

The assets and liabilities arising from the acquisition are as follows:

	Fair value \$
Inventory	21,166
Property, plant and equipment	1,479,361
Annual leave provision	<u>(967)</u>
Net identifiable assets acquired	<u>1,499,560</u>

The Somervilles Fuel Centre (now renamed Eastern Coal Supplies) is integral to the group strategy to supply coal to the Canterbury domestic market and to major industrial users by blending products from its mining operations. This ability to blend and stockpile coal from the Group's two coal mines and target coal markets that would not otherwise be available is the synergy represented by the goodwill of \$568,309.

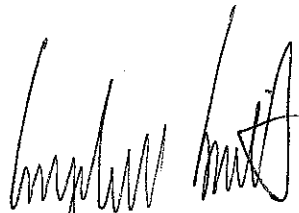
This business unit will grow as its market share increases and contribute to the expected increase in future operations of the Takitimu mines. The revenue of \$710,688 (2006 half-year: \$27,050) and net profit of \$42,924 (2006 half-year: net loss of \$34,027) contributed in the half-year to 31 December 2007 are not reflective of the expected future operations.

Directors declaration

In the directors' opinion:

- (a) the financial statements and notes set out on pages 6 to 12 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 consolidated entity's financial position as at 31 December 2007 and of its performance, as represented by the results of its operations, changes in equity and its cash flows, for the half-year ended on that date; and
- (b) there are reasonable grounds to believe that the consolidated entity will be able to pay its debts as and when they become due and payable.

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



C G Smith
Director

Brisbane
14 March 2008

**INDEPENDENT AUDITOR'S REVIEW REPORT
to the members of Eastern Corporation Limited**

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Eastern Corporation Limited, which comprises the balance sheet as at 31 December 2007, and the income statement, statement of changes in equity and cash flow statement for the half-year ended on that date, other selected explanatory notes and the directors' declaration for the Eastern Corporation Limited Group (the consolidated entity). The consolidated entity comprises both Eastern Corporation Limited (the company) and the entities it controlled during that half-year.

Directors' Responsibility for the Half-Year Financial Report

The directors of the company are responsible for the preparation and fair presentation of the half-year 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 half-year 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.

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of an Interim Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 31 December 2007 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Eastern Corporation Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. It also includes reading the other information included with the financial report to determine whether it contains any material inconsistencies with the financial report. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

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

While we considered the effectiveness of management's internal controls over financial reporting when determining the nature and extent of our procedures, our review was not designed to provide assurance on internal controls.

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

Independence

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

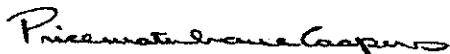
Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Eastern Corporation Limited is not in accordance with the *Corporations Act 2001* including:

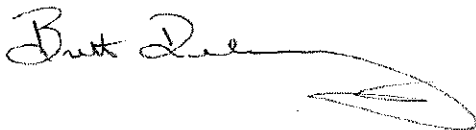
- (a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2007 and of its performance for the half-year ended on that date; and
- (b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and *Corporations Regulations 2001*.

Significant Uncertainty Regarding Continuation as a Going Concern

Without qualifying our opinion, we draw attention to Notes 1 and 5 in the financial statements that indicate that the company incurred a net loss of \$2,337,416 and net cash outflows from operating activities of \$3,876,375 during the period ended 31 December 2007, and had net liabilities at that date of \$684,917. These conditions, along with other matters as set forth in Note 1 and 5, indicate the existence of a significant uncertainty which casts significant doubt about the company's ability to continue as a going concern and, therefore, whether it will realise its assets and extinguish its liabilities in the normal course of business and at the amounts stated in the financial report.



PricewaterhouseCoopers



Brett Delaney
Partner

Brisbane
14 March 2008