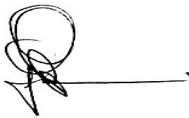


15 March 2006

The Manager  
Australian Stock Exchange Limited

### **\$3.8 MILLION NET PROFIT FOR THE HALF YEAR TO 31 DECEMBER 2005**

We enclose the half yearly accounts for the Eastern Corporation group of companies for the six months ending 31 December 2005. A key feature of the accounts is a net profit before tax result (for the consolidated group) of \$3.8million, which is a significant achievement for the company.



Paul Williams  
Chief Executive Officer

For further information please contact:

Miss Sam Aarons  
Manager-Business Development & Corporate Relations  
Tel: 07 3832 0855 Mob: 0418 906 621  
Email: [saarons@easterncorp.com.au](mailto:saarons@easterncorp.com.au)



# **Eastern Corporation Limited**

ACN 064 957 419

Financial report for the half-year ended 31 December 2005

# Financial report for the half-year ended 31 December 2005

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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 2005.

## 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):

GG Smith  
PR Williams  
JS McIntyre

## Review of operations

### *Broughton*

The Broughton Coal Joint Venture 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%, with Mitsui having the right to acquire a further 20% interest in the Joint Venture for a further \$11 million dollars.

The Broughton Coal Joint Venture holds EPC818 which is an 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. The latter part of 2005 was directed towards the conduct of Feasibility Study work - Stage 1 of which is to be concluded in early 2006.

In early December 2005, the Broughton Coal Joint Venture issued a revised resource estimate of the coal resources at Broughton. A total combined Measured, Indicated and Inferred Coal Resource of 30 million tonnes contained in two coal seams (Elphinstone and Hynds) was identified. A summary of the resource estimate prepared by Queensland Geological Services Pty Ltd is as follows:

#### Summary of Coal Resources

| Seam         | Measured (Mt) | Indicated (Mt) | Inferred (Mt) |
|--------------|---------------|----------------|---------------|
| Elphinstone  | 6.6m          | 1.8m           | 1.4m          |
| Hynds        | 9.9m          | 6.7m           | 3.6           |
| <b>Total</b> | <b>16.5m</b>  | <b>8.5m</b>    | <b>5.0m</b>   |

Stage 1 of the Broughton Feasibility is near completion and the main elements of that study stage are to:

- establish a broad economic model based on a costed mine plan;
- provide recommended optimal strategies for coal processing and export;
- identify product coal specifications to determine preliminary project revenue estimate.

A key element of the Broughton Feasibility study work is to consider the options for coal processing and export. These include:

- selling run of mine coal;
- arranging for run of mine coal to be toll washed at the nearby operations’ coal preparation facilities;
- the joint venture preparing and exporting the coal themselves; or
- a combination of the above.

# Directors' report

## *Cascade Coal Pty Ltd ("Cascade")*

On 30 June 2005, Eastern's wholly-owned subsidiary Cascade Coal Pty Ltd acquired all the assets, plant, equipment, statutory permits and authorities of the Cascade Coal Mine for NZ \$3.5 million. This mining operation is situated in the historical Buller Coalfields region approximately 25 kilometres North-East of the township of Westport on the West Coast of New Zealand's South Island.

The coal produced at Cascade is a low ash, low sulphur coal, with a high specific energy. Annual targeted coal production is in the order of 100,000 tonnes per annum – up from approximately 40,000 tonnes per annum under previous ownership.

Since the acquisition of Cascade, a primary focus of Eastern management has been to:

- implement and modify the existing mine operations and the administration of systems;
- seek to optimise coal production levels;
- develop and refine existing geological models and mine plans;
- maintain close links with all stakeholders involved not only in the region but in the New Zealand coal industry generally;
- explore future coal export customers, and expand the existing industrial customer base in New Zealand;
- participate in the emerging process of improving the New Zealand shipping logistics system, especially from the South Island West Coast region.

## *Whareatea West, New Zealand*

Whareatea West is an Exploration Permit EP40-591 held by a wholly-owned subsidiary of Eastern, Rochfort Coal Mining Pty Ltd. The Exploration Permit covers an area of 820 hectares, situated on the West Coast of New Zealand's South Island, approximately 5 kilometres North-West of the existing Cascade mining operations.

Approval is being sought from the New Zealand Department of Conservation for access to identified target areas to enable an exploration drill-hole programme to be carried out. The drilling programme is scheduled to commence in the second quarter of 2006 and will take 30-45 days to complete.

Eastern is also working up a detailed geological model for the Whareatea West permit based on information obtained from an earlier exploration programme carried out in the area during the 1980's and 1990's, as well as the exploration programme conducted by Eastern in the middle of last year. Initial indications are that the permit contains export quality hard coking coal and the aim of this current programme is to assist in proving up a resource in the order of 20 million tonnes. It is expected that the coal quality analysis and geological reporting from the current exploration programme will be completed later this year.

## *Galilee Energy Limited ("Galilee")*

Eastern holds a shareholding interest of approximately 60% in Galilee, which is the holder of Authorities to Prospect, 529P and 799P, located near Longreach in Central Queensland. These permit interests are prospective for coal seam methane and conventional hydrocarbons.

In consultation with an experienced US-based CSM expert Galilee management has formulated an exploration drilling programme comprising the drilling and coring of two further exploratory CSM wells. Subject to drill availability this programme is scheduled to commence this year and its primary objective will be to confirm the results of earlier programmes and studies of the Galilee area in terms of gas contents, adsorption isotherms and in-situ permeabilities of the significant coal seams. The technical analysis to follow from the exploration drilling will involve:

- Running a full suite of electric logs throughout the well bore including temperature, neutron density, resistivity and sonic;
- Undertaking gas desorption tests and adsorption isotherms on the cores from the significant coal seams;
- Carry out in-situ permeability tests such as injection fall off tests on the coal measures and the adjacent sandstones;

# Directors' report

- Performing an area-specific hydrologic study of the two drill site areas to determine location, source and size of local aquifers that may be of importance in determining coal seam methane productivity.

It is estimated that the technical review and analysis arising from the exploration programme will conclude later this year.

## ***Dorben***

Dorben Pty Ltd (a wholly-owned Eastern subsidiary) holds EPC861 which is situated in and around the Dingo Project held by the recently ASX floated Cockatoo Coal Limited in the Southern region of Queensland's Bowen Basin.

The Dorben permit area could be prospective for low volatile Pulverised Coal Injection (PCI) coal, but significant further work is required to be undertaken. Only preliminary desk-top studies have been conducted to the present time.

## **Board / Senior Management Changes**

*Mr Mike O'Brien* joined Eastern as Group Operations Manager effective 21 November 2005. Prior to joining Eastern, Mr O'Brien was the General Manager of the Dawson Valley / Moura Mine operated in Joint Venture between Anglo Coal and Mitsui. Mr O'Brien is a qualified Mining Engineer and has had over 35 years experience in the Mining Industry.

*Mr Craig Smith* joined Eastern as Chief Financial Officer in July 2005. Mr Smith worked for 5 ½ years as Group Financial Controller/ Commercial Manager of the mining contracting firm, Roche Mining, a member of the Downer EDI Ltd group.

*Mr Kevin Poynter* joined Eastern as a New Zealand-based consultant. Based on the west coast of New Zealand's South Island, Mr Poynter has spent most of his working life in coal mining activities, becoming Mine Manager at Solid Energy's 2 million tonne per annum Stockton coal mine, prior to being appointed South Island Planning Manager for Solid Energy.

## **Subsequent Events**

On 28 February 2006, a placement of 70 million ordinary shares was made to clients of AMP Capital Investors, raising a total of \$4.2 million to be utilised in ongoing project acquisitions and working capital.

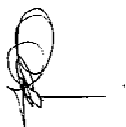
In keeping with Eastern's overall corporate strategy, the board is currently working on expanding the Company's asset base across various parts of the energy sector and in particular, coal projects, with a view to generating strong cash flows from operations in the next 2 – 3 years.

## **Auditor's independence declaration**

The auditor's independence declaration is included on page 4 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



PR Williams  
Director

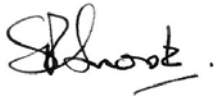
Brisbane  
14 March 2006

## Auditor's Independence Declaration

As lead auditor for the review of Eastern Corporation Limited for the half year ended 31 December 2005, 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.



Stephen R Snook  
Partner  
PricewaterhouseCoopers

Brisbane  
14 March 2006

# Consolidated income statement

## For the half-year ended 31 December 2005

|   | Note | Half-year  |             |
|---|------|------------|-------------|
|   |      | 2005<br>\$ | 2004<br>\$  |
| <b>Revenue from continuing operations</b>                                       | 3    | 2,527,237  | 30,833      |
| Other income  | 2    | 4,000,000  | -           |
| Changes in inventories of finished goods and work in progress                   |      | 272,911    | -           |
| Raw materials and consumables used  |      | (158,459)  | -           |
| Employee benefits expense   |      | (854,424)  | (264,405)   |
| Depreciation and amortisation expense   |      | (385,694)  | (4,205)     |
| Administration expense  |      | (250,266)  | (117,666)   |
| Equipment hire expense  |      | (162,798)  | -           |
| Finance costs   |      | (32,974)   | (124,020)   |
| Consulting fees   |      | (319,607)  | (277,103)   |
| Directors' fee expenses   |      | (75,000)   | (102,947)   |
| Freight and haulage costs   |      | (344,752)  | -           |
| Other expenses  |      | (338,511)  | (163,388)   |
| <b>Profit/(Loss) before income tax expense</b>                                  |      | 3,877,663  | (1,022,901) |
| Income tax expense  |      | (455,281)  | -           |
| <b>Net Profit/(Loss) attributable to members of Eastern Corporation Limited</b> |      | 3,422,382  | (1,022,901) |
| <b>Earnings per share:</b>  |      |            |             |
| Basic (cents per share)   |      | 0.55       | (0.23)      |
| Diluted (cents per share)   |      | 0.48       | (0.23)      |

Notes to the financial statements are included on pages 9 to 23.

# Consolidated balance sheet

## As at 31 December 2005

|  | 31 December<br>2005 | 30 June<br>2005  |
|--|---------------------|------------------|
| Note                                   | \$                  | \$               |
| <b>ASSETS</b>                          |                     |                  |
| <b>Current assets</b>                  |                     |                  |
| Cash and cash equivalents              | 4,658,961           | 2,150,123        |
| Receivables                            | 983,757             | 15,949           |
| Inventories                            | 535,654             | 923              |
| <b>Total current assets</b>            | <b>6,178,372</b>    | <b>2,166,995</b> |
| <b>Non-current assets</b>              |                     |                  |
| Property, plant and equipment          | 6,233,492           | 4,434,850        |
| Exploration and evaluation expenditure | 485,302             | -                |
| Deferred tax assets                    | 123,002             | 117,716          |
| Other                                  | 199,524             | 163,654          |
| <b>Total non-current assets</b>        | <b>7,041,320</b>    | <b>4,716,220</b> |
| <b>Total assets</b>                    | <b>13,219,692</b>   | <b>6,883,215</b> |
| <b>LIABILITIES</b>                     |                     |                  |
| <b>Current liabilities</b>             |                     |                  |
| Payables                               | 735,865             | 487,249          |
| Interest bearing liabilities           | 373,253             | 8,922            |
| Current tax liabilities                | 356,914             | -                |
| Provisions                             | 47,328              | 32,641           |
| <b>Total current liabilities</b>       | <b>1,513,360</b>    | <b>528,812</b>   |
| <b>Non-current liabilities</b>         |                     |                  |
| Interest bearing liabilities           | 1,463,309           | 11,598           |
| Deferred tax liabilities               | 162,124             | 56,045           |
| Provisions                             | 36,006              | -                |
| <b>Total non-current liabilities</b>   | <b>1,661,439</b>    | <b>67,643</b>    |
| <b>Total liabilities</b>               | <b>3,174,799</b>    | <b>596,455</b>   |
| <b>Net assets</b>                      | <b>10,044,893</b>   | <b>6,286,760</b> |
| <b>EQUITY</b>                          |                     |                  |
| Contributed equity                     | 33,260,837          | 34,562,959       |
| Reserves                               | 1,409,880           | 1,751            |
| Accumulated losses                     | (24,625,824)        | (28,277,950)     |
| Parent entity interest                 | 10,044,893          | 6,286,760        |
| Minority interest                      | -                   | -                |
| <b>Total equity</b>                    | <b>10,044,893</b>   | <b>6,286,760</b> |

Notes to the financial statements are included on pages 9 to 23.

# Consolidated statement of changes in equity

## For the half-year ended 31 December 2005

|   | Note | Half-year  |             |
|---|------|------------|-------------|
|   |      | 2005<br>\$ | 2004<br>\$  |
| <b>Total equity at the beginning of the half-year</b>                     |      | 6,286,760  | 9,500,333   |
|   |      |            | -           |
| Exchange differences on translation of foreign operations                 |      | 90,007     | -           |
| <b>Net income recognised directly in equity</b>                           |      | 90,007     | -           |
| <b>Profit/(loss) for the half-year</b>                                    |      | 3,422,382  | (1,022,901) |
| <b>Total recognised income and expense for the year</b>                   |      | 3,512,389  | (1,022,901) |
| Transactions with equity holders in their capacity as equity holders:     |      |            |             |
| Employee share scheme issues  |      | 16,000     | 14,225      |
| Contributions of equity, net of transaction costs                         | 4    | 229,744    | 4,580,217   |
|   |      | 245,744    | 4,594,442   |
| <b>Total equity at the end of the half-year</b>                           |      | 10,044,893 | 13,071,874  |
| Total recognised income and expense for the half-year is attributable to: |      |            |             |
| Members of Eastern Corporation Limited                                    |      | 3,512,389  | (779,759)   |
| Minority interests  | 4    | -          | (243,142)   |
|   |      | 3,512,389  | (1,022,901) |

Notes to the financial statements are included on pages 9 to 23.

# Consolidated cash flow statement

## For the half-year ended 31 December 2005

|  | Note | Half-year   |             |
|--|------|-------------|-------------|
|  |      | 2005<br>\$  | 2004<br>\$  |
| <b>Cash flows from operating activities</b>                        |      |             |             |
| Receipts from customers  | 4    | 1,596,005   | -           |
| Payments to suppliers and employees                                |      | (2,487,716) | (1,670,229) |
| Interest and other costs of finance paid                           |      | (32,975)    | -           |
| Interest received  |      | 94,233      | 30,833      |
| Net cash provided by/(used in) operating activities                |      | (830,453)   | (1,639,396) |
| <b>Cash flows from investing activities</b>                        |      |             |             |
| Proceeds on sale of interest in exploration permit                 | 2    | 4,000,000   | -           |
| Payment for property, plant and equipment                          |      | (326,288)   | (24,514)    |
| Payments for investments   |      | -           | 4,708       |
| Payments for exploration expenditure                               |      | (485,302)   | (717,312)   |
| Receipts/Payments for bonds & deposits                             |      | (35,870)    | 132,760     |
| Net cash provided by/(used in) by investing activities             |      | 3,152,540   | (604,358)   |
| <b>Cash flows from financing activities</b>                        |      |             |             |
| Proceeds from issues of equity securities                          |      | -           | 2,375,700   |
| Proceeds from minority shareholders on issue of equity securities  | 4    | 229,744     | -           |
| Repayment of borrowings  |      | (42,993)    | (2,769)     |
| Net cash provided by/(used in) financing activities                |      | 186,751     | 2,372,931   |
| <b>Net increase in cash and cash equivalents</b>                   |      | 2,508,838   | 129,177     |
| <b>Cash and cash equivalents at the beginning of the half-year</b> |      | 2,150,123   | 2,276,802   |
| <b>Cash and cash equivalents at the end of the half-year</b>       |      | 4,658,961   | 2,405,979   |

Notes to the financial statements are included on pages 9 to 23.

# Notes to the financial statements

## For the half-year ended 31 December 2005

### 1 Summary of accounting policies

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 notes of the type normally included in an annual financial report and shall be read in conjunction with the annual financial report for the year ended 30 June 2005 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.

#### (a) Basis of preparation

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 periods presented, unless otherwise stated.

#### *Application of AASB 1 First-time Adoption of Australian Equivalents to International Financial Reporting Standards*

This interim financial report is the first Eastern Corporation Limited interim financial report to be prepared in accordance with Australian equivalents to International Financial Reporting Standards ("AIFRS"). AASB 1 First-time Adoption of Australian Equivalents to International Financial Reporting Standards has been applied in preparing these financial statements.

Financial statements of Eastern Corporation Limited until 30 June 2005 had been prepared in accordance with previous Australian Generally Accepted Accounting Principles (AGAAP). AGAAP differs in certain respects from AIFRS. When preparing the Eastern Corporation Limited interim financial report for the half year ended 31 December 2005, management has amended certain accounting valuations and consolidation methods applied in the previous AGAAP financial statements to comply with AIFRS. With the exception of financial instruments, the comparative figures were restated to reflect these adjustments. The Group has taken the exemption available under AASB 1 to apply AASB 132 Financial Instruments: Disclosure and Presentation and AASB 139 Financial Instruments: Recognition and Measurement from 1 July 2005.

Reconciliations and descriptions of the effect of transition from previous AGAAP to AIFRSs on the Group's equity and its net income are given in note 5.

#### *Historical cost convention*

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

#### (b) Borrowings

Borrowings are recorded initially at fair value, net of transaction costs.

Subsequent to initial recognition, borrowings are measured at amortised cost with any difference between the initial recognised amount and the redemption value being recognised in profit or loss over the period of the borrowing using the effective interest rate method.

#### (c) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, cash in banks and investments in money market instruments, net of outstanding bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities in the balance sheet.

#### (d) Employee benefits

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

Provision is made for benefits accruing to employees in respect of wages and salaries and annual leave when it is probable that settlement will be required and they are capable of being measured reliably.

Provisions made in respect of employee benefits expected to be settled within 12 months, are measured at their nominal values using the remuneration rate expected to apply at the time of settlement.

# Notes to the financial statements

## For the half-year ended 31 December 2005

### 1 Summary of accounting policies continued

Provisions made in respect of employee benefits which are not expected to be settled within 12 months are measured as the present value of the estimated future cash outflows to be made by the consolidated entity in respect of services provided by employees up to the reporting date.

#### *(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. Funds provided to the trust to enable the latter to purchase Company shares on the open market are recognised as investments within financial assets. As a controlled entity the trust is included in the consolidated financial statements as set out in note (o). The fair value cost to the Company of issuing these shares to the employee is expensed when awarded.

#### **(e) 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 those with maturities of greater than 12 months after the balance date which are classified as non-current assets. Loans and receivables are included in receivables in the balance sheet.

Loans and receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest rate method less provision for impairment losses.

The Group assesses at each balance date whether there is objective evidence that loans and receivables or groups of loans and receivables are impaired. If any such evidence exists the amount of the loss is measured as the difference between the assets carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the original effective interest rate. The amount of the loss is recognised in profit or loss. If in a subsequent period the amount of an impairment loss decreases and the decrease can be related objectively to an event that occurred after the impairment was recognised the previously recognised impairment is reversed. The carrying amount of the asset after reversal cannot exceed what would have been the amortised cost as at the date of reversal, had an impairment not been recognised. The amount of the reversal is recognised in profit or loss.

#### **(f) Financial instruments issued by the Company**

##### *(i) Transaction costs on the issue of equity instruments*

Transaction costs arising on the issue of equity instruments are recognised directly in equity as a reduction of the proceeds of the equity instruments to which the costs relate. Transaction costs are the costs that are incurred directly in connection with the issue of those equity instruments and which would not have been incurred had those instruments not been issued.

##### *(ii) Interest and dividends*

Interest and dividends are classified as expenses or as distributions of profit consistent with the balance sheet classification of the related debt or equity instruments or component parts of compound instruments.

#### **(g) Foreign currency translation**

##### *(i) Foreign currency transactions*

All foreign currency transactions during the financial year are brought to account using the exchange rate in effect at the date of the transaction. Foreign currency monetary items at the reporting date are translated at the exchange rate existing at reporting date. Non-monetary assets and liabilities carried at fair value that are

# Notes to the financial statements

## For the half-year ended 31 December 2005

### 1 Summary of accounting policies continued

denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined.

Exchange differences are recognised in profit or loss in the period in which they arise except that exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned or likely to occur, which form part of the net investment in a foreign operation, are recognised in the foreign currency translation reserve and recognised in profit or loss on disposal of the net investment.

#### *(ii) Foreign operations*

On consolidation, the assets and liabilities of the consolidated entity's overseas operations are translated at exchange rates prevailing at the reporting date. Income and expense items are translated at the average exchange rates for the period unless exchange rates fluctuate significantly. Exchange differences arising, if any, are recognised in the foreign currency translation reserve, and recognised in profit or loss on disposal of the foreign operation.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity on or after the date of transition to AIFRS are treated as assets and liabilities of the foreign entity and translated at exchange rates prevailing at the reporting date.

#### *(iii) 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"). The consolidated financial statements are presented in Australian dollars, which is Eastern Corporation Limited's functional and presentational currency.

#### **(h) Goods and services tax**

Revenues, expenses and assets are recognised net of the amount of goods and services tax (GST), except:

- where the amount of GST incurred is not recoverable from the taxation authority, it is recognised as part of the cost of acquisition of an asset or as part of an item of expense; or
- for receivables and payables which are recognised inclusive of GST.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables. Cash flows are included in the cash flow statement on a gross basis. The GST component of cash flows arising from investing and financing activities which is recoverable from, or payable to, the taxation authority is classified as operating cash flows.

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

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. If any such change in circumstances exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the consolidated entity estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised in profit or loss immediately.

# Notes to the financial statements

## For the half-year ended 31 December 2005

### 1 Summary of accounting policies continued

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but only to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised in profit or loss immediately.

#### (j) Income tax

##### (i) Current tax

Current tax is calculated by reference to the amount of income taxes payable or recoverable in respect of the taxable profit or tax loss for the period. It is calculated using tax rates and tax laws in each jurisdiction that have been enacted or substantively enacted by the reporting date. Current tax for current and prior periods is recognised as a liability (or asset) to the extent that it is unpaid (or refundable).

##### (ii) Deferred tax

Deferred tax is accounted for using the balance sheet method in respect of temporary differences arising from differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax base of those items.

In principle, deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised to the extent that it is probable that sufficient taxable amounts will be available against which deductible temporary differences or unused tax losses and tax offsets can be utilised. However, deferred tax assets and liabilities are not recognised if the temporary differences giving rise to them arise from the initial recognition of assets and liabilities (other than as a result of a business combination) which affect neither taxable income nor accounting profit. Furthermore, a deferred tax liability is not recognised in relation to taxable temporary differences arising from goodwill.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, branches, associates and joint ventures except where the consolidated entity is able to control the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with these investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period(s) when the asset and liability giving rise to them are realised or settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by reporting date. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the consolidated entity expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the company/consolidated entity intends to settle its current tax assets and liabilities on a net basis.

##### (iii) Current and deferred tax for the period

Current and deferred tax is recognised as an expense or income in the income statement, except when it relates to items credited or debited directly to equity, in which case the deferred tax is also recognised directly in equity, or where it arises from the initial accounting for a business combination, in which case it is taken into account in the determination of goodwill.

##### (iv) Tax consolidation

The Company and all its wholly-owned Australian resident entities intend to form a tax-consolidated group under Australian taxation law. Eastern Corporation Limited is to be the head entity in the tax-consolidated group. The financial statements have been prepared on the basis that the tax consolidation group will be formed.

Entities expected to be within the tax-consolidated group are expected to enter into a tax funding arrangement and a tax-sharing agreement with the head entity. Under the terms of the tax funding arrangement, Eastern Corporation Limited and each of the entities in the tax-consolidated group will agree

# Notes to the financial statements

## For the half-year ended 31 December 2005

### 1 Summary of accounting policies continued

to pay a tax equivalent payment to or from the head entity, based on the current tax liability or current tax asset of the entity.

#### (k) Inventories

Inventories are valued at the lower of cost and net realisable value. Costs, including an appropriate portion of fixed and variable overhead expenses, are assigned to inventory on hand by the method most appropriate to each particular class of inventory, with the majority being valued on a weighted average cost basis. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

#### (l) Joint ventures

Interests in jointly controlled assets are reported in the financial statements by including the consolidated entity's share of assets employed in the joint ventures, the share of liabilities incurred in relation to the joint ventures and the share of any expenses incurred in relation to the joint ventures in their respective classification categories.

#### (m) Leased assets

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

##### (i) Finance leases

Assets held under finance leases are initially recognised at their fair value or, if lower, at amounts equal to the present value of the minimum lease payments, each determined at the inception of the lease. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation.

Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income.

Finance leased assets are amortised over the shorter of the lease term and the estimated useful life of the asset.

##### (ii) Operating leases

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

##### (iii) Lease incentives

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefits of incentives are recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

#### (n) Payables

Trade payables and other accounts payable are recognised when the consolidated entity becomes obliged to make future payments resulting from the purchase of goods and services. The amounts are unsecured and are usually paid within 30 days of recognition.

#### (o) Principles of consolidation

The consolidated financial statements are prepared by combining the financial statements of all the entities that comprise the consolidated entity, being the Company (the parent entity) and its subsidiaries as defined in Accounting Standard AASB 127 'Consolidated and Separate Financial Statements'. Consistent accounting policies are employed in the preparation and presentation of the consolidated financial statements.

On acquisition, the assets, liabilities and contingent liabilities of a subsidiary are measured at their fair values at

# Notes to the financial statements

## For the half-year ended 31 December 2005

### 1 Summary of accounting policies continued

the date of acquisition. Any excess of the cost of acquisition over the fair values of the identifiable net assets

acquired is recognised as goodwill or mine properties. If, after reassessment, the fair values of the identifiable net assets acquired exceeds the cost of acquisition, the deficiency is credited to the income statement in the period of acquisition.

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 subsidiaries 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.

The consolidated financial statements include the information and results of each subsidiary from the date on which the Company obtains control and until such time as the Company ceases to control such entity.

In preparing the consolidated financial statements, all intercompany balances and transactions, and unrealised profits arising within the consolidated entity are eliminated in full.

#### (p) Property, plant and equipment

Land is stated at cost and not subject to depreciation. All other property, plant and equipment is stated at historical cost less accumulated depreciation or amortisation. Cost includes expenditure that is directly attributable to the acquisition of the item. In the event that settlement of all or part of the purchase consideration is deferred, cost is determined by discounting the amounts payable in the future to their present value as at the date of acquisition.

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, refer note (i).

With the exception of certain equipment which is depreciated on a units of use basis, depreciation is calculated on a declining balance basis so as to write off the net cost or other revalued amount of each asset over its expected useful life to its estimated residual value. Leasehold improvements are depreciated over the period of the lease or estimated useful life, whichever is the shorter, using the straight line method. The estimated useful lives, residual values and depreciation method is reviewed at the end of each annual reporting period.

The following rates of depreciation are used:

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

Where items of plant and equipment have separately identifiable components, which are subject to regular replacement, those components are assigned useful lives distinct from the item of plant and equipment to which they relate.

#### (q) Provisions

Provisions are recognised when the consolidated entity has a present obligation, the future sacrifice of economic benefits is probable, and the amount of the provision can be measured reliably.

The amount recognised as a provision is the best estimate of the consideration required to settle the present

# Notes to the financial statements

## For the half-year ended 31 December 2005

### 1 Summary of accounting policies continued

obligation at reporting date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the

present value of those cash flows.

#### (r) 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, duties and taxes paid. Revenue is recognised for the major business activities as follows:

##### (i) Sale of goods

Revenue from the sale of goods is recognised when the consolidated entity has transferred to the buyer the significant risks and rewards of ownership of the goods.

##### (ii) Dividend and interest revenue

Dividend revenue is recognised on a receivable basis. Interest revenue is recognised on a time proportionate basis that takes into account the effective yield on the financial asset.

#### (s) Contributed equity

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of shares are shown in equity as a deduction, net of tax, from the proceeds. Incremental costs directly attributable to the issue of new shares for the acquisition of a business, are included in the cost of acquisition as part of the purchase consideration.

#### (t) Earnings per share

##### (i) Basic earnings per share

Basic earnings per share is determined by dividing the profit from ordinary activities after income tax and adjustments for outside equity interest by the weighted average number of shares outstanding during the financial 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.

#### (u) Trade receivables

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

Collectability of trade receivables is reviewed on an ongoing basis. Debts that are known to be uncollectible are written off. A provision for doubtful receivables is established when there is objective evidence the Group will not be able to collect all the amounts due according to the original terms of the 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 effective interest rate. The amount of the provision is recognised in the income statement.

#### (v) Acquisition of assets

The purchase method of accounting is used for all acquisitions of assets (including business combinations) regardless of whether equity instruments or other assets are acquired. Cost is measured as the fair value of the assets given up, shares issued or liabilities undertaken at the date of acquisition plus incidental costs

# Notes to the financial statements

## For the half-year ended 31 December 2005

### 1 Summary of accounting policies continued

directly attributable to the acquisition. Where equity instruments are issued in an acquisition the value of the instrument is their market price as at the acquisition date, unless the notional price at which they could be placed in the market is a better indicator of fair value. Transaction costs arising on the issue of equity instruments are recognised directly in equity.

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 the acquisition. 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.

Costs relating to the acquisition of new areas of interest are classified as either exploration and evaluation expenditure, development properties or mine properties based on the stage of development reached at the date of acquisition. Assets acquired may also include mineral reserves, mineral resources and unexplored and unevaluated acreage.

#### (w) 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 to 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.

#### (x) 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.

# Notes to the financial statements

## For the half-year ended 31 December 2005

### 2. Other income

In August 2005 the conditions precedent under the Joint Venture Agreement between Broughton Coal Mining Pty Ltd and Mitsui 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. These proceeds have been shown as other income in the consolidated income statement.

### 3. Segment information

The mining operations segment information refers to the activities of the Cascade coal mine in New Zealand, whereas the exploration and evaluation information refers to all other group activities.

#### (a) Segment revenue

|                            | External revenue |            | Inter-segment |            | Other income |            | Total      |            |
|----------------------------|------------------|------------|---------------|------------|--------------|------------|------------|------------|
|                            | 2005<br>\$       | 2004<br>\$ | 2005<br>\$    | 2004<br>\$ | 2005<br>\$   | 2004<br>\$ | 2005<br>\$ | 2004<br>\$ |
| Exploration and evaluation | 131,030          | -          | -             | -          | 4,000,000    | -          | 4,131,030  | -          |
| Mining operations          | 2,390,649        | -          | -             | -          | -            | -          | 2,390,649  | -          |
| Total of all segments      |                  |            |               |            |              |            | 6,521,679  | -          |
| Eliminations               |                  |            |               |            |              |            | -          | -          |
| Unallocated                |                  |            |               |            |              |            | 5,558      | 30,833     |
| Consolidated               |                  |            |               |            |              |            | 6,527,237  | 30,833     |

#### (b) Segment result

|   | 2005<br>\$  | 2004<br>\$  |
|---|-------------|-------------|
| Exploration and evaluation              | 4,438,373   | (512,937)   |
| Mining operations                       | 536,557     | -           |
|   | 4,974,930   | (512,937)   |
| Eliminations                            | (5,491)     | -           |
| Unallocated                             | (1,091,776) | (509,964)   |
| Profit/(Loss) before income tax expense | 3,877,663   | (1,022,901) |
| Income tax expense                      | (438,856)   | -           |
| Profit/(Loss) for the period            | 3,438,807   | (1,022,901) |

#### (c) Segment cash flows

In the consolidated cash flow statement the receipts from customers includes coal sales of \$1,566,000 for the Cascade coal mine in New Zealand, whereas the payments to suppliers represent payments to all suppliers for all group companies, including Cascade Coal Pty Ltd.

### 4. Minority interests

#### (a) Movement in minority interest

|   | 31 December<br>2005<br>\$ | 30 June<br>2005<br>\$ |
|---|---------------------------|-----------------------|
| Carrying amount at the beginning of the period        | -                         | 3,446,492             |
| Loss for the period attributable to minority interest | -                         | (3,446,492)           |
| Carrying amount at the end of the period              | -                         | -                     |

# Notes to the financial statements

## For the half-year ended 31 December 2005

### 4. Minority interests continued

#### (b) Equity Securities issued

Galilee is a controlled entity in which Eastern held a 51% interest as at 30 June 2005. In September 2005 Galilee offered 200 million shares to existing shareholders of which Eastern took up its full entitlement of 51%, being 102 million shares for a cost of \$510,000. Of the remaining 49% of shares on offer minority shareholders took up 47 million shares at a cost of \$229,744. After taking up its entitlement, Eastern now holds 61% of the issued share capital of Galilee.

### 5. Impacts of the adoption of Australian equivalents to International Financial Reporting Standards

The consolidated entity changed its accounting policies to comply with AIFRS. The transition to AIFRS is accounted for in accordance with Accounting Standard AASB 1 'First-time Adoption of Australian Equivalents to International Financial Reporting Standards'.

An explanation of how the transition from superseded policies to AIFRS has affected the consolidated entity's balance sheets, income statements and cash flows is set out in the following tables and the notes that accompany the tables.

#### (a) Effect of AIFRS on the consolidated balance sheet as at 1 July 2004

|  |       | 1 July 2004             |   |                   |
|--|-------|-------------------------|---|-------------------|
|  | Notes | Previous<br>AGAAP<br>\$ | Effect of<br>transition to<br>AIFRS<br>\$ | AIFRS<br>\$       |
| <b>Current assets</b>                  |       |                         |   |                   |
| Cash and cash equivalents              |       | 2,276,802               | -   | 2,276,802         |
| Trade and other receivables            |       | 89,582                  | -   | 89,582            |
| <b>Total current assets</b>            |       | <b>2,366,384</b>        | <b>-</b>                                  | <b>2,366,384</b>  |
| <b>Non-current assets</b>              |       |                         |   |                   |
| Exploration and evaluation expenditure |       | 8,594,279               | -   | 8,594,279         |
| Property, plant and equipment          |       | 822,184                 | -   | 822,184           |
| Deferred tax assets                    | f, g  | -                       | 101,355                                   | 101,355           |
| Other                                  |       | 236,500                 | -   | 236,500           |
| <b>Total non-current assets</b>        |       | <b>9,652,963</b>        | <b>101,355</b>                            | <b>9,754,318</b>  |
| <b>Total assets</b>                    |       | <b>12,019,347</b>       | <b>101,355</b>                            | <b>12,120,702</b> |
| <b>Current liabilities</b>             |       |                         |   |                   |
| Trade and other payables               |       | 949,131                 | -   | 949,131           |
| Interest bearing liabilities           |       | 1,654,002               | -   | 1,654,002         |
| <b>Total current liabilities</b>       |       | <b>2,603,133</b>        | <b>-</b>                                  | <b>2,603,133</b>  |
| <b>Non-current liabilities</b>         |       |                         |   |                   |
| Interest bearing liabilities           |       | 17,236                  | -   | 17,236            |
| <b>Total non-current liabilities</b>   |       | <b>17,236</b>           | <b>-</b>                                  | <b>17,236</b>     |
| <b>Total liabilities</b>               |       | <b>2,620,369</b>        | <b>-</b>                                  | <b>2,620,369</b>  |
| <b>Net assets</b>                      |       | <b>9,398,978</b>        | <b>101,355</b>                            | <b>9,500,333</b>  |
| <b>Equity</b>                          |       |                         |   |                   |
| Share capital                          | f, h  | 25,653,563              | 43,883                                    | 25,697,446        |
| Retained earnings                      | g, h  | (19,701,077)            | 57,472                                    | (19,643,605)      |
|  |       | 5,952,486               | 101,355                                   | 6,053,841         |
| Minority interest                      | i     | 3,446,492               | -   | 3,446,492         |
| <b>Total equity</b>                    |       | <b>9,398,978</b>        | <b>101,355</b>                            | <b>9,500,333</b>  |

# Notes to the financial statements

## For the half-year ended 31 December 2005

### 5. Impacts of the adoption of Australian equivalents to International Financial Reporting Standards continued

#### (b) Effect of AIFRS on the consolidated balance sheet as at 31 December 2004

|  |       | 31 December 2004        |   |                   |
|--|-------|-------------------------|---|-------------------|
|  | Notes | Previous<br>AGAAP<br>\$ | Effect of<br>transition to<br>AIFRS<br>\$ | AIFRS<br>\$       |
| <b>Current assets</b>                  |       |                         |   |                   |
| Cash and cash equivalents              |       | 2,405,979               | -   | 2,405,979         |
| Trade & other receivables              |       | 50,938                  | -   | 50,938            |
| <b>Total current assets</b>            |       | <b>2,456,917</b>        | <b>-</b>                                  | <b>2,456,917</b>  |
| <b>Non-current assets</b>              |       |                         |   |                   |
| Exploration and evaluation expenditure |       | 9,900,301               | -   | 9,900,301         |
| Property, plant and equipment          |       | 733,783                 | -   | 733,783           |
| Deferred tax asset                     | f, g  | -                       | 101,355                                   | 101,355           |
| Other                                  |       | 103,740                 | -   | 103,740           |
| <b>Total non-current assets</b>        |       | <b>10,737,824</b>       | <b>101,355</b>                            | <b>10,839,179</b> |
| <b>Total assets</b>                    |       | <b>13,194,741</b>       | <b>101,355</b>                            | <b>13,296,096</b> |
| <b>Current liabilities</b>             |       |                         |   |                   |
| Trade & other payables                 |       | 200,833                 | -   | 200,833           |
| Interest bearing liabilities           |       | 8,922                   | -   | 8,922             |
| <b>Total current liabilities</b>       |       | <b>209,755</b>          | <b>-</b>                                  | <b>209,755</b>    |
| <b>Non-current liabilities</b>         |       |                         |   |                   |
| Interest bearing liabilities           |       | 14,466                  | -   | 14,466            |
| <b>Total non-current liabilities</b>   |       | <b>14,466</b>           | <b>-</b>                                  | <b>14,466</b>     |
| <b>Total liabilities</b>               |       | <b>224,221</b>          | <b>-</b>                                  | <b>224,221</b>    |
| <b>Net assets</b>                      |       | <b>12,970,520</b>       | <b>-</b>                                  | <b>13,071,875</b> |
| <b>Equity</b>                          |       |                         |   |                   |
| Share capital                          | f, h  | 30,233,780              | 58,108                                    | 30,291,888        |
| Retained earnings                      | g, h  | (20,466,611)            | 43,247                                    | (20,423,364)      |
|  |       | 9,767,169               | 101,355                                   | 9,868,524         |
| Minority interest                      | i     | 3,203,351               | -   | 3,203,351         |
| <b>Total equity</b>                    |       | <b>12,970,520</b>       | <b>101,355</b>                            | <b>13,071,875</b> |

# Notes to the financial statements

## For the half-year ended 31 December 2005

### 5. Impacts of the adoption of Australian equivalents to International Financial Reporting Standards continued

#### (c) Effect of AIFRS on the consolidated balance sheet as at 30 June 2005

|                                      |       | 30 June 2005            |   |                  |
|--------------------------------------|-------|-------------------------|---|------------------|
|                                      | Notes | Previous<br>AGAAP<br>\$ | Effect of<br>transition to<br>AIFRS<br>\$ | AIFRS<br>\$      |
| <b>Current assets</b>                |       |                         |   |                  |
| Cash and cash equivalents            |       | 2,150,123               | -   | 2,150,123        |
| Trade & other receivables            |       | 15,949                  | -   | 15,949           |
| Inventories                          |       | 923                     | -   | 923              |
| <b>Total current assets</b>          |       | <b>2,166,995</b>        | <b>-</b>                                  | <b>2,166,995</b> |
| <b>Non-current assets</b>            |       |                         |   |                  |
| Property, plant and equipment        |       | 4,434,850               | -   | 4,434,850        |
| Deferred tax assets                  | f, g  | -                       | 117,716                                   | 117,716          |
| Other                                |       | 163,654                 | -   | 163,654          |
| <b>Total non-current assets</b>      |       | <b>4,598,504</b>        | <b>117,716</b>                            | <b>4,716,220</b> |
| <b>Total assets</b>                  |       | <b>6,765,499</b>        | <b>117,716</b>                            | <b>6,883,215</b> |
| <b>Current liabilities</b>           |       |                         |   |                  |
| Trade & other payables               |       | 487,249                 | -   | 487,249          |
| Interest bearing liabilities         |       | 8,922                   | -   | 8,922            |
| Provisions                           |       | 32,641                  | -   | 32,641           |
| <b>Total current liabilities</b>     |       | <b>528,812</b>          | <b>-</b>                                  | <b>528,812</b>   |
| <b>Non-current liabilities</b>       |       |                         |   |                  |
| Interest bearing liabilities         |       | 11,598                  | -   | 11,598           |
| Deferred tax liabilities             |       | -                       | 56,045                                    | 56,045           |
| <b>Total non-current liabilities</b> |       | <b>11,598</b>           | <b>56,045</b>                             | <b>67,643</b>    |
| <b>Total liabilities</b>             |       | <b>540,410</b>          | <b>56,045</b>                             | <b>596,455</b>   |
| <b>Net assets</b>                    |       | <b>6,225,089</b>        | <b>61,671</b>                             | <b>6,286,760</b> |
| <b>Equity</b>                        |       |                         |   |                  |
| Share capital                        | f, h  | 34,453,451              | 109,508                                   | 34,562,959       |
| Foreign currency translation reserve |       | 1,751                   | -   | 1,751            |
| Retained earnings                    | g, h  | (26,426,591)            | (1,851,359)                               | (28,277,950)     |
|                                      |       | 8,028,611               | (1,741,851)                               | 6,286,760        |
| Minority interest                    | i     | (1,803,522)             | 1,803,522                                 | -                |
| <b>Total equity</b>                  |       | <b>6,225,089</b>        | <b>61,671</b>                             | <b>6,286,760</b> |

# Notes to the financial statements

## For the half-year ended 31 December 2005

### 5. Impacts of the adoption of Australian equivalents to International Financial Reporting Standards continued

#### (d) Effect of AIFRS on the consolidated income statement for the half-year ended 31 December 2004

|  |      | Half-year ended<br>31 December 2004 |   |             |
|--|------|-------------------------------------|---|-------------|
|  | Note | Previous<br>AGAAP<br>\$             | Effect of<br>transition to<br>AIFRS<br>\$ | AIFRS<br>\$ |
| Revenue  |      | 30,833                              | -   | 30,833      |
| Consulting fees  |      | (277,103)                           | -   | (277,103)   |
| Administration expense                                   |      | (117,666)                           | -   | (117,666)   |
| Employee benefits expense                                |      | (250,180)                           | (14,225)                                  | (264,405)   |
| Depreciation and amortisation expense                    |      | (4,205)                             | -   | (4,205)     |
| Finance costs  |      | (124,020)                           | -   | (124,020)   |
| Directors fees   |      | (102,947)                           | -   | (102,947)   |
| Other expenses   |      | (163,388)                           | -   | (163,388)   |
| <b>Loss before income tax expense</b>                    |      | (1,008,676)                         | (14,225)                                  | (1,022,901) |
| Income tax expense                                       |      | -                                   | -   | -           |
| <b>Loss for the period</b>                               |      | (1,008,686)                         | (14,225)                                  | (1,022,901) |
| Loss attributable to minority interest                   | i    | 243,142                             | -   | 243,142     |
| <b>Loss attributable to members of the parent entity</b> |      | (765,534)                           | (14,225)                                  | (779,759)   |

#### (e) Effect of AIFRS on the consolidated income statement for the financial year ended 30 June 2005

|   |      | Financial year ended<br>30 June 2005 |   |              |
|---|------|--------------------------------------|---|--------------|
|   | Note | Previous<br>AGAAP<br>\$              | Effect of<br>transition to<br>AIFRS<br>\$ | AIFRS<br>\$  |
| Revenue   |      | 113,901                              | -   | 113,901      |
| Consulting fees   |      | (337,824)                            | -   | (337,824)    |
| Employee benefits expense                                   |      | (654,097)                            | (60,975)                                  | (715,072)    |
| Depreciation and amortisation expense                       |      | (8,243)                              | -   | (8,243)      |
| Corporate and investor relations                            |      | (184,719)                            | -   | (184,719)    |
| Capitalised exploration and evaluation expenses written off |      | (8,982,509)                          | -   | (8,982,509)  |
| Exploration costs expensed                                  |      | (1,212,590)                          | -   | (1,212,590)  |
| Finance costs   |      | (129,884)                            | -   | (129,884)    |
| Insurance   |      | (88,292)                             | -   | (88,292)     |
| Directors fees  |      | (181,765)                            | -   | (181,765)    |
| Other expenses  |      | (309,506)                            | -   | (309,506)    |
| <b>Loss before income tax expense</b>                       |      | (11,975,528)                         | (60,975)                                  | (12,036,503) |
| Income tax expense  | g    | -                                    | (44,334)                                  | (44,334)     |
| <b>Loss for the period</b>                                  |      | (11,975,528)                         | (105,309)                                 | (12,080,837) |
| Loss attributable to minority interest                      | i    | 5,250,014                            | (1,803,522)                               | 3,446,492    |
| <b>Loss attributable to members of the parent entity</b>    |      | (6,725,514)                          | (1,908,831)                               | (8,634,345)  |

# Notes to the financial statements

## For the half-year ended 31 December 2005

### 5. Impacts of the adoption of Australian equivalents to International Financial Reporting Standards continued

#### (f) Deferred tax asset in relation to share issue costs

Under previous AGAAP the Group recorded the proceeds from share issues in contributed equity as the gross amount received less share issues costs. No deferred tax asset was recognised in relation to the future deductibility of the share issue costs. The effect is:

(i) *At 1 July 2004*

Both deferred tax assets and contributed equity have increased by \$87,079.

(ii) *At 30 June 2005*

Both deferred tax and assets and contributed equity have increased by \$91,729.

#### (g) Other deferred tax assets and liabilities

The Group had not previously recognised deferred tax assets and liabilities under AGAAP due to the existence of tax losses. At the date of transition the Group made the decision to recognise amounts of income taxes that are recoverable or payable in future periods. The effect is:

(i) *At 1 July 2004*

Deferred tax assets have increased by \$14,276 and opening accumulated losses reduced by \$14,276.

(ii) *At 31 December 2004*

There was no material movement in deferred tax assets for the period to 31 December 2004.

(iii) *At 30 June 2005*

Deferred tax assets have increased by \$25,987 and deferred tax liabilities have increased by \$56,045. The tax expense increased by \$44,334.

#### (h) Consolidation of the employee and consultants share incentive scheme.

During the year ended 30 June 2003 the Company provided funds to a trust to enable the latter to purchase shares that are then awarded to employees and consultants from time to time. The directors of the Company are from time to time trustees of this trust but have no right to participate in any shares held by the trust. Under AGAAP the results and financial position of the trust were not included in the consolidated financial statements of the Company. The effect is:

(i) *At 1 July 2004*

Contributed equity has reduced by \$43,193 and accumulated losses have reduced by \$43,193.

(ii) *At 31 December 2004*

Contributed equity has reduced by \$28,971 and accumulated losses have reduced by \$28,971.

(ii) *At 30 June 2005*

Contributed equity has increased by \$17,779 and accumulated losses have increased by \$17,779.

#### (i) Minority interests

As a result of accumulated losses, the consolidated balance sheet prepared under AGAAP showed a negative position in respect of minority shareholders interests in the equity of the Company. Since there is no binding obligation on the minority shareholders to make good the losses the excess over their interest in the equity of the Company has been allocated against the majority interest.

The effect is that as at 30 June 2005 minority interests have reduced by \$1,803,522 and accumulated losses have increased by this amount. There is no impact as at 1 July 2004 or 31 December 2004.

# Notes to the financial statements

## For the half-year ended 31 December 2005

### **5. Impacts of the adoption of Australian equivalents to International Financial Reporting Standards continued**

#### **(j) Business combinations**

*(i) Transition to AIFRS on 1 July 2004*

The Group has taken the exemption available under AASB 1 'First-time Adoption of Australian Equivalents to International Financial Reporting Standards' not to restate business combinations prior to 1 July 2004.

*(ii) Post transition to AIFRS*

The directors have reviewed business combinations that occurred after the transition to AIFRS and have determined there are no adjustments required to the acquisition accounting adopted as at the dates of those business combinations.

#### **(k) Share option reserve**

The consolidated entity has elected not to restate comparative information for financial instruments within the scope of Accounting Standards AASB 132 'Financial Instruments: Disclosure and Presentation' and AASB 139 'Financial Instruments: Recognition and Measurement', as permitted on the first-time adoption of AIFRS. The impact of this is that on 31 December 2005 98,420,000 share options on issue, exercisable at 6c by 30 June 2006 and with a value of \$1,318,030, have been reclassified to the share option reserve. Under AGAAP this value had been included with contributed equity.

#### **(l) Reconciliation of cash flow statement for the year ended 30 June 2005**

The adoption of AIFRS has not resulted in any material adjustments to the cash flow statement.

### **6. Subsequent Events**

On 28 February 2006, a placement of 70 million ordinary shares was made to clients of AMP Capital Investors, raising a total of \$4.2 million to be utilised in ongoing project acquisitions and working capital.

In keeping with the Eastern's overall corporate strategy, the board is currently working on expanding the company's asset base across various parts of the energy sector and in particular, coal projects, with a view to generating strong cash flows from operations in the next 2 – 3 years.

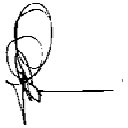
# Directors declaration

The directors declare that:

- (a) in the Directors' opinion, there are reasonable grounds to believe that the disclosing entity will be able to pay its debts as and when they become due and payable; and
- (b) in the Directors' opinion, the attached financial statements and notes thereto are in accordance with the Corporations Act 2001, including compliance with accounting standards and giving a true and fair view of the financial position and performance of the consolidated entity.

Signed in accordance with a resolution of the Directors made pursuant to s.303(5) of the Corporations Act 2001.

On behalf of the Directors

A handwritten signature in black ink, appearing to be 'PR Williams', written over a horizontal line.

PR Williams  
Director

Brisbane,  
14 March 2006

## Independent audit report to the members of Eastern Corporation Limited

### Audit opinion

In our opinion, the financial report of Eastern Corporation Limited:

- gives a true and fair view, as required by the *Corporations Act 2001* in Australia, of the financial position of the Eastern Corporation Group (defined below) as at 31 December 2005 and of its performance for the half-year ended on that date, and
- is presented in accordance with the *Corporations Act 2001*, Accounting Standard AASB 134: *Interim Financial Reporting* and other mandatory financial reporting requirements in Australia, and the *Corporations Regulations 2001*.

This opinion must be read in conjunction with the rest of our audit report.

### Scope

#### The financial report and directors' responsibility

The financial report comprises the balance sheet, income statement, statement of changes in equity, cash flow statement, accompanying notes to the financial statements, and the directors' declaration for the Eastern Corporation Group (the consolidated entity), for the half-year ended 31 December 2005. The consolidated entity comprises both Eastern Corporation Limited (the company) and the entities it controlled during that half-year.

The directors of the company are responsible for the preparation and true and fair presentation of the financial report in accordance with the *Corporations Act 2001*. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report.

#### Audit approach

We conducted an independent audit in order for the company to lodge the financial report with the Australian Securities and Investments Commission. Our audit was conducted in accordance with Australian Auditing Standards, in order to provide reasonable assurance as to whether the financial report is free of material misstatement. The nature of an audit is influenced by factors such as the use of professional judgement, selective testing, the inherent limitations of internal control, and the availability of persuasive rather than conclusive evidence. Therefore, an audit cannot guarantee that all material misstatements have been detected. For further explanation of an audit, visit our website <http://www.pwc.com/au/financialstatementaudit>.

We performed procedures to assess whether in all material respects the financial report presents fairly, in accordance with the *Corporations Act 2001*, Accounting Standard AASB 134: *Interim Financial Reporting* and other mandatory financial reporting requirements in Australia, a view which is consistent with our understanding of the consolidated entity's financial position, and its performance as represented by the results of its operations, changes in equity and cash flows.

We formed our audit opinion on the basis of these procedures, which included:

- examining, on a test basis, information to provide evidence supporting the amounts and disclosures in the financial report, and
- assessing the appropriateness of accounting policies and disclosures used and the reasonableness of significant accounting estimates made by the directors.

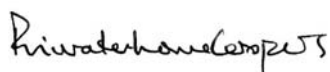
Our procedures include reading the other information included with the financial report to determine whether it contains any material inconsistencies with the financial report.

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

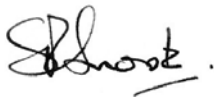
Our audit did not involve an analysis of the prudence of business decisions made by directors or management.

## **Independence**

In conducting our audit, we followed applicable independence requirements of Australian professional ethical pronouncements and the *Corporations Act 2001*.



PricewaterhouseCoopers



Stephen R Snook  
Partner

Brisbane  
14 March 2006