EASTERN
CORPORATION LIMITED

Annual Report 2009

EASTERN CORPORATION LIMITED

ACN 064 957 419

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CHAIRMAN'S REPORT

Dear Shareholder,

The past 12 months has been a year of growth as Eastern Corporation continues to strengthen its position as a developing coal seam gas company in Australia through the prospective tenements held in its 68% subsidiary, Galilee Energy Limited.

Eastern has also seen a return on investment from its New Zealand coal business which is now established as a stand alone operation providing regular cashflow.

In a year dominated by a worldwide financial downturn, Eastern has been able to emerge in a sound financial position; two successful capital raisings coupled with cashflow from the New Zealand coal business has enabled the company to fund its share of coal seam gas exploration activity in the Galilee Basin tenements through to next year, and to further develop its coal operations.

The recent announcement of an offer to purchase Eastern's interest in the Broughton coal project has the potential to enhance the company's financial position further and underpins the intention to focus its Australian activities on the development of the coal seam gas assets.

The past year saw a significant advancement in the development of ATP 529 P, the coal seam gas tenement held in conjunction with AGL Energy Limited under a farmin arrangement.

AGL has drilled a 5 spot production pilot and is now constructing a water management facility on site prior to completing the pilot wells and commencing a dewatering programme. At the same time AGL has accelerated the exploration programme comprising 540 km of seismic acquisition and 7 core holes. This was initially scheduled for 2010 however work on the programme has already commenced, some months ahead of the original start date.

The exploration programme in ATP 799 P commenced in October. The programme comprises 150km of seismic acquisition and two core holes to approximately 1100 metres in depth, targeting the Betts Creek coal measures. These activities are scheduled to complete in November.

The year ahead will see further activity with coal properties analyses due from the core hole programmes in both tenements and reserve certification for ATP 529 P expected in the third quarter.

In New Zealand the company completed upgrades at the Takitimu mine for the commencement of supply to Fonterra and was also successful in extending the contract to supply Holcim from the Cascade mine.

The company is now established as a recognised coal producer in the South Island with forecast sales in excess of 220,000 tonnes to the domestic industrial market.

Development plans for 2010 include further exploration of the Whareatea West coking coal prospect, possibly in conjunction with a joint venture partner, and the possible expansion of the resource base at Takitimu through exploration and development of the surrounding Ohai permit.

Full details of the company's operations are in the report which follows.

During the year the company undertook two capital raisings and I am happy to welcome a number of new institutional shareholders to the register as a result of the placement which took place in May.

This was followed by a fully underwritten entitlements offer which closed in July with an 87% take up. This was an excellent result and the company appreciates the support of shareholders in this respect. A total of $7.5 million was raised. Both offers were at 24 cents and it is pleasing to also see a substantial rise in share price since that time.

I would like to acknowledge the contribution made by my fellow directors during the year and welcome Steve Koroknay to the board. I would also like to thank the management teams in Australia and New Zealand for their efforts in the growth of the business to date and their particular contribution in taking the company to the next stage.

On behalf of the company I also acknowledge the ongoing support of the shareholders which has made it possible to progress Eastern into the next exciting phase of exploration and development. In doing so we aim to fully realise the potential of the company's assets and achieve our ultimate aim of delivering shareholder value.

Yours sincerely,

Richard J May
Chairman

EASTERN CORPORATION LIMITED

CORPORATE GOVERNANCE STATEMENT

The main corporate governance practices of the Company are set out below.

The primary role of the Board is to ensure the long-term health and prosperity of the Company, which it aims to accomplish by:

- Approving objectives, goals and strategic direction set by management with a view to maximising shareholder value;
- Adopting an annual budget and monitoring financial performance;
- Ensuring adequate internal controls exist and are appropriately monitored for compliance;
- Identifying and appropriately managing significant business risks;
- Having a Board that comprises Directors with an appropriate level of expertise, experience and skill, so as to ensure that commercial opportunities are taken advantage of and risks managed; and
- Setting the highest of business standards and codes of ethical behaviour.

(a) Board of Directors

(i) Responsibilities

The Board is responsible for the Company's corporate governance and approves the business strategy of the Company. It authorises all major transactions and reviews operational and financial performance. The Managing Director conducts the day-to-day affairs of the Company and is accountable to the Board.

(ii) Composition

The Board currently comprises four members, being three independent non-executive Directors (one of whom is the Chairman) and one executive Director (the Managing Director). Details of each Director's background appear in the Company's Annual Report.

(iii) Nomination and Election of Directors

The Board can at any time appoint any suitably qualified and experienced person to be a Director. That person holds office until the next Annual General Meeting and is then eligible for election at that meeting. One third of the non-executive Directors retire by rotation at each Annual General Meeting and are eligible for re-election.

(iv) Meetings

Board meetings are held at the Company's principal administrative office, usually on a monthly basis. The number of meetings and attendances by Directors during the financial year are detailed in the Directors' Report.

(v) Independent Advice

Directors have access to the advice of independent external experts at the expense of the Company, should they consider it necessary. Any advice that is obtained is also made available to the members of the Board.

(b) Directors' indemnity

Under the Company's Constitution and pursuant to respective Deeds of Indemnity, each Director of the Company (and its subsidiaries) is indemnified to the extent permitted by law against:

- Liability to third parties arising out of conduct undertaken in good faith in his capacity as a Director; and
- The costs and expenses of defending legal proceedings arising out of conduct undertaken in his capacity as a current or former Director, unless the defence is unsuccessful.

The Company also has in place a Directors and Officers Liability Insurance Policy, for which the Company pays the premium, insuring the Directors against certain liabilities they may incur in carrying out their duties and responsibilities for the Company.

(c) Contracts with Directors

The Company's Constitution provides that a Director may enter into an arrangement with the Company and Directors or their firms may act in a professional capacity for the Company. However, these arrangements are subject to the restrictions and disclosures in the *Corporations Act* applicable to public companies and common law Directors' duties.

During the course of last year, no Director has received or become entitled to receive a benefit because of a contract between the Company and the Director, or a firm of which the Director is a member, other than as disclosed in the Notes to the Financial Statements contained in the Annual Report.

(d) Ethical standards

The Company is committed to high ethical standards in its operations and in its dealings with shareholders. All Directors are required to adhere to a Corporate Ethics Policy and they are restricted from dealing in Company securities when they are in possession of price sensitive information and during specified periods before or after the release of half and full year results. This Policy is available on the Company's website.

(e) Shareholder communication

The Board ensures that shareholders are provided with adequate information regarding the performance of the Company and any price sensitive information in a timely manner. The Company's policy is to lodge with the ASX and place on its web-site market sensitive information, including annual and half yearly results announcements and any relevant analyst presentations, as soon as practicably possible. The Company's web-site www.easterncorp.com.au contains recent announcements, shareholders' circulars and relevant financial data as well as the Company's Corporate Governance Statement and related documents.

(f) Directors' remuneration

Non-executive Directors are remunerated for the value of their work and commitment to the Company as it strives to maximise the worth of its assets. The current level of total annual remuneration payable to non-executive Directors of the Company and its subsidiaries (as approved by shareholders under the Company's

Constitution) is $300,000 and is allocated among the non-executive Directors as they decide.

Subject to shareholder approval, non-executive Directors may also be granted options over the Company's shares as a reward and incentive for services they provide to assist in furthering the Company's progress, future growth and success.

(g) Board committees

Only one committee is currently in place as the Board considers it unnecessary to have any others given there are only 4 Directors (of which one is an executive) and the Company is relatively small.

The Audit Committee comprises three members – the independent non-executive Directors Richard May (chairman) and John McIntyre, and Miss Sam Aarons, Business Development & Corporate Relations Manager. The Managing Director is invited to attend meetings should he have questions or wish to acquire information. Audit matters are considered at meetings of the committee. In addition to statutory reporting issues, the Audit Committee also considers business risks, the adequacy of the Company's control environment and all internal audit findings, as well as monitoring compliance with corporate governance matters. The Company's external auditors attend relevant meetings as does the Chief Financial Officer.

The Audit Committee is established under a Charter which governs its operations and is available on the Company's website.

(h) ASX Corporate Governance Guidelines

In 2007 the ASX Corporate Governance Council released its revised Principles and Recommendations ("the ASX Guidelines"). Before referring to the specific principles set out in the ASX Guidelines and the extent to which the Company complies with those Guidelines, the following observations are made:

- The Company has a relatively small market capitalisation and (as a resource extraction and exploration entity) limited sources of ongoing income. As a consequence, the available cash reserves of the Company (and its controlled entities) are intended to be applied so as to maximise shareholder value.
- Again, because of limited available financial resources, the Company (apart from its Directors and Company Secretary) has relatively few executives. Rather than the task of rigorously adhering to the ASX Guidelines (which are still acknowledged as being important), the principal focus of the Company is to maximise the technical skill and expertise of its Directors and employees, so as to enhance the value of the Company's assets.
- The non-executive Directors dedicate considerable time and effort to the affairs of the Company. They manage to do so within busy schedules for other work and business commitments and, as a consequence, the principal focus of their endeavours (while operating within a sound base for corporate governance) must necessarily be promotion of the Company's activities and improving shareholder value.

It is within the above context that the Directors believe they have established the most appropriate processes to ensure compliance wherever reasonably possible with the ASX Guidelines. These processes have been in place throughout the reporting period.

With regard to the ASX Guidelines, the Directors make the following observations:

Principle One – Lay solid foundations for management and oversight

Functions reserved to the Board and Directors' responsibilities are set out in this Statement rather than a separate board charter. Directors are provided with a letter on appointment which details the terms and conditions of their appointment, provides clear guidance on what input is required by them, and includes materials to assist with induction into the Company.

The Company has a Managing Director, Campbell Smith, as well as a small group of experienced senior management personnel. Each of these persons has entered into arrangements with the Company (and/or its controlled entities) making provision for the conduct of the individual's responsibilities in respect of the day-to-day activities of the Company. The authorities granted to senior executives are delegated by the Board. The Board meets at regular intervals, or as necessary, and executive management personnel communicate with Board members between Board meetings both to inform them and/or seek their counsel as appropriate.

Performance evaluation of executives is conducted by the Board in consultation with the Managing Director and has taken place during the last financial year in accordance with the processes described in the Remuneration Report section of the Directors' Report.

Principle Two – Structure the Board to Add Value

The non-executive Directors of the Company are considered to be independent. The Board's view is that an independent director is a non-executive Director who does not have a relationship affecting independence on the basis set out in the ASX Guidelines and meets materiality thresholds agreed by the Board as equating to payments to them or related parties of 5% of the Company's annual revenue or representing 20% of the individual's business revenue.

The Board is currently structured in such a way that three of the Board members, Campbell Smith, John McIntyre and Steven Koroknay, have many years of experience in the mining industry. The Chairman, Richard May, is a chartered accountant with strong competencies in finance, accounting and compliance. Accordingly, the blend of experience and skills assembled at the Board is considered appropriate for a company at this stage of its commercial existence.

The Board has not formed a separate nomination committee, which it finds unnecessary at this stage of the Company's evolution, favouring a 'whole-of-board' approach to the selection of replacement or additional Directors.

The Board operates an on-going self-assessment and evaluation process which includes from time-to-time the assessment of Director competencies and suitability to the Company as it evolves over time. The Board's principal benchmarks are the Company's operational and financial performance compared to similar organisations.

Similar evaluation of committee composition and member performance is conducted from time-to-time.

The Company Secretary, Bill Lyne, plays an integral role in monitoring the conduct of activities of the Board and any committees, as well as the despatch of material to Board members; he is responsible for overseeing adherence to Board policies and procedures and is accountable on governance matters.

Principle Three – Promote Ethical and Responsible Decision-Making

The Company has a formal Corporate Ethics Policy, to which each Director is a party and signatory. Specific features of the Policy include:

- Restrictions on Directors' dealings with Company shares;
- Requirements in terms of disclosure of information to the ASX and the Company's continuous disclosure obligations generally;
- Notification of Directors' shareholding and contractual interests;
- Restrictions in the Company's ability to provide financial benefits to Directors and other related entities;
- Responsibilities in respect of the Company's accounts and other financial statements; and
- The process of constantly identifying and evaluating risks, and monitoring financial and business control procedures.

The Company has not yet established any formal code of conduct for the observance by Directors and employees of legal and other compliance obligations that relate to the Company's activities, other than what is specified in individual employment agreements. Nonetheless, the Company's executive team continues to work hard to establish and maintain good relationships with key stakeholders involved with the projects in which the Company has an interest. As a producer/potential producer of coal and gas, the Board recognises a strong need to maintain good relations with government departments, local authorities, landowners, indigenous peoples, potential joint venture partners and the like.

Principle Four – Safeguard Integrity in Financial Reporting

The Chief Financial Officer oversees the Company's financial resources, records and reporting.

The Board requires the persons performing the roles of Chief Executive Officer and Chief Financial Officer to declare in writing to the Board at the time of approving and signing the annual and half-yearly accounts that, in their opinion, the Company's financial reports present a true and fair view, in all material respects, of the Company's financial condition and operational results and are in accordance with relevant accounting standards, as required by Section 295A of the *Corporations Act*. Both these officers also report to the Board at its regular meetings.

Additionally, (as identified above) an Audit Committee has been established that works in conjunction with the Company's external auditors to ensure the presented accounts are in accordance with accounting principles. The composition of the Audit Committee represents a blend of non-executive Directors and senior management personnel. Whilst the Committee's chairman is also Chairman of the Board, contrary to the ASX Guidelines, it was decided that Richard May's strong finance and accounting background made him the more appropriate person for this role at the present time.

Principle Five – Make Timely and Balanced Disclosure
The Company's Corporate Ethics Policy (as referred to above) includes a contractual obligation on the part of each Director to disclose information in his possession and, in particular, his dealings in relation to shares in the Company to enable the Company, in turn, to meet its ASX reporting obligations. In addition, there is an internal protocol that has been established involving the Managing Director (Campbell Smith), Business Development & Corporate Relations Manager (Miss Sam Aarons) and the Company Secretary (Bill Lyne) to arrange for the timely preparation and release of all announcements to the ASX.

Given the relatively small size of the Company's senior executive team the Board has decided that, for the time being, it is not necessary to put in place any further formal policies to assist in compliance with ASX disclosure requirements.

Principle Six – Respect the Rights of Shareholders
The Company has not yet established a formal communications policy. Rather, it does have a reasonably informative web-site as the basis for maintaining close contact with shareholders and it is regularly updating the site, in recognition that these days the Company's web-site is one of the main avenues for keeping shareholders and market participants aware of the Company's activities.

In addition, the Company has implemented other strategies so as to provide shareholders with an opportunity to access reports and other releases by way of email, subject to the *Privacy Act* requirements. The Company's Corporate & Investor Relations Manager is a full-time employee with the principal responsibility for shareholder liaison.

Shareholders are also encouraged to participate in Annual (and other) General Meetings to ensure a high level of accountability and identification with the Company's strategies and goals.

A copy of the AGM Notice is sent to the Company's external auditor as required by law. As also required by law, the auditor's representative attends the AGM and is available to answer questions from shareholders about the conduct of the audit and the preparation and content of the auditor's report.

Principle Seven – Recognise and Manage Risk
Given the Company's involvement in mining extraction and exploration the Board is cognisant of the risks that can potentially impact on its people and its business operations and the need for active risk management and mitigation. To this end, the Audit Committee has (as part of its Charter) overall responsibility for ensuring that necessary controls are in place to manage risk, although the Company has not yet developed a concise risk management policy.

The Company's executive team has operational responsibility for the implementation of risk management and has put in place appropriate policies, including workplace health and safety (WH&S), specifically covering the group's coal mining operations in New Zealand and its exploration activities in the Galilee basin.

Whilst WH&S /risk management is a standing Board agenda item, and relevant matters are discussed regularly by the Board, no formal report as to the effectiveness of the management of the Company's material business risks has yet been developed for the Board. However, the Audit Committee is currently considering a review and update of the Company's risk management systems, procedures, adherence and effectiveness, including formal reporting to the Board.

Also, the Board does require the persons performing the roles of Chief Executive Officer and Chief Financial Officer to state in writing to the Board that the declarations provided in accordance with Section 295A of the *Corporations Act* at the time of approving and signing off the annual financial statements are, in their opinion, founded on sound systems of risk management and internal compliance and control and such systems are operating efficiently and effectively in all material respects in relation to financial reporting risks.

Principle Eight – Remunerate Fairly and Responsibly

No separate remuneration committee has been formed as the Directors consider it appropriate, given the relatively small size of the Company, for such matters to be determined at Board level.

The Board considers that the Directors are sufficiently qualified to consider and decide on matters covering recruitment and remuneration of senior executives, superannuation arrangements, Directors' remuneration and retirement benefits. However, external professional advice may be sought from experienced consultants where appropriate to assist in the Board's deliberations.

The Board maintains a view that a remuneration policy exists which provides the requisite degree of incentive so as to not only attract but to maintain suitably qualified personnel. In addition, the Company has a shareholder approved Employee Share Option Plan in place to allow options to be issued to deserving staff as a reward for performance, however no such options have been granted to date. Also, the Board's policies prohibit transactions by executives which might limit the economic risk of participating in unvested entitlements under any equity-based remuneration scheme.

The Board takes a clear and unashamed view that the Company's future success lies in the quality of its team. As a result, a highly-competent and experienced management team has been assembled, but in order to keep that team together adequate financial rewards must be provided.

Full details of the remuneration of Directors and executives is contained in the Remuneration Report section of the Directors' Report.

There is no retirement benefit scheme for any Directors, including non-executive Directors, other than the payment of statutory superannuation.

Directors' report

Your directors present their report on the consolidated entity consisting of Eastern Corporation Limited ("Eastern" or "the Company") and the entities it controlled at the end of, or during, the year ended 30 June 2009.

Information on Directors

The following persons were directors of Eastern Corporation Limited during the period commencing 1 July 2008 and ending on the date of this report (unless otherwise noted).

Richard J May FCA *Non-Executive Chairman* Age 61.

Appointed Non-Executive Director 22 August 2006.
Appointed Non-Executive Chairman October 7, 2008

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

Member and Chairman of the Audit Committee from August 2006.
Share interests in Eastern: 301,408
2,000,000 Options expiring 4 December 2011

Campbell G Smith. *Managing Director* Age 36.

Appointed Executive Director 10 April 2007
Appointed Managing Director 23 July 2007

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

Mr Smith is a Director of Galilee Energy Ltd, Becamal Pty Ltd and Corostar Pty Ltd.
Share interests in Eastern: 22,209,264

John S McIntyre BEng. *Non-Executive Director.* Age 59.

Appointed 7 July 2004

Mr McIntyre is a professional mining engineer, with more than 35 years of operating, management and advisory experience in both open pit and underground management, operation, feasibility evaluation and development of mining projects. Since 1994, he has been the Managing Director of Behre Dolbear Australia, the Australian subsidiary of US mineral industry consultant, Behre Dolbear & Co Inc.. Mr McIntyre has previously held senior positions at the Goonyella mine and was General Manager of the Curragh mine in Queensland's Bowen Basin.

Member of the Audit Committee from August 2007.
Other listed company directorships: Takoradi Limited (Director since 1993).
Share interests in Eastern: 1,100,541 shares
2,000,000 Options expiring 4 December 2011,

Mr Steven J Koroknay - *Non-Executive Director.* Age 63

Appointed 19 December 2008

Mr Koroknay has more than 30 years experience in the international oil and gas industry, initially with Esso Australia, where he became Technical Manager of their upstream activities in Australia, and later with Bridge Oil Limited where he rose to Executive Director - Resources. Kr Koroknay founded Anzon Energy and Anzon Australia, companies engaged in oil and gas development and production. Mr Koroknay was a non-executive director and chairman of CIM Resources, a coal mining company in the Gloucester Basin, New South Wales. He also consulted to Transfield in respect of their coal seam gas assets in Queensland.

Mr Koroknay is Non-Executive Chairman of Galilee Energy Limited
Other listed company directorships: Non executive director Innamincka Petroleum Limited
Share Interests in Eastern: 125,000

Directors' report

Company Secretary

Mr Bill Lyne

Appointed 12 February 2003

Mr Lyne is the principal of Australian Company Secretary Service, providing company secretarial, compliance and governance services to companies. He is secretary of a number of other public companies in Australia and overseas, including some involved in mining exploration and production. Mr Lyne holds a Bachelor of Commerce (Economics) degree, is a Chartered Accountant, a Fellow of the Chartered Secretaries Australia and a presenter at CSA courses in company secretarial practice.

Principal activities

During the year the principal continuing activities of the consolidated entity consisted of production of coal in New Zealand and exploration and development of coal seam methane in the Galilee Basin near Longreach in Queensland.

Review of Operations

Coal operations

Cascade, New Zealand

The Cascade open cut coal mine is located in the historic Buller coalfields region near Westport on the west coast of New Zealand's South Island. Cascade produces a commercially attractive coal, low in ash and sulphur with a high calorific value. Coal from this mine is in high demand for the domestic industrial markets in New Zealand. Local cement plant, Holcim, is the mine's largest customer, taking approximately 40,000 tonnes per annum secured under a take or pay agreement. The remaining coal is sold locally or transported to industrial users in the Canterbury and Otago regions. Some tonnage is blended with coal from the Company's Takitimu mine in Southland and distributed through Eastern Coal Supplies Limited at Timaru.

The mine plan for Cascade covered 5 main areas. The Mill Creek block was the first to be mined and has now been terraced and hydroseeded as part of the rehabilitation process. The Fire Pit block has also been mined out and the void is now being backfilled prior to shaping and hydroseeding. Current operations are concentrated in the Gravel Pit block. Stripping in this area is almost complete and coal winning is continuing. Overburden removal has commenced in the Durkins block leaving the Adams block the final target for recovery of coal. An integral part of the mining operation has been the staged realignment of the main access road to enable entry to the various blocks in line with the mine planning. Cascade runs as an owner/operator mine although recently outside contractors have been engaged to assist with the additional site works in relation to the road realignment.

Production is targeted to 45,000 - 50,000 tonnes per annum for the next four years however work is continuing to maximise coal recovery with the intent of extending the life of mine. The proposed development of the nearby Whareatea West permit area is currently intended to be timed to coincide with the end of mine life at Cascade to enable mining operations in the area to continue.

Takitimu, New Zealand

The Takitimu coal mine is located in the Ohai/Nightcaps area in the far south of the South Island of New Zealand.

The open cut mine produces sub-bituminous coal for sale into industrial applications in the Southland and Otago regions. Production has increased from 1,000 tonnes per annum at the time of acquisition to 170,000 tonnes for the 08/09 financial year and is expected to continue to increase in the next financial year.

The mine's major contract is the supply of up to 170,000 tonnes per annum to dairy processor, Fonterra, for its Clandeboye plant. This contract commenced in September 2008. Other large customers are New Zealand Dairies and several dairy and food processing plants operated by the Talley's Group. The closure of Solid Energy's nearby Ohai mine in August 2009 has presented more sales opportunities for sub-bituminous coal in the region.

Major infrastructure upgrades were completed on site for the commencement of the Fonterra contract. A new processing plant was installed and the existing plant upgraded taking the mine's processing capabilities to 300,000 tonnes per annum. All weather haul roads and a load out facility were also completed to enable the majority of coal to be transported by rail. New product stockpile areas were installed and extensions to the existing office were also undertaken as part of the overall redevelopment. Overburden and coal winning have continued to meet targets and no lost time injuries or environmental incidents have been recorded since the Company took ownership of the mine. A four hole drilling programme at Takitimu has now been completed to confirm resources as part of the next phase of mine planning.

A coal testing laboratory has also been established at Takitimu in conjunction with SGS Minerals who previously provided external coal testing facilities. Testing can now be conducted on site to the required standards rather than having samples despatched to Wellington for analysis.

Directors' report

Eastern Coal Supplies

Eastern Coal Supplies Limited is a coal handling and distribution centre, strategically located mid way between the Cascade and Takitimu mines at Timaru on the east coast of the South Island. Its principal activity is to provide blended and non-blended coal to customers in the region. This facility is the location for the requisite contingency stockpile under the terms of the Fonterra agreement, and also provides delivery support for the supply to the nearby Clandeboye plant.

The head office for the companys New Zealand businesses is also located on site.

Exploration Projects - New Zealand

Whareatea West, South Island

The Whareatea West Exploration Permit (EP 40-591) is held by Rochfort Coal Mining Limited, a wholly owned subsidiary of Eastern. The 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 Cascade mining operation. The area is prospective for coking and thermal coal however further core drilling and quality testing is required to properly define the prospects of this permit.

The Company's exploration has to date identified a Coal Resource of approximately 25.7 million tonnes (comprising a Measured Coal Resource of approximately 18 million tonnes and an Indicated Coal Resource of approximately 7.7 million tonnes) within its Whareatea West Exploration Permit (EP 40-591). Coal qualities for this Resource have been estimated and reported within the JORC Code. The Measured Coal Resources and Indicated Coal Resources are also verified in an independent report prepared by Rokmode Pty Ltd in accordance with the JORC Code.*

To date, only 40% of the permit has been explored by the Company. Further exploration to determine refined variations of coal qualities for particular markets and to fully understand the extent of the resource was planned for 2008 however this was deferred whilst funding options were considered, and whilst the focus was on developing the Company's Takitimu mine. Over the course of the next 24 months the company intends to conduct further drilling at Whareatea to meet the commitments of the work programme required to maintain the tenement however it is envisaged that further exploration may be undertaken in conjunction with a joint venture partner. Discussions are currently being held with interested parties to this effect. In parallel with these discussions, initial approaches have been made to the appropriate government authorities, statutory bodies and freight providers to assess the potential for the development of the Whareatea West permit as an export coking coal mine with a secondary thermal product. It is envisaged that the mine may be able to be brought into production at the time that the nearby Cascade mine nears its end date.

Ohai/Orepuki, South Island

Eastern, through wholly-owned subsidiary, Rochfort Coal Ltd, holds Prospecting Permits Orepuki 39-319 and Ohai 39-321 in the Southland region of the South Island, both of which are over areas prospective for sub-bituminous coal. The Orepuki permit is located on the south coast, west of Invercargill. Work on Orepuki has been limited to preliminary desktop studies and tenement searches.

The company also holds Prospecting Permit 39-321 over an extensive area immediately surrounding the existing licence area of the Takitimu mine. The coal seams identified within the Takitimu mining tenements extend into this area, creating the potential to expand the original resource estimates. An application has been submitted to upgrade this Prospecting Permit to an Exploration Permit. As part of the work programme to upgrade the tenement status a 10 hole drilling programme was undertaken in August in an area immediately adjacent to the Takitimu mining permit. This identified further coal which can be accessed under a royalty agreement with the landowner.

Exploration Projects - Australia

Broughton Coal Joint Venture, Queensland

The Broughton Coal Joint Venture was formed in June 2005 between Eastern's wholly-owned subsidiary Broughton Coal Mining Pty Ltd, and Mitsui Coal Holdings Pty Ltd.

A decision was made to exit coal in Australia to focus on the Company's coal seam gas assets and a mandate for the sale of Eastern's interest in the Broughton asset was given to Patersons Securities Limited.

At the time of this report an offer to purchase the Company's 90% interest has been received from Resource Portfolio Partners Pty Ltd. The offer is a put and call option over a six month period. The put price is $8.5 million and the call is $12 million.

Directors' report

Coal Seam Gas

Galilee Energy, Queensland

Eastern's interests in the Galilee Basin arise as a result of Eastern holding a 68% interest in Galilee Energy Ltd "Galilee". Galilee holds Authorities to Prospect ATP 529P and ATP 799P near Longreach in Central Queensland. The areas are prospective for coal seam gas (CSG) and conventional hydrocarbons.

ATP529P

ATP 529P (75 blocks) is located approximately 80 km north west of the Barcaldine gas power station which is linked by a gas pipeline to Moomba and Brisbane. ATP 799P (59 blocks) is the adjoining tenement to the north. The total acreage currently held in both permits is approximately 10,000km2 with estimated potential gas initially in place (GIIP) of approximately 20Tcf.

In July 2007, Galilee successfully completed the drilling and testing of an exploration well (RC8) in the Rodney Creek region targeting the Betts Creek and Aramac seam sequences, drilled to a total depth of 1,110m. A 24 metre aggregate seam was intercepted at 907 metres. Indications are that there is continuity of this seam sequence across a large part of the Galilee tenement. The coal seams are gassy, low in ash and well cleated. Permeabilities range from 10 to 150 millidarcies with an average in the Betts Creek seams of 69 millidarcies. Median gas contents of 4.4m3/tonne have been identified with pipeline quality gas of 97-98% pure methane.

Further review of seismic and previous drill hole data led independent technical consultants to conclude that the coal seam sequences and gamma logs observed in RC8 correlate reasonably well with 12 previous drill holes and that there is continuity of the uppermost seam (R1) across a significant part of the Galilee Basin.

In July 2008 a farmin agreement was signed with AGL Energy Limited ("AGL") acquiring a 50% interest in ATP 529P for an expenditure of $37 million. Under the terms of the agreement AGL are operating a two stage programme comprising a 5 spot production pilot and a 7 well exploration programme with 500km of 2D seismic acquisition. The farm-in programme has been designed to combine both production and exploration elements with objectives to:

- demonstrate feasibility of commercial production; and
- obtain certification of a significant level of 2P reserves.

Drilling of the Glenaras 5 spot production pilot was completed in November 2008. Five wells were drilled to depths of approximately 1100 metres each using Ensign Rig 20. Two of the Glenaras wells have been under-reamed and three will be fracture stimulated. Progressive cavity pumps have been ordered and will be installed to dewater the coals. The next stage of the production pilot is the construction of a water management facility. EPA approval for this has now been received and construction is underway with completion of the wells and dewatering scheduled to commence in Q4 2009. A 10 year gas marketing agreement has also been entered into with AGL. The second phase of the exploration work programme for ATP 529P, funded by AGL, will commence in late 2009. The work programme consists of 7 core holes and approximately 500km of 2D seismic acquisition. On completion of core analysis and seismic interpretation, the new information will be integrated with historical data in order to enable a more comprehensive understanding of the permit's CSG potential.

ATP 799P

In March 2006 Galilee was formally granted ATP 799P with a current area of approximately 4,452km2. Galilee has recently re-focused its efforts to progress the CSG exploration of ATP 799P. A capital raising within Galilee shareholders was undertaken in July 2009, raising $5.48 million to fund the next stage of exploration. The 2009 work programme includes two core holes and approximately 150km of new seismic acquisition.

In conjunction with recently completed aerial photography, a ground survey has been undertaken to clarify environmental restrictions within the permit. Similar to the ATP 529P strategy, core analysis and seismic interpretation will be integrated with existing historical data in order to better understand the permit's CSG prospectivity and identify primary prospects to support the commencement of a gas reserve certification.

**The information in this report that relates to Mineral Resources for EP 40-591 Whareatea West is based on information compiled by Mr Ian Poppitt who is a Member of the Australian Institute of Mining and Metallurgy. Mr Poppitt is a Consultant Geologist working for Rokmode Pty Ltd.*
Mr Poppitt has sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity which he is undertaking to qualify as a Competent Person as defined in the 2004 Edition of the 'Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves'. Mr Poppitt has consented in writing to the inclusion in this Prospectus of the matters based on the information in the form and context it appears.

Remuneration Report (audited)

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

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

A Principles used to determine the nature and amount of remuneration

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

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

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

Alignment to shareholders' interests:

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

Alignment to program participants' interests:

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

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

Non -executive directors

Fees and payments to non-executive directors reflect the demands which are made on, and the responsibilities of, the directors. Non-executive directors' fees and payments are reviewed annually by the Board to ensure fees are appropriate and in line with the market. At the company's Annual General Meeting on 25th November 2008 it was resolved that qualifying non-executive directors be granted directors' share options as part of their remuneration package. Details of the options are disclosed later in this report.

Directors' fees

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

Executive pay

The executive pay and reward framework has three components:

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

The combination of these comprises the executive's total remuneration. The Group intends to revisit its long-term equity-linked performance incentives specifically for executives during the year ending 30 June 2009.

Remuneration Report (audited)

Base pay

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

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

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

Superannuation and other non-monetary benefits

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

B Details of remuneration

Amounts of remuneration

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

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

- S Aarons – *Business Development and Corporate Relations Manager*
- G Haworth – *General Manager - Galilee Energy Limited*
- W A Parker – *Chief Financial Officer*

Key management personnel of Eastern Corporation Limited and of the Group

2009	Short-term benefits			Post-employment benefits		Share-based		% of
Name	Salary and fees $	Non-cash benefits $	Termination payments $	Super-annuation $	Retirement benefits $	Payments equity settled Options $	Total $	remuneration paid as options %
Non-executive directors								
Parent company								
R J May	30,000	-	-	-	-	72,625	102,625	70.8%
J S McIntyre	27,522	-	-	2,478	-	72,625	102,625	70.8%
S J Koroknay (appointed 19 Dec 2008)	23,289	-	-	1,086	-	-	24,375	-
Galilee Energy Limited								
R Camarri	30,000	-	-	-	-	-	30,000	-
K H McMahon	30,000	-	-	-	-	-	30,000	-
S J Koroknay (appointed 20 Jan 2009)	30,595	-	-	1,628	-	-	32,223	-
Sub-totals	**171,406**	**-**	**-**	**5,192**	**-**	**145,250**	**321,848**	
Executive directors								
Eastern Corp Ltd								
C G Smith - *Managing Director*	201,843	-	-	18,166	-	-	220,009	-
Galilee Energy Ltd								
L C Rathie (appointed 20 Jan 2009)	84,458	-	-	-	-		84,458	-
Eastern Coal Holdings (NZ) Ltd								
C J Pilcher (appointed 22 Oct 2008)	146,319	-	-	-	-	-	146,319	-
Other key management personnel							-	
S Aarons	135,456	11,911	-	12,191	-	-	159,558	-
G Haworth	50,200	-	-	-	-	-	50,200	-
W A Parker	104,485	-	-	-	-	-	104,485	-
Totals	**894,167**	**11,911**	**-**	**35,549**	**-**	**145,250**	**1,086,877**	

Remuneration Report (audited)

B Details of remuneration (continued)

Key management personnel of Eastern Corporation Limited and of the Group

2008	Short-term benefits		Termination payments	Post-employment benefits		Share-based Payments equity settled Options	Total	% of remuneration paid as options
Name	Salary and fees $	Non-cash benefits $	$	Super-annuation $	Retirement benefits $	$	$	%
Non-executive directors								
Parent company								
R J May	30,000	-	-	-	-	-	30,000	-
J S McIntyre	27,522	-	-	2,478	-	-	30,000	-
H L Stack (Resigned 5 July 2007)	382	-	-	34	-	-	416	-
W G Lyne (Resigned 5 July 2007)	382	-	-	34	-	-	416	-
Galilee Energy Limited								
R Camarri	30,000	-	-	-	-	-	30,000	-
K H McMahon	30,000	-	-	-	-	-	30,000	-
Sub-totals	**118,286**	**-**	**-**	**2,546**	**-**	**-**	**120,832**	
Executive directors								
Eastern Corp Ltd								
C G Smith - *Managing Director*	199,813	-	-	16,652	-	-	216,465	-
Other key management personnel							-	
M R O'Brien (Resigned 23 July 2007)	54,684	-	200,000	4,921	-	-	259,605	-
S Aarons	124,507	11,911	-	11,205	-	-	147,623	-
C J Pilcher	128,138	5,994	-	-	-	-	134,132	-
W A Parker	118,172	-	-	-	-	-	118,172	-
K F Poynter (Resigned 14 Feb 2008)	113,097	-	-	-	-	-	113,097	-
Totals	**856,697**	**17,905**	**200,000**	**35,324**	**-**	**-**	**1,109,926**	

Options issued as part of remuneration for the year ended 30 June 2009

The following options were granted during the year as remuneration to non-executive directors:

Director	Grant date	Grant number	Exercise Price	Expiry date	Vesting date	Number vested at 30 Jun 09	Value per option at grant date	Value expensed during the year	% of remuneration paid as options
			$					$	%
R J May									
	25 Nov 08	1,000,000	$0.30	4 Dec 11	4 Dec 09	-	$0.84	49,000	47.7%
	25 Nov 08	1,000,000	$0.35	4 Dec 11	4 Dec 10	-	$0.81	23,625	23.0%
J S McIntyre									
	25 Nov 08	1,000,000	$0.30	4 Dec 11	4 Dec 09	-	$0.84	49,000	47.7%
	25 Nov 08	1,000,000	$0.35	4 Dec 11	4 Dec 10	-	$0.81	23,625	23.0%

There are no specific performance conditions to be met for the granting of options.

C Service agreements

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

RJ May, *Chairman of Directors*

- Term of agreement – open ended agreement commencing 23 August 2006
- Base salary of $30,000 including superannuation for the year ended 30 June 2009, reviewed annually by the board
- Share options granted by the company at its Annual General Meeting of 25th November 2008 (refer below and to Notes 23 and 27 to the Financial Statements)
- The required notice period on termination is one month by either party
- The agreement does not provide for termination benefits

C G Smith, *Managing Director (Appointed 23 July 2007)*

- Term of agreement – open ended agreement commencing 23 July 2007
- Base salary of $220,000 including superannuation for the year ended 30 June 2009, reviewed annually by the board
- The required notice period on termination is one month by either party
- The agreement does not provide for termination benefits

Remuneration Report (audited)

C Service agreements (continued)

J S McIntyre, *Director*

- Term of agreement – open ended agreement commencing 7 July 2004
- Base salary of $30,000 including superannuation for the year ended 30 June 2009, reviewed annually by the board
- Share options granted by the company at its Annual General Meeting of 25th November 2008 (refer below and to Notes 23 and 27 to the Financial Statements)
- The required notice period on termination is one month by either party
- The agreement does not provide for termination benefits

S J Koroknay, *Director Eastern Corporation Limited and Galilee Energy Limited*

Eastern Corporation Limited

- Term of agreement – open ended agreement commencing 19 December 2008
- Base salary of $45,000 including superannuation for the year ended 30 June 2009, reviewed annually by the board
- The required notice period on termination is one month by either party
- The agreement does not provide for termination benefits

Galilee Energy Limited

- Term of agreement – open ended agreement commencing 20 January 2009
- Base salary of $50,000 including superannuation for the year ended 30 June 2009, reviewed annually by the board
- Is entitled to invoice the company for consultancy work outside the scope of director's duties
- The required notice period on termination is one month by either party
- The agreement does not provide for termination benefits

L C Rathie, *Director, Galilee Energy Limited*

- Term of agreement – open ended agreement commencing 20 January 2009
- Base salary of $30,000 including superannuation for the year ended 30 June 2009, reviewed annually by the board
- Is entitled to invoice the company for consultancy work outside the scope of director's duties
- The required notice period on termination is one month by either party
- The agreement does not provide for termination benefits

R Camarri, *Director, Galilee Energy Limited*

- Term of agreement – open ended agreement
- Base salary of $30,000 including superannuation for the year ended 30 June 2009, reviewed annually by the board
- The required notice period on termination is one month by either party
- The agreement does not provide for termination benefits

K H McMahon, *Director, Galilee Energy Limited*

- Term of agreement – open ended agreement
- Base salary of $30,000 including superannuation for the year ended 30 June 2009, reviewed annually by the board
- The required notice period on termination is one month by either party
- The agreement does not provide for termination benefits

CJ Pilcher, *Managing Director, NZ*

- Term of Agreement – open ended agreement commencing 14 August 2007
- Base salary of NZD180,250 for the year ended 30 June 2009 excludes superannuation
- The required notice period on termination is one month by either party
- The agreement does not provide for termination benefits

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

- Term of agreement – open ended agreement commencing 24 April 2006
- Base salary of $30,000 including superannuation for the year ended 30 June 2009, reviewed annually by the board
- The agreement does not provide for termination benefits

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

- Term of agreement – open ended agreement commencing 22 May 2006
- Base salary of $30,000 including superannuation for the year ended 30 June 2009, reviewed annually by the board
- The agreement does not provide for termination benefits

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

- Term of agreement – open ended contract commencing 14 November 2005. Appointed as CEO on 28 April 2006
- Base salary of $400,000 including superannuation for the year ended 30 June 2008, reviewed annually by the board. The agreement also provides the opportunity for a cash bonus on a project by project basis of $25,000 per project, subject to the achievement of agreed performance measures. No bonus was paid in the year.
- Base salary included of $30,000 directors fees for Galilee Energy Ltd.
- Received a payment on resignation in July 2007 of $259,605 as agreed by the board.

Remuneration Report (audited)

C *Service agreements (continued)*

S Aarons, *Business Development and Corporate Relations Manager*

- Term of agreement – open ended agreement commencing 1 October 2007
- Base salary of $163,080 including superannuation for the year ended 30 June 2009, reviewed annually by the board
- The required notice period on termination is one month by either party
- The agreement provides for termination benefits in the event of change of control

G Haworth, *General Manager, Galilee Energy Limited*

- Term of agreement - employed on a consultancy basis as agreed by the board
- Remuneration is on submission of invoice
- The required notice period on termination is one month by either party

W A Parker, *Chief Financial Officer*

- Term of agreement - employed on a consultancy basis as agreed by the board
- Remuneration is on submission of invoice
- The required notice period on termination is one month by either party

K F Poynter, *Operations Manager, NZ (Resigned 14 February 2008)*

- Term of agreement – open ended agreement commencing 1 August 2007
- Base salary of $134,724 for the year ended 30 June 2008 excluded superannuation
- The agreement did not provide for termination benefits

D *Share based compensation*

Employee and consultants share incentive scheme

The Company has established an employee and consultants share incentive scheme. The scheme is administered by way of a separate trust. During the year ended 30 June 2003 the Company provided funds to the trust to enable the latter to purchase shares that are then awarded to employees and consultants by the trust from time to time. The directors of the Company from time to time are the trustees of this trust but have no right to participate in any shares held by the trust. These shares carry full dividend and voting rights. During the year ended 30 June 2009 no shares were issued to any employee or consultant under the scheme. Since the end of the financial year the Board has decided that the shares owned by the trust should be sold and the scheme be wound up.

Directors share options

Details of options granted as remuneration during the year are shown in the table above.

There was no consideration payable by the recipients of the options.

There were no options granted to any key management personnel in periods prior to 30 June 2009.

There were no options exercised during the year that were granted as remuneration in prior periods.

E *Additional information*

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

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

End of Remuneration Report

Directors' report

Dividends

No dividends were paid to members during the financial year.

Options

As at the date of this report, Eastern Corporation Ltd had the following options outstanding:

2,000,000 options granted on 25 November 2008 with an exercise price of $0.30 that vest on 4 December 2009 and expire on 4 December 2011; and
2,000,000 options granted on 25 November 2008 with an exercise price of $0.35 that vest on 4 December 2010 and expire on 4 December 2011.

Significant changes in the state of affairs

The offer to purchase the Broughton coal asset, received subsequent to period end, will see the Company fully focussed as a coal seam gas producer in Australia through the exploration and development of its coal seam gas assets in the Galilee Basin. In conjunction to this the company will continue to grow its profitable coal business in New Zealand through the expansion of its Takitimu mine and the development of the Whareatea West coking coal prospect.

Matters subsequent to the end of the financial year

Significant matters that occurred subsequent to balance date included capital raisings in both Eastern and Galilee, and the offer to purchase the Company's interest in the Broughton coal project by way of a put and call option over a 6 month period.

The Eastern capital raising was a non-renounceable rights issue on a 1 for 4 basis to eligible Eastern shareholders to raise approximately $5 million before issue costs. The issue price was $0.24 cents and the offer was fully underwritten by lead manager Patersons Securities Limited with Becamal Pty Ltd, an entity related to Managing Director Campbell Smith, as partial sub-underwriter. The offer closed on 8 July with an 87% take up. 20,550,591 new shares were issued. At the time of this report, the Company has 102,752,659 shares on issue.

Separately in July a rights issue was undertaken in Galilee. Shareholders were entitled to subscribe for shares on a 1 for 10 basis at $0.065 cents per share. Shareholders were also entitled to subscribe for additional shares. The offer was oversubscribed so applications for additional entitlements were reduced on a pro rata basis. Eastern's final allotment under the issue was 62,190,197 new shares for a consideration of $4,042,362. This increased Eastern's holding in Galilee to 67.99%.

Corporate

Non-executive Directors' Options

At the Company's AGM in November 2008 shareholders approved the issue of 4,000,000 million options to non-executive directors John McIntyre and Richard May. The options, to subscribe for ordinary shares, were issued on 4th December 2008 on the following terms: 2,000,000 vesting after 12 months with an exercise price of $0.30 each and 2,000,000 vesting after 24 months, exercisable at $0.35 each. Both tranches have an expiry date of 3 years from the date of issue.

Placement

In May the Company completed a placement to professional and sophisticated investors to raise $2.5 million before issue costs. 10,416,667 shares were issued @ $0.24 cents per share. Paterson Securities Limited were the lead manager in the raising.

Management

In August 2008 Mr Craig Pilcher was appointed General Manager, New Zealand.
In September 2009, Mr John Marnane, previously Mine Manager for the Takitimu Mine, was appointed Operations Manager, New Zealand.

Likely developments

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

Directors' report

Environmental Regulation

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

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

Meetings of Directors

The numbers of meetings of the company's board of directors and of the Audit Committee during the year ended 30 June 2009, and the numbers of meetings attended by each Director were :

Director	Full meetings of directors		Audit committee meetings	
	Number of meetings eligible to attend	Number of meetings attended	Number of meetings eligible to attend	Number of meetings attended
RJ May	9	9	3	3
CG Smith	9	9	-	-
J S McIntyre	9	8	3	2
SJ Koroknay	5	5	-	-

Directors and Officers insurance

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

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

Proceedings on behalf of the Company

No person has applied for leave of Court to bring proceedings on behalf of the Company or intervene in any proceedings to which the Company is a party for the purposes of taking responsibility of behalf of the Company for all or any part of those proceedings.

The Company was not a party to any such proceedings during the year.

Non audit services

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

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

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

- all non audit services have been reviewed by the audit committee to ensure they do not impact the impartiality and objectivity of the auditor

- none of the services undermine the general principles relating to auditor independence as set out in APES 110 *Code of Ethics for Professional Accountants.*

Annual Report – 30 June 2009

Directors' report

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

Assurance services	Consolidated 2009 $	2008 $
Audit services		
Audit and review of financial reports and other audit work under the *Corporations Act 2001*		
PricewaterhouseCoopers Australian firm	-	205,492
BDO Kendalls (Qld)	**130,000**	-
Other assurance services		
Due diligence and advisory services		
PricewaterhouseCoopers Australian firm	-	97,150
BDO Kendalls (Qld)	**8,250**	-

Auditors' independence declaration

A copy of the auditors' independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 23.

Auditor

BDO Kendalls (Qld) continues in office in accordance with section 327 of the Corporations Act 2001.

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

C.G Smith
Managing Director

Brisbane
24th September 2009

BDO Kendalls

BDO Kendalls (QLD)
Level 18, 300 Queen St
Brisbane QLD 4000
GPO Box 457 Brisbane QLD 4001
Phone 61 7 3237 5999
Fax 61 7 3221 9227
info brisbane@bdo com.au
www bdo com.au

ABN 70 202 702 402

29 September 2009

The Directors
Eastern Corporation Ltd
PO Box 2145
FORTITUDE VALLEY BC QLD 4006

Dear Directors

AUDITOR'S INDEPENDENCE DECLARATION

In relation to our audit of the Financial Report of Eastern Corporation Ltd for the year ended 30 June 2009, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the Corporations Act 2001 or any applicable code of professional conduct.

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

Yours faithfully
BDO Kendalls (QLD)

Craig Jenkins
Partner

Financial report

Income Statements
for the year ended 30 June 2009

	Note	Consolidated 2009 $	Consolidated 2008 $	Parent 2009 $	Parent 2008 $
Revenue from continuing operations	6				
Sales of coal from mining operation		**12,845,290**	5,908,783	-	-
Sales of services including coal freight		**7,585,700**	75,369	-	-
Other revenue		**279,079**	173,455	**1,244,789**	1,669,721
		20,710,069	6,157,607	**1,244,789**	1,669,721
Mining operation expenses					
Changes in inventories of finished goods and work in progress		**397,752**	287,858	-	-
Raw materials and consumables used		**(1,506,126)**	(1,021,585)	-	-
Coal freight costs		**(6,954,230)**	(583,914)	-	-
Mining contractors		**(4,328,628)**	(1,337,721)	-	-
Employee benefits expense		**(1,311,402)**	(1,002,683)	-	-
Depreciation and amortisation	7	**(1,293,114)**	(857,915)	-	-
Repairs, maintenance and restoration		**(721,152)**	(311,876)	-	-
Equipment hire		**(310,252)**	(362,018)	-	-
Consulting fees		**(316,352)**	(135,153)	-	-
Levies and licences		**(428,012)**	(184,216)	-	-
Other mining expenses		**(183,611)**	(231,309)	-	-
		(16,955,127)	(5,740,532)	-	-
Exploration and evaluation expenses					
Consulting fees		**(1,411,123)**	(781,047)	-	-
Contractors		**(115,333)**	(342,092)	-	-
Testing and analysis		**(43,844)**	(335,912)	-	-
Depreciation and amortisation	7	**(233,336)**	(88,866)	**(170,251)**	-
Other		**(66,669)**	(198,122)	**(3,713)**	**(18,729)**
		(1,870,305)	(1,746,039)	**(173,964)**	**(18,729)**
Administration expenses					
Employee benefits expense		**(850,670)**	(1,449,720)	**(449,586)**	(960,720)
Directors' remuneration		**(406,306)**	(115,415)	**(229,625)**	(55,415)
Consulting fees		**(476,510)**	(625,692)	**(342,154)**	(151,604)
Audit fees		**(185,283)**	(239,260)	**(67,192)**	(117,390)
Accounting fees		**(133,754)**	(150,500)	**(104,485)**	(118,172)
Depreciation	7	**(45,529)**	(57,488)	**(25,898)**	(32,300)
Telecommunications and IT		**(82,175)**	(118,866)	**(43,834)**	(65,594)
Other administration expenses		**(655,965)**	(697,705)	**(366,825)**	(343,376)
Impairment charges	7	-	(181,936)	-	-
Net foreign exchange gains/(losses)	7	**(22,355)**	481	**53,085**	(688,049)
Finance costs	7	**(934,815)**	(477,429)	**(329,737)**	(16,294)
		(3,793,362)	(4,113,530)	**(1,906,251)**	(2,548,914)
Total expenses		**(22,618,794)**	(11,600,101)	**(2,080,215)**	(2,567,643)
Profit/(Loss) before income tax		**(1,908,725)**	(5,442,494)	**(835,426)**	(897,922)
Income tax benefit/(expense)	8	**(538,598)**	1,107,038	**(238,652)**	160,549
Profit/(loss) for the year after income tax		**(2,447,323)**	(4,335,456)	**(1,074,078)**	(737,373)
Earnings/(loss) per share for profit/(loss) attributable to the ordinary equity holders of the company:		**Cents**	Cents		
Basic earnings per share	38	**(3.33)**	(6.04)		
Diluted earnings per share	38	**(3.33)**	(6.04)		

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

Balance sheets
As at 30 June 2009

	Note	Consolidated 2009 $	Consolidated 2008 $	Parent 2009 $	Parent 2008 $
ASSETS					
Current assets					
Cash and cash equivalents	9	**4,355,943**	213,879	**983,981**	71,133
Trade and other receivables	10	**1,303,435**	1,283,401	**737,269**	786,445
Inventories	11	**1,053,856**	674,555	**-**	-
Other current assets	12	**1,280,772**	1,499,404	**-**	-
Current tax assets		**-**	316,206	**-**	-
		7,994,006	3,987,445	**1,721,250**	857,578
Non-current assets classified as held for sale	13	**722,576**	722,576	**-**	-
Total current assets		**8,716,582**	4,710,021	**1,721,250**	857,578
Non-current assets					
Trade and other receivables	14	**213,503**	287,612	**6,550,066**	6,336,455
Other financial assets	15	**-**	-	**9,198,849**	6,550,853
Property, plant and equipment	16	**7,570,525**	5,531,347	**82,202**	101,436
Intangible assets	17	**3,291,150**	3,666,850	**-**	-
Deferred tax assets	18	**1,339,309**	1,030,912	**166,843**	122,151
Total non-current assets		**12,414,487**	10,516,721	**15,997,960**	13,110,895
Total assets		**21,131,069**	15,226,742	**17,719,210**	13,968,473
LIABILITIES					
Current liabilities					
Trade and other payables	19	**2,477,188**	2,304,156	**961,942**	379,268
Financial liabilities	20	**5,822,419**	2,124,004	**2,600,000**	1,114,969
Current tax liability	8	**-**	-	**-**	-
Total current liabilities		**8,299,607**	4,428,160	**3,561,942**	1,494,237
Non-current liabilities					
Financial liabilities	21	**2,494,759**	3,363,864	**-**	-
Provisions	24	**563,720**	413,385	**9,800**	9,800
Deferred tax liabilities	23	**965,615**	216,774	**201,055**	-
Total non-current liabilities		**4,024,094**	3,994,023	**210,855**	9,800
Total liabilities		**12,323,701**	8,422,183	**3,772,797**	1,504,037
Net assets		**8,807,368**	6,804,559	**13,946,413**	12,464,436
EQUITY					
Issued capital	26	**46,663,006**	42,484,516	**42,611,658**	40,200,853
Reserves	27	**(331,632)**	(538,188)	**145,250**	-
Retained profits/(Accumulated losses)	27	**(36,012,141)**	(33,564,818)	**(28,810,495)**	(27,736,417)
Parent company interest		**10,319,233**	8,381,510	**13,946,413**	12,464,436
Minority interest	28	**(1,511,865)**	(1,576,951)	**-**	-
Total equity		**8,807,368**	6,804,559	**13,946,413**	12,464,436

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

Consolidated Statements of Recognised Income and Expense
for the year ended 30 June 2009

	Note	Consolidated 2009 $	Consolidated 2008 $	Parent 2009 $	Parent 2008 $
Total equity at the beginning of the financial year		**6,804,559**	11,156,198	**12,464,436**	13,201,809
Exchange differences on translation of foreign operations	27	**61,306**	(741,751)	**-**	-
Share-based payment transactions		**145,250**	-	**145,250**	-
Net income/(loss) recognised directly in equity		**206,556**	(741,751)	**145,250**	-
Profit/(loss) for the year after income tax		**(2,447,323)**	(4,335,456)	**(1,074,078)**	(737,373)
Total recognised income and expense for the year		**(2,240,767)**	(5,077,207)	**(928,828)**	(737,373)
Transactions with equity holders in their capacity as equity holders:					
Contributions of equity, net of transaction costs and deferred tax		**2,410,805**	-	**2,410,805**	-
Gain on capital issued by subsidiary	28	**1,767,685**	725,568	**-**	-
Minority interest	28	**65,086**	-	**-**	-
Total equity at the end of the financial year		**8,807,368**	6,804,559	**13,946,413**	12,464,436
Total recognised income and expense for the year is attributable to:					
Members of Eastern Corporation Limited		**(2,447,323)**	(4,335,456)	**(1,074,078)**	(737,373)
Minority interest		**-**	-	**-**	-
		(2,447,323)	(4,335,456)	**(1,074,078)**	(737,373)

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

Cash Flow Statements

for the year ended 30 June 2009

	Note	Consolidated 2009 $	Consolidated 2008 $	Parent 2009 $	Parent 2008 $
Cash flows from operating activities					
Receipts from customers and/or subsidiaries (including GST)		**22,932,612**	6,750,005	**141,726**	503,543
Payments to suppliers and employees (including GST)		**(22,682,244)**	(10,682,319)	**(1,401,514)**	(1,957,179)
Interest received		**129,123**	126,606	**342,782**	300,967
Other revenue		**10,173**	-	**9,091**	-
Interest paid		**(934,815)**	(477,429)	**(329,737)**	(16,294)
Income taxes (paid)/received		**322,958**	260,949	**-**	(3,120)
Net cash outflow from operating activities	34	**(222,193)**	(4,022,188)	**(1,237,652)**	(1,172,083)
Cash flows from investing activities					
Payments for property, plant and equipment	16	**(3,114,979)**	(1,407,936)	**(6,664)**	(10,469)
Payments for intangibles		**-**	-	**-**	-
Proceeds from disposal of property, plant and equipment		**318,621**	69,647		318
Refunds of/(Payments for) bonds and deposits		**74,109**	19,198	**-**	1,016
Payments for capitalised exploration expenditure	13	**-**	(1,653)	**-**	-
Purchase of additional shares in controlled entities		**-**	-	**(2,647,996)**	(1,857,919)
Loans to subsidiaries		**-**	-	**(413,602)**	(900,000)
Loan repayments by subsidiaries		**-**	-	**1,000,000**	2,657,854
Net cash (outflow) inflow from investing activities		**(2,722,249)**	(1,320,744)	**(2,068,262)**	(109,200)
Cash flows from financing activities					
Proceeds from issue of shares by parent company		**2,434,914**	-	**2,500,000**	-
Proceeds from minority shareholders on issue of shares		**1,832,771**	-	**-**	-
Proceeds from applications for shares		**390,731**	357,370	**371,231**	-
Share issue expenses		**(137,500)**	-	**(137,500)**	-
Repayments of borrowings		**(758,934)**	(441,386)	**(17,710)**	-
Proceeds from borrowings		**5,070,905**	3,045,674	**2,600,000**	17,710
Net cash (outflow) inflow from financing activities		**8,832,887**	2,961,658	**5,316,021**	17,710
Net increase (decrease) in cash and cash equivalents		**5,888,445**	(2,381,274)	**2,010,107**	(1,263,573)
Cash and cash equivalents at the beginning of the financial year		**(1,268,782)**	1,104,128	**(1,026,126)**	237,447
Effects of exchange rate changes on cash and cash equivalents		**(263,720)**	8,364	**-**	-
Cash and cash equivalents at the end of the financial year	9	**4,355,943**	(1,268,782)	**983,981**	(1,026,126)
Non-cash investing and financing activities	35				

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

Index to Notes

1 Summary of significant accounting policies

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

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

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

Eastern Corporation Limited
ABN 11 064 957 419
Level 2, 895 Ann St
Fortitude Valley QLD 4006.

A description of the nature of the consolidated entity's operations and its principal activities is included in the directors' report on pages 11 - 14, which is not part of this financial report.

The financial report was authorised for issue by the directors on 28 September 2009. The Company has the power to amend and reissue the financial report.

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

(a) Basis of preparation

This general purpose financial report has been prepared in accordance with Australian Accounting Standards (including Australian Accounting Interpretations) of the Australian Accounting Standards Board ("AASB") and the *Corporations Act 2001*.

(i) Compliance with IFRS

Australian Accounting Standards set out accounting policies that the AASB has concluded would result in a financial report containing relevant and reliable information about transactions, events and conditions. Compliance with Australian Accounting Standards ensures that the financial report of Eastern Corporation Limited complies with International Financial Reporting Standards ("IFRS").

(ii) Historical cost convention

These financial statements have been prepared on an accruals basis and have been based on historical cost, modified where applicable by the revaluation of available-for-sale financial assets, financial assets (including derivative instruments) at fair value through profit or loss, and certain classes of property, plant and equipment.

(iii) Critical accounting estimates

The preparation of financial statements in conformity with Australian Accounting Standards requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in Note 4.

(b) Principles of consolidation

(i) Subsidiaries

Subsidiaries are all those entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one□half of the voting rights. A list of controlled entities is contained in Note 36 to the Financial Statements.

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Eastern Corporation Limited ("company" or "parent company") as at 30 June 2009 and the results of all subsidiaries for the year then ended. Eastern Corporation Limited and its subsidiaries together are referred to in this financial report as the Group or the consolidated entity.

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

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

(b) Principles of consolidation (continued)

(i) Subsidiaries (continued)

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

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

(ii) Joint ventures – Jointly controlled assets

The proportionate interests in the assets, liabilities and expenses of a joint venture activity have been incorporated in the financial statements under the appropriate headings. Details of the joint venture are set out in note 37.

(c) Segment reporting

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

(d) Foreign currency translation

(i) Functional and presentation currency

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

(ii) Transactions and balances

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

(iii) Group companies

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

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

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

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

(e) Revenue recognition

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

(i) Sale of goods

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

(ii) Interest income

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

(e) Revenue recognition (continued)

(iii) Provision of management services

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

(iv) Dividends

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

(f) Income tax

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

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to apply when the assets are recovered or liabilities are settled, based on those tax rates which are enacted or substantively enacted for each jurisdiction. The relevant tax rates are applied to the cumulative amounts of deductible and taxable temporary differences to measure the deferred tax asset or liability. An exception is made for certain temporary differences arising from the initial recognition of an asset or a liability, other than a business combination, that at the time of the transaction did not affect either accounting profit or taxable profit or loss.

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

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

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

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

Tax consolidation legislation

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

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

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

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

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

The New Zealand sunsidiaries have elected to be treated as a consolidated group for New Zealand income tax purposes.

(g) Leases

Leases of property, plant and equipment where the Group as lessee has substantially all the risks and rewards of ownership are classified as finance leases (notes 20 and 21). Finance leases are capitalised at the lease's inception at the lower of the fair value of the leased property and the present value of the minimum lease payments. The corresponding rental obligations, net of finance charges, are included in other long-term payables. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases is depreciated over the shorter of the asset's useful life and the lease term.

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases (note 32). Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

(h) Business combinations

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

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

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

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

(i) Impairment of assets

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

(j) Cash and cash equivalents

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

(k) Trade receivables

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

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

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

(l) Inventories

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

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

(m) Other current assets

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

(n) Financial Instruments

Initial recognition and measurement

Financial assets and financial liabilities are recognised when the entity becomes a party to the contractual provisions to the instrument. For financial assets, this is equivalent to the date that the company commits itself to either the purchase or sale of the asset (ie trade date accounting is adopted).

Financial instruments are initially measured at fair value plus transaction costs, except where the instrument is classified 'at fair value through profit or loss', in which case transaction costs are expensed to profit or loss immediately.

Classification and subsequent measurement

Finance instruments are subsequently measured at either of fair value, amortised cost using the effective interest rate method, or cost. Fair value represents the amount for which an asset could be exchanged or a liability settled, between knowledgeable, willing parties. Where available, quoted prices in an active market are used to determine fair value. In other circumstances, valuation techniques are adopted.

Amortised cost is calculated as: (a) the amount at which the financial asset or financial liability is measured at initial recognition; (b) less principal repayments; (c) plus or minus the cumulative amortisation of the difference, if any, between the amount initially recognised and the maturity amount calculated using the effective interest method; and (d) less any reduction for impairment.

The effective interest method is used to allocate interest income or interest expense over the relevant period and is equivalent to the rate that exactly discounts estimated future cash payments or receipts (including fees, transaction costs and other premiums or discounts) through the expected life (or when this cannot be reliably predicted, the contractual term) of the financial instrument to the net carrying amount of the financial asset or financial liability. Revisions to expected future net cash flows will necessitate an adjustment to the carrying value with a consequential recognition of an income or expense in profit or loss.

The Group does not designate any interests in subsidiaries, associates or joint venture entities as being subject to the requirements of accounting standards specifically applicable to financial instruments.

(i) Financial assets at fair value through profit or loss

Financial assets are classified at 'fair value through profit or loss' when they are either held for trading for the purpose of short-term profit taking, derivatives not held for hedging purposes, or when they are designated as such to avoid an accounting mismatch or to enable performance evaluation where a Group of financial assets is managed by key management personnel on a fair value basis in accordance with a documented risk management or investment strategy. Such assets are subsequently measured at fair value with changes in carrying value being included in profit or loss.

(ii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are subsequently measured at amortised cost.

(iii) Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets that have fixed maturities and fixed or determinable payments, and it is the Group's intention to hold these investments to maturity. They are subsequently measured at amortised cost.

(iv) Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are either not suitable to be classified into other categories of financial assets due to their nature, or they are designated as such by management. They comprise investments in the equity of other entities where there is neither a fixed maturity nor fixed or determinable payments.

(v) Financial liabilities

Non-derivative financial liabilities (excluding financial guarantees) are subsequently measured at amortised cost.

Derivative instruments

The Group designates certain derivatives as either:

(i) hedges of the fair value of recognised assets or liabilities or a firm commitment (fair value hedge); or

(ii) hedges of highly probable forecast transactions (cash flow hedges).

At the inception of the transaction the relationship between hedging instruments and hedged items, as well as the Group's risk management objective and strategy for undertaking various hedge transactions is documented.

Assessments, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions have been and will continue to be highly effective in offsetting changes in fair values or cash flows of hedged items, are also documented.

The group has an interest rate derivative that does not qualify for hedge accounting and is accounted for in accordance with note 1(n)(i). The group has no other derivatives as at 30 June 2009.

(i) Fair value hedge

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the income statement, together with any changes in the fair value of hedged assets or liabilities that are attributable to the hedged risk.

(n) Financial Instruments (continued)
Derivative instruments (continued)

(ii) Cash flow hedge
The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is deferred to a hedge reserve in equity. The gain or loss relating to the ineffective portion is recognised immediately in the income statement.

Amounts accumulated in the hedge reserve in equity are transferred to the income statement in the periods when the hedged item will affect profit or loss.

Fair value
Fair value is determined based on current bid prices for all quoted investments. Valuation techniques are applied to determine the fair value for all unlisted securities, including recent arm's length transactions, reference to similar instruments and option pricing models.

Impairment
At each reporting date, the Group assesses whether there is objective evidence that a financial instrument has been impaired. In the case of available-for-sale financial instruments, a prolonged decline in the value of the instrument is considered to determine whether an impairment has arisen. Impairment losses are recognised in the income statement.

Financial guarantees
Where material, financial guarantees issued, which require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due, are recognised as a financial liability at fair value on initial recognition.

The guarantee is subsequently measured at the higher of the best estimate of the obligation and the amount initially recognised less, when appropriate, cumulative amortisation in accordance with AASB 118: Revenue. Where the entity gives guarantees in exchange for a fee, revenue is recognised under AASB 118.

The fair value of financial guarantee contracts has been assessed using a probability weighted discounted cash flow approach. The probability has been based on:

- the likelihood of the guaranteed party defaulting in a year period;
- the proportion of the exposure that is not expected to be recovered due to the guaranteed party defaulting; and
- the maximum loss exposed if the guaranteed party were to default.

Derecognition
Financial assets are derecognised where the contractual rights to receipt of cash flows expires or the asset is transferred to another party whereby the entity no longer has any significant continuing involvement in the risks and benefits associated with the asset. Financial liabilities are derecognised where the related obligations are either discharged, cancelled or expired. The difference between the carrying value of the financial liability extinguished or transferred to another party and the fair value of consideration paid, including the transfer of non-cash assets or liabilities assumed, is recognised in profit or loss.

(o) Property, plant and equipment
Land is stated at cost and is not subject to depreciation. All other property, plant and equipment is stated at historical cost less depreciation and impairment losses if applicable. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

The carrying amounts of items of property, plant and equipment are reviewed annually by directors to ensure they are not in excess of their recoverable amounts. Recoverable amounts are assessed on the basis of the expected net cash flows that will be recovered from the assets' employment and subsequent disposal. The expected net cash flows have been discounted to their present values in determining recoverable amounts.

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

(o) Property, plant and equipment (continued)

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

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

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

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

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

(p) Intangible assets

Mining licences

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

Goodwill

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

Goodwill is allocated to cash-generating units for the purpose of impairment testing. Each of those cash-generating units represents the Group's investment in each country of operation by each primary reporting segment (note 5).

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

(q) Exploration and evaluation expenditure

With the exception of one item classified as "Held for Sale" (note 13) exploration and evaluation expenditure is charged against the income statement in the accounting period in which it is incurred.

(r) Mine development expenditure

Mine development expenditure is carried forward in the balance sheet at cost less accumulated amortisation. It relates to construction within the mine site of roads, railheads, and other developments which will be used in the mining operation in future financial years. Mine development costs are amortised over the estimated useful life of the asset, which in some cases is equivalent to the estimated economic life of the mine. Other mine development expenditure is expensed when incurred.

(s) Trade and other payables

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

(t) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of assets that necessarily take a substantial period of time to prepare for their intended use or sale, are added to the cost of those assets, until the assets are substantially ready for their intended use or sale.

All other borrowing costs are expensed as incurred.

(u) Provisions

A provision is recognised when the Group has a present legal or constructive obligation as a result of past events for which it is probable that an outflow of economic benefits will result and the amount of the outflow can be reliably estimated. Provisions are not recognised for future operating losses.

A provision for rehabilitation is recognised when there is a present obligation to rehabilitate an area disturbed, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. An asset is created as part of the current and non-current development assets, to the extent that the development relates to future production activities, which is offset by a current and non-current provision for rehabilitation.

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

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

(v) Employee benefits

(i) Employee benefits

Provision is made for the company's liability for employee benefits arising from services rendered by employees to balance date. Employee benefits that are expected to be settled within one year have been measured at the amounts expected to be paid when the liability is settled. Employee benefits payable later than one year have been measured at the present value of the estimated future cash outflows to be made for those benefits. Those cash flows are discounted using market yields on national government bonds with terms to maturity that match the expected timing of cash flows.

(ii) Retirement benefit obligations

Contributions to defined contribution superannuation plans are expensed when incurred.

(iii) Share-based equity settled benefits

The Group provides benefits to employees of the economic entity in the form of share-based payment transactions, whereby employees render services in exchange for shares or options over shares ("equity-settled transactions").

The fair value of options granted to employees and consultants are recognised as an employee benefit expense with a corresponding increase in equity (share option reserve). The fair value is measured at grant date and recognised over the period during which the employees become unconditionally entitled to the options. Fair value is determined by an independent valuer using a Black-Scholes option pricing model. In determining fair value, no account is taken of any performance conditions other than those related to the share price of Eastern Corporation Ltd ("market conditions"). The cumulative expense recognised between grant date and vesting date is adjusted to reflect the directors' best estimate of the number of options that will ultimately vest because of internal conditions of the options, such as the employees having to remain with the company until vesting date, or such that employees are required to meet internal sales targets.

No expense is recognised for options that do not ultimately vest because internal conditions were not met. An expense is still recognised for options that do not ultimately vest because a market condition was not met.

Where the terms of options are modified, the expense continues to be recognised from grant date to vesting date as if the terms had never been changed. In addition, at the date of the modification, a further expense is recognised for any increase in fair value of the transaction as a result of the change.

Where options are cancelled, they are treated as if vesting occurred on cancellation and any unrecognised expenses are taken immediately to the income statement. However, if new options are substituted for the cancelled options and designated as a replacement on grant date, the combined impact of the cancellation and replacement options are treated as if they were a modification.

(iv) Profit sharing and bonus plans

Equity-based compensation benefits are provided to employees via the employee and consultants share incentive scheme. The scheme is administered by way of a separate trust whereby shares in the Company are awarded to employees and consultants by the trust from time to time. As a controlled entity the trust is included in the consolidated financial statements as set out in note 1(b). The fair value cost to the Company of issuing these shares to the employee is expensed when awarded. The change in fair value of shares between the date of purchase and the date issued to employees and consultants is reflected in the share based payments reserve. Since the end of the financial year the Directors have decided that the share incentive is no longer required, that shares held by it should be sold, and that the scheme be wound up.

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

(w) Issued capital
Ordinary shares are classified as equity.

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

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

(x) Earnings per share

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

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

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

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

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

(z) Changes in Accounting Policy
The accounting policies adopted are consistent with those of the previous financial year except for the following:

(i) Provision for Rehabilitation
A provision for rehabilitation is recognised when there is a present obligation to rehabilitate an area disturbed, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. An asset is created as part of the current and non-current development assets, to the extent that the development relates to future production activities, which is offset by a current and non-current provision for rehabilitation.

If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

This represents a change in accounting policy. Previously the Group recognised a provision based on a proportionate charge of the final estimate through the income statement. The effects of this change on the reported figures for comparative years is as follows:

Financial Report Balance/Line Item Affected	**Reported Jun 2008 $**	**Correction $**	**Corrected Jun 2008 $**
Income Statement Extract			
Mine operation expenses			
Depreciation and amortisation	836,024	21,891	857,915
Total mine operation expenses	5,718,641	21,891	5,740,532
Total expenses	**11,578,210**	**21,891**	**11,600,101**
Profit/(loss) before income tax	**(5,420,603)**	**(21,891)**	**(5,442,494)**
Profit/(loss) attributable to members of Eastern Corporation Ltd	**(4,313,565)**	**(21,891)**	**(4,335,456)**

(z) Changes in Accounting Policy (continued)

(i) Provision for Rehabilitation (continued)

Financial Report Balance/Line Item Affected	Reported Jun 2008 $	Correction $	Corrected Jun 2008 $
Balance Sheet Extract			
Non-current assets			
Intangible assets	3,460,398	206,452	3,666,850
Total non-current assets	**10,310,269**	**206,452**	**10,516,721**
Total assets	**15,020,290**	**206,452**	**15,226,742**
Non-current liabilities			
Provisions	186,658	226,727	413,385
Total non-current liabilities	**3,767,296**	**226,727**	**3,994,023**
Total liabilities	**8,195,456**	**226,727**	**8,422,183**
Net assets	6,824,834	(20,275)	6,804,559
Equity			
Retained profits/(Accumulated losses)	(33,542,927)	(21,891)	(33,564,818)
Reserves (currency fluctuation)	(539,804)	(1,616)	(538,188)
Total equity	6,824,834	(20,275)	6,804,559
Statement of Recognised Income and Expense Extract			
Total equity at the beginning of the year	11,154,582	1,616	11,156,198
Profit/(loss) for the year	(4,313,565)	(21,891)	(4,335,456)
Total recognised income and expense for the year	**(5,055,316)**	**(21,891)**	**(5,077,207)**
Total equity at the end of the year	**6,824,834**	**(20,275)**	**6,804,559**

(aa) New Accounting Standards Issued Not Yet Effective

The following new or amended accounting standards and interpretations have been issued, but are not mandatory for financial year ended 30 June 2009. They have not been adopted in preparing the financial report for the year ended 30 June 2009 and are expected to impact the entity in the period of initial application. In all cases the entity intends to apply these standards from application date as indicated below.

(i) ***Revised* AASB 101 *Presentation of Financial Statements and* AASB 2007-8 *Amendments to Australian Accounting Standards arising from AASB 101***

A revised AASB 101 was issued in September 2007 and is applicable for annual reporting periods beginning on or after 1 January 2009. It requires the presentation of a statement of comprehensive income and makes changes to the statement of changes in equity, but will not affect any of the amounts recognised in the financial statements. If an entity has made a prior period adjustment or has reclassified items in the financial statements, it will need to disclose a third balance sheet (statement of financial position), this one being as at the beginning of the comparative period. The Group intends to apply the revised standard from 1 July 2009.

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

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

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

The revised AASB 123 is applicable to annual reporting periods commencing on or after 1 January 2009. It has removed the option to expense all borrowing costs and - when adopted - will require the capitalisation of all borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset. There will be no impact on the financial report of the Group, as the Group already capitalises borrowing costs relating to qualifying assets.

2 Financial stability

The financial statements have been prepared on a going concern basis which contemplates the continuity of normal business activities and the realisation of assets and discharge of liabilities in the ordinary course of business.

The consolidated entity has working capital (current assets less current liabilities) of $416,975 (30 June 2008: $281,861) before deducting assets held for sale of $722,576. Despite the loss after income tax of $2,447,323 in the current year (30 June 2008: $4,335,456), the group's financial position has improved since the beginning of the year. Operating cash outflows have reduced from $4,022,188 at 30 June 2008 to $222,193 at 30 June 2009 and there has been a net increase in cash for the year of $5,888,445 (30 June 2008: net decrease in cash of $2,381,274).

The directors have determined that the consolidated entity is a going concern based on the following:

(a) Coal mining operations in New Zealand produced a profit before income tax of $1,268,451 in comparison to a loss before income tax of $2,008,611 in the previous year, as detailed in Note 5;

(b) Cash flow and budget forecasts demonstrate a capacity to meet ongoing financial covenants and pay debts as and when they fall due;

(c) The consolidated entity has continued to meet its financial obligations in a timely manner before and subsequent to balance date;

(d) The continued support of its financiers which is demonstrated by a waiver received from the consolidated entity's financiers subsequent to balance date to not act upon a breach of the interest cover covenant that occurred at 30 June 2009;

(e) The related party for an at call loan for $2.6M has agreed not to call up its loan for at least another 12 months or until such other time that the consolidated entity has the free cash flow to repay or the loan can be settled in other ways;

(f) The consolidated entity has undertaken a rights issue which closed on 10 July 2009 raising $4.932M before estimated costs of the issue of $0.511M;

(g) Galilee Energy Ltd, a subsidiary, has also undertaken a rights issue which closed on 17 July 2009 raising $5.482M, of which $1.44M was from minority shareholders outside of the consolidated entity;

(h) The consolidated entity has the capacity to sell certain assets such as the Broughton Coal Joint Venture, which on 10 September 2009, the consolidated entity has entered into a put and call option agreement with Resource Portfolio Partners Pty Ltd for consideration in the range of $8.5M to $12M. The agreement is subject to a certain conditions precedent; and

(i) Cash commitments by the consolidated entity have been reduced following the farmin arrangement in respect of Galilee Energy Ltd's tenement ATP529P.

3 Financial risk management

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

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

(a) Market risk

(i) Foreign exchange risk

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

Various subsidiaries of the Group operate in New Zealand (see Note 36) and consequently the group is exposed to foreign exchange risk arising from exposure to movements in AUD/NZD exchange rate.

The Group's exposure to NZD foreign currency risk (calculated in AUD) at the reporting date was as follows:

	2009	2008
Cash and cash equivalents	**1,873,216**	47,834
Trade and other receivables	**1,165,720**	1,185,346
Bank overdrafts	**-**	(385,402)
Trade and other payables	**(2,477,188)**	(1,942,620)
Financial liabilities	**(5,717,178)**	(3,987,497)
Net	**(5,155,430)**	(5,082,339)

The carrying amounts of the parent company's financial assets and liabilities that are not denominated in Australian dollars are immaterial.

(a) Market risk (continued)

(i) Foreign exchange risk (continued)

(ii) Price risk

Coal is not exported from New Zealand so the Group is not exposed to commodity price risk flowing from the international price of coal, except to the extent that the international price influences the price of coal on the New Zealand domestic market.

(iii) Cash flow and fair value interest rate risk

The Group's main interest rate risks arise from long-term borrowings. Borrowings at variable rates expose the Group to cash flow interest rate risk. Borrowings at fixed rates expose the Group to fair value interest rate risk. Group policy is to finance working capital through variable rate bank overdrafts and term loans, and to use fixed rates for financing equipment term loans.

The Group's fixed and variable rate borrowings at the reporting date are disclosed in Note 21(d).

Sensitivity Analysis

The following table illustrates sensitivities to the Group's exposures to changes in interest rates and exchange rates. The table indicates how profit and equity values reported at balance date would have been affected by changes in the relevant risk variable. These sensitivities assume that the movement in a particular variable is independent of other variables.

	Consolidated		Parent	
	Profit	Equity	Profit	Equity
	$	$	$	$
Year ended 30 June 2009				
+/- 2% in interest rates	-/+ 79,225	-/+ 79,225	+/- 98,681	+/- 98,681
+/- 5% in exchange rates	+/- 7,488	+/- 101,158	-	-
Year ended 30 June 2008				
+/- 2% in interest rates	-/+ 105,480	-/+ 105,480	+/- 105,852	+/- 105,852
+/- 5% in exchange rates	+/- 161,711	+/- 57,379	-	-

(b) Credit risk

The Group has no significant concentrations of credit risk, as coal is sold in the New Zealand to customers in several different industries, including food, dairy, cement manufacturing, timber and hospitals. The Group has policies in place to ensure that sales of products and services are made to customers with appropriate credit histories. Receivables from entities other than coal customers are not material.

(c) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities and the availability of funding through an adequate amount of committed credit facilities. Due to the dynamic nature of the underlying businesses the Group aims at maintaining flexibility in funding by arranging appropriate banking facilities as and when required. At the reporting date the Group had access to additional bank overdraft facilities of $804,635 (2008: $1,310,423).

Maturities of financial liabilities

The table at Note 21(d) analyses the Group's financial liabilities by maturity date. The amounts in the table are the contractual undiscounted cash flows.

(d) Fair value estimation

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement or for disclosure purposes. Fair values are the amounts at which an asset could be exchanged, or a liability settled, between knowledgeable parties in an arm's length transaction.

The fair value of financial instruments that are not traded in an active market is determined using valuation techniques. The Group uses a variety of methods and makes assumptions that are based on market conditions existing at each balance date.

4 Critical accounting estimates and judgements

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

(i) Estimated impairment of goodwill

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

(ii) Amortisation of mining licences

The group amortises the cost of mining licences over the estimated life of the recoverable reserves to which they relate (refer note 17). The estimated life of the recoverable reserves may fluctuate over time and as they are mined.

4 Critical accounting estimates and judgements (continued)

(iii) Rehabilitation Provision

Estimates are made for rehabilitation based on the level of disturbance known at each balance date. These estimates are then costed at future rates and discounted back to present value. The level of rehabilitation depends on the requirements of the mining licence for each area of interest.

(iv) Income tax

The Group has recognised deferred tax assets relating to carried forward tax losses to the extent that there are sufficient deferred tax liabilities relating to the same taxation authority and the same tax group against which the unused tax losses can be utilised. However, utilisation of the tax losses also depends on the ability of the tax group to satisfy certain tests at the time the losses are recouped. If the tax group fails to satisfy the tests, carried forward tax losses of $765,364 (2008: $1,003,843) would have to be written off to income tax expense.

5 Segment Information

(a) Description of segments

Business segments

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

Operating coal mines

Operation of two coal mines and a coal distribution facility on New Zealand's south island.

Exploration and evaluation

Exploration and evaluation of coal and coal seam methane deposits.

Geographical segments

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

Australia

The home country of the parent company. The areas of operation are principally exploration and evaluation.

New Zealand

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

(b) Primary reporting format - business segments

2009	Coal mine operations $	Exploration and evaluation $	Inter-segment eliminations/ unallocated $	Consolidated $
Revenue from sales to external customers	20,430,990	-	-	20,430,990
Other revenue/income	159,867	86,864	32,348	279,079
Total segment revenue/income	20,590,857	86,864	32,348	20,710,069
Segment result	1,268,451	(2,288,665)	(888,511)	(1,908,725)
Income tax benefit				(538,598)
Profit/(loss) for the year				(2,447,323)
Segment assets	17,106,453	2,570,801	1,453,815	21,131,069
Segment liabilities	14,982,138	3,729,747	(6,388,184)	12,323,701
Acquisitions of property, plant and equipment, intangibles and other non-current segment assets	3,056,049	(4,318)	6,664	3,058,395
Depreciation and amortisation expense	1,312,745	233,336	25,898	1,571,979
Impairment charge	-	-	-	-

2008	Coal mine operations $	Exploration and evaluation $	Inter-segment eliminations/ unallocated $	Consolidated $
Revenue from sales to external customers	5,984,152	-	-	5,984,152
Other revenue/income	75,772	71,250	26,433	173,455
Total segment revenue/income	6,059,924	71,250	26,433	6,157,607
Segment result	(2,008,611)	(2,897,075)	(536,808)	(5,442,494)

5 Segment Information (continued)

2008 (continued)	Coal mine operations $	Exploration and evaluation $	Inter-segment eliminations/ unallocated $	Consolidated $
Segment result	(2,008,611)	(2,897,075)	(536,808)	(5,442,494)
Income tax benefit				1,107,038
Profit/(loss) for the year				(4,335,456)
Segment assets	12,912,066	1,577,275	737,401	15,226,742
Segment liabilities	11,764,478	4,947,823	(8,290,118)	8,422,183
Acquisitions of property, plant and equipment, intangibles and other non-current segment assets	1,427,633	8,765	10,469	1,446,867
Depreciation and amortisation expense	876,489	95,480	32,300	1,004,269
Impairment charge	181,936	-	-	181,936

(c) Secondary reporting format - geographical segments

	Segment revenues from sales to external customers		Segment assets		Acquisitions of property plant and equipment, intangibles and other non-current segment assets	
	2009	2008	**2009**	2008	**2009**	2008
	$	$	**$**	$	**$**	$
Australia	-	-	**4,024,616**	2,314,676	**2,346**	19,234
New Zealand	**20,430,990**	5,984,152	**17,106,453**	12,912,066	**3,056,049**	1,427,633
	20,430,990	5,984,152	**21,131,069**	15,226,742	**3,058,395**	1,446,867

6 Revenue

	Consolidated		Parent	
	2009	2008	**2009**	2008
	$	$	**$**	$
From continuing operations				
Operating revenue				
Revenue from the sale of goods and services	**20,430,990**	5,984,152	-	-
Other revenue				
Interest received or receivable				
Subsidiaries	-	-	**773,555**	731,595
Short term deposits	**129,123**	126,606	**23,257**	19,693
Dividend received from subsidiary company	-	-	-	355,361
Management fees charged to subsidiaries	-	-	**438,886**	556,332
Gains on disposals of assets	**139,783**	-	-	-
Sundry income	**10,173**	46,849	**9,091**	6,740
	279,079	173,455	**1,244,789**	1,669,721
Total revenue from continuing operations	**20,710,069**	6,157,607	**1,244,789**	1,669,721

7 Expenses

	Consolidated		Parent	
	2009	2008	**2009**	2008
	$	$	**$**	$
Profit/(loss) before income tax includes the following specific expenses:				
Depreciation and amortisation				
Mining operations				
Depreciation				
Buildings and leasehold improvements	**42,728**	34,899	-	-
Mine infrastructure	**39,597**	613	-	-
Plant and equipment	**417,819**	252,763	-	-
Plant and equipment under finance leases	**249,886**	138,091	-	-
Vehicles	**28,357**	41,241	-	-
	778,387	467,607	-	-

7 Expenses (continued)

	Consolidated 2009 $	Consolidated 2008 $	Parent 2009 $	Parent 2008 $
Profit/(loss) before income tax includes the following specific expenses (continued):				
Mining operations				
Amortisation				
Mining licenses	**427,962**	368,417	**-**	-
Intangible - rehabilitation asset	**86,765**	21,891	**-**	-
	514,727	390,308	**-**	-
	1,293,114	857,915	**-**	-
Exploration and evaluation				
Depreciation				
Plant and equipment	**63,085**	88,866	**-**	-
Amortisation				
Exploration and evaluation expenses previously deferred	**170,251**	-	**170,251**	-
	233,336	88,866	**170,251**	-
Administration				
Depreciation				
Buildings and leasehold improvements	**13,118**	16,162	**11,814**	14,768
Motor vehicles	**6,841**	9,630	**1,295**	-
Plant and equipment	**25,570**	31,696	**12,789**	17,532
	45,529	57,488	**25,898**	32,300
Total depreciation and amortisation	**1,571,979**	1,004,269	**196,149**	32,300
Impairment charges				
Impairment charges resulting from the write-down to fair value of buildings (note 16(a))	**-**	181,936	**-**	-
Net Loss on disposals of property, plant and equipment	**9,962**	77,609	**-**	-
Finance costs				
Interest and finance charges paid/payable	**934,815**	477,429	**329,737**	16,294
Rental expense relating to operating leases				
Minimum lease payments	**277,970**	262,432	**111,229**	103,420
Net foreign exchange losses/(gains)	**22,355**	(481)	**(53,085)**	688,049
Employee termination benefit	**-**	200,000	**-**	200,000

8 Income tax expense

	Consolidated 2009 $	Consolidated 2008 $	Parent 2009 $	Parent 2008 $
(a) Income tax expense/(benefit)				
Current tax	**-**	(601,651)	**-**	-
Deferred tax, arising from the recognition and reversal of temporary differences	**440,444**	(626,358)	**156,363**	(163,669)
Adjustments for current tax of prior periods	**98,154**	120,971	**82,289**	3,120
	538,598	(1,107,038)	**238,652**	(160,549)
Deferred income tax expense/(revenue) included in income tax expense/(benefit) comprises:				
Decrease/(Increase) in deferred tax assets (note 18)	**190,577**	(524,121)	**62,276**	(148,267)
Increase/(Decrease) in deferred tax liabilities (note 23)	**249,867**	(102,237)	**94,087**	(15,402)
	440,444	(626,358)	**156,363**	(163,669)

8 Income tax expense (continued)

	Consolidated 2009 $	Consolidated 2008 $	Parent 2009 $	Parent 2008 $
b) Numerical reconciliation of income tax expense to prima facie tax payable:				
Profit/(loss) from continuing operations before income tax (expense)/benefit	**(1,908,725)**	(5,442,494)	**(835,426)**	(897,922)
Tax at the Australian tax rate of 30% (2008: 30%)	**(572,618)**	(1,632,748)	**(250,628)**	(269,377)
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:				
Unrealised exchange losses	-	-	-	-
Non-deductible expenses	**2,358**	(1,202)	**285**	547
Non-deductible depreciation	**3,544**	-	**3,544**	-
Non-deductible directors' share options expense	**43,576**	-	**43,576**	-
Current year tax losses not recognised	**853,417**	1,084,921	**167,202**	211,772
Impairment charge on buildings	-	60,039	-	-
Research & development tax offset	-	(601,651)	-	-
Dividend received from subsidiary company	-	-	-	(106,611)
	330,277	(1,090,641)	**(36,021)**	(163,669)
Difference in overseas tax rates	-	(59,602)	-	-
Effect of income tax rate change on deferred tax assets and liabilities	-	10,949	-	-
Effect of exchange rate change on deferred tax assets and liabilities	**(15,866)**	(95,282)	-	-
Previously unrecognised and unused tax losses and tax offsets now recognised as deferred tax assets	-	-	-	-
Adjustments for current tax of prior periods	**98,154**	120,971	**82,289**	3,120
Adjustments for deferred tax of prior periods	**126,033**	6,567	**192,384**	-
Income tax expense/(benefit)	**538,598**	(1,107,038)	**238,652**	(160,549)
(c) Amounts recognised directly in equity				
Aggregate deferred tax arising in the reporting period and not recognised in net profit or loss but directly credited to equity				
Net deferred tax - debited/(credited) directly to equity (note 27)	**48,305**	-	**48,305**	-

(d) Tax losses

	Consolidated 2009 $	Consolidated 2008 $	Parent 2009 $	Parent 2008 $
Unused tax losses for which no deferred tax asset has been recognised	**26,647,951**	23,803,227	**4,872,757**	4,315,417
Potential tax benefit at country rates of tax	**7,994,385**	7,140,968	**1,461,827**	1,294,625

(e) Tax consolidation legislation

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

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

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

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

9 Current assets - Cash and cash equivalents

	Consolidated		Parent	
	2009	2008	**2009**	2008
	$	$	**$**	$
Cash at bank and in hand	**2,822,111**	143,046	**912,611**	300
Deposits at call	**1,533,832**	70,833	**71,370**	70,833
	4,355,943	213,879	**983,981**	71,133

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

The above figures are reconciled to cash at the end of the financial year as shown in the Cash Flow Statements as follows:

	Consolidated		Parent	
	2009	2008	**2009**	2008
	$	$	**$**	$
Balances as above	**4,355,943**	213,879	**983,981**	71,133
Bank overdrafts	**-**	(1,482,661)	**-**	**(1,097,259)**
Balances per Cash Flow Statements	**4,355,943**	(1,268,782)	**983,981**	(1,026,126)

(b) Interest rate risk exposure

The Group's and the parent's exposure to interest rate risk is discussed in Note 3.

10 Current assets - Trade and other receivables

	Consolidated		Parent	
	2009	2008	**2009**	2008
	$	$	**$**	$
Trade receivables	**1,079,894**	1,027,642	**136**	1,464
Intercompany receivables	**-**	-	**541,848**	580,918
Other receivables	**3,179**	9,375	**3,104**	1,301
Prepayments	**220,362**	246,384	**192,181**	202,762
	1,303,435	1,283,401	**737,269**	786,445

* Refer to note 14 for the non-current portions of these receivables.

(a) Effective interest rates and credit risk

Information concerning the effective interest rate and credit risk of both current and non-current receivables is set out in the non-current receivables note (note 14).

(b) Past due but not impaired

As of 30 June 2009, trade receivables of $24,669 (2008: $240,986) were past due but not impaired. These relate to a number of independent customers for whom there is no history of default. All past due receivables were less than two months overdue for payment. The other classes within trade and other receivables do not contain impaired assets and are not past due. Receivables remaining within the initial trade terms are of good credit quality.

11 Current assets - Inventories

	Consolidated		Parent	
	2009	2008	**2009**	2008
	$	$	**$**	$
Raw materials and stores - at cost	**19,648**	43,794	**-**	-
Work in progress - at cost	**250,200**	126,450	**-**	-
Finished goods - at cost	**784,008**	504,311	**-**	-
	1,053,856	674,555	**-**	-

12 Current assets - Other assets

	Consolidated		Parent	
	2009	2008	**2009**	2008
	$	$	**$**	$
Overburden stripped in advance of coal production	**1,280,772**	1,499,404	**-**	-
	1,280,772	1,499,404	**-**	-

13 Non-current assets classified as held for sale

	Consolidated 2009 $	Consolidated 2008 $	Parent 2009 $	Parent 2008 $
Exploration and evaluation expenditure				
Movements in exploration and evaluation expenditure				
Opening net book amount	**722,576**	720,923	-	-
Additions/purchases	-	1,653	-	-
Closing net book amount	**722,576**	722,576	-	-
Closing balance				
Cost	**722,576**	722,576	-	-
Accumulated amortisation	-	-	-	-
Net book amount	**722,576**	722,576	-	-

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

Details of the economic entity's areas of interest are disclosed in note 32.

14 Non-current assets - Trade and other receivables

	Consolidated 2009 $	Consolidated 2008 $	Parent 2009 $	Parent 2008 $
Loans to subsidiaries	-	-	**9,658,562**	9,444,951
Provision for doubtful debts	-	-	**(3,113,935)**	(3,113,935)
	-	-	**6,544,627**	6,331,016
Environmental bonds and deposits	**213,503**	287,612	**5,439**	5,439
	213,503	**287,612**	**6,550,066**	**6,336,455**

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

(a) Loans to subsidiaries

	Consolidated 2009 $	Consolidated 2008 $	Parent 2009 $	Parent 2008 $
Opening net book amount	-	-	**6,331,016**	7,956,894
Advances to subsidiaries	-	-	**551,961**	900,000
Repayments by subsidiaries	-	-	**(1,000,000)**	(2,492,925)
Additional shares purchased	-	-	-	-
Management fees credited	-	-	**292,894**	309,096
Interest credited	-	-	**315,527**	-
Dividend credited	-	-	-	355,361
Non-resident withholding tax paid	-	-	-	(8,975)
Foreign exchange differences	-	-	**53,229**	(688,435)
	-	-	**6,544,627**	6,331,016

(b) Fair values

The fair values and carrying values of environmental bonds and deposits of the Group are as follows:

	2009 Carrying amount $	2009 Fair value $	2008 Carrying amount $	2008 Fair value $
Environmental bonds and deposits	**213,503**	**213,503**	287,612	287,612
	213,503	**213,503**	287,612	287,612

15 Non-current assets - Other financial assets

	Consolidated 2009 $	Consolidated 2008 $	Parent 2009 $	Parent 2008 $
Shares in subsidiaries at cost (note 36)	-	-	**13,198,849**	10,550,853
Provision for diminution	-	-	**(4,000,000)**	(4,000,000)
	-	-	**9,198,849**	6,550,853
Shares in subsidiaries				
Opening net book amount	-	-	**6,550,853**	4,692,934
Additions - Shares in Galilee Energy Limited	-	-	**2,647,996**	1,857,919
Additions - Shares in Eastern Coal Holdings (NZ) Ltd	-	-	-	-
Closing net book amount	-	-	**9,198,849**	6,550,853

16 Non-current assets - Property, plant and equipment

Consolidated	Freehold land $	Buildings & leasehold improvements $	Mining infra-structure $	Plant and equipment $	Leased plant and equipment $	Vehicles $	Total $
At 30 June 2009							
Cost or fair value	611,476	647,545	747,105	4,864,760	3,145,119	382,457	10,398,462
Accumulated depreciation		(92,233)	(39,826)	(2,069,261)	(443,092)	(183,525)	(2,827,937)
Net book amount	611,476	555,312	707,279	2,795,499	2,702,027	198,932	7,570,525
Year ended 30 June 2009							
Opening net book amount	602,813	572,875	37,360	2,723,998	1,404,359	189,942	5,531,347
Exchange differences	8,663	6,737	(5,379)	34,901	9,153	2,509	56,584
Re-classifications	-	-		177,303	(177,303)	-	-
Additions	-	31,546	714,895	519,150	1,715,704	77,100	3,058,395
Disposals	-	-	-	(153,378)	-	(35,422)	(188,800)
Impairment charge	-	-	-	-	-	-	-
Depreciation charge	-	(55,846)	(39,597)	(506,475)	(249,886)	(35,197)	(887,001)
Closing net book amount	611,476	555,312	707,279	2,795,499	2,702,027	198,932	7,570,525
At 30 June 2008							
Cost	602,813	610,399	37,928	4,579,152	1,744,323	325,911	7,900,526
Accumulated depreciation	-	(37,524)	(568)	(1,855,154)	(339,964)	(135,969)	(2,369,179)
Net book amount	602,813	572,875	37,360	2,723,998	1,404,359	189,942	5,531,347
Year ended 30 June 2008							
Opening net book amount	688,272	780,470	-	2,238,894	1,757,303	263,765	5,728,704
Exchange differences	(85,459)	(72,533)	(2,978)	(301,849)	(210,223)	(28,028)	(701,070)
Re-classifications	-	-	-	-	-	-	-
Additions	-	100,236	40,951	1,304,539	-	1,141	1,446,867
Disposals	-	(2,302)	-	(144,261)	-	(694)	(147,257)
Impairment charge	-	(181,936)	-	-	-	-	(181,936)
Depreciation charge	-	(51,060)	(613)	(373,325)	(142,721)	(46,242)	(613,961)
Closing net book amount	602,813	572,875	37,360	2,723,998	1,404,359	189,942	5,531,347

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

Parent	Leasehold improvements $	Motor Vehicles $	Plant and equipment $	Total $
At 30 June 2009				
Cost	73,840	29,787	88,323	191,950
Accumulated depreciation	(26,582)	(26,764)	(56,402)	(109,748)
Net book amount	47,258	3,023	31,921	82,202
Year ended 30 June 2009				
Opening net book amount	59,072	-	42,364	101,436
Additions	-	4,318	2,346	6,664
Disposals	-		-	-
Depreciation charge	(11,814)	(1,295)	(12,789)	(25,898)
Closing net book amount	47,258	3,023	31,921	82,202
At 30 June 2008				
Cost	73,840	-	85,977	159,817
Accumulated depreciation	(14,768)	-	(43,613)	(58,381)
Net book amount	59,072	-	42,364	101,436
Year ended 30 June 2008				
Opening net book amount	73,840	-	49,745	123,585
Additions	-	-	10,469	10,469
Disposals	-	-	(318)	(318)
Depreciation charge	(14,768)	-	(17,532)	(32,300)
Closing net book amount	59,072	-	42,364	101,436

(a) Impairment of land and buildings

The Timaru buildings were reviewed for impairment by the directors during 2008 based on an independent assessment by a registered public valuer in Timaru. The revaluation resulted in an impairment charge of $181,936 which was recognised in the income statement.

(b) Mine infrastructure

Ultimate recoupment of mine infrastructure expenditure carried forward is dependent on successful development and commercial exploitation, or alternatively, sale of the respective mines. The directors have considered the expenditure, particularly in relation to planned mining activities, and are confident the amounts will be realised either through sale or future cash flows from sales of coal extracted from the mines.

(c) Non-current assets pledged as security

Refer to note 21 for information on non-current assets pledged as security by the parent company and its subsidiaries.

17 Non-current assets - Intangible assets

	Consolidated			
2009	**Mining Licences** $	**Goodwill** $	**Rehabilitation Asset**	**Total** $
Movements in intangible assets				
Opening balance 1 July	2,805,463	527,384	334,003	**3,666,850**
Additions	-	-	81,826	**81,826**
Amortisation charge *	(427,962)	-	(86,765)	**(514,727)**
Exchange differences	44,612	7,681	4,908	**57,201**
Closing balance 30 June	2,422,113	535,065	333,972	**3,291,150**
Closing balance				
Cost	3,525,249	568,309	490,572	**4,584,130**
Accumulated amortisation	(1,103,136)	-	(156,600)	**(1,259,736)**
Accumulated exchange differences	-	(33,244)	-	**(33,244)**
Net book amount	2,422,113	535,065	333,972	**3,291,150**

17 Non-current assets - Intangible assets (continued)

2008	Consolidated Mining Licences $	Goodwill $	Rehabilitation Asset	Total $
Movements in intangible assets				
Opening balance 1 July	3,598,772	603,156	405,177	4,607,105
Amortisation charge *	(368,417)	-	(21,892)	(390,309)
Exchange differences	(424,892)	(75,772)	(49,282)	(549,946)
Closing balance 30 June	2,805,463	527,384	334,003	3,666,850
Closing balance				
Cost	3,474,644	568,309	403,585	4,446,538
Accumulated amortisation	(669,181)	-	(69,582)	(738,763)
Accumulated exchange differences	-	(40,925)	-	(40,925)
Net book amount	2,805,463	527,384	334,003	3,666,850

* The amortisation charge is included in the income statement.

Goodwill is allocated to the cash-generating unit (CGU) to which it relates. The applicable CGU has been determined to be coal mining and distribution in New Zealand. The recoverable amount of the CGU has been determined on a value in use approach, which is based on financial budgets approved by management covering a five year period that reflect current contracts and agreements in place for revenues and major expenses, as well as management's best estimates for all other costs. Cash flows beyond the five year period are extrapolated using a growth rate of 2.5% (2008: 2.5%). The pre-tax discount rate applied to the cash flow projections is 18.0% (2008:18.0%).

Impact of possible changes in key assumptions

The recoverable amount of the goodwill of the New Zealand business is estimated to be significantly in excess of its carrying amount. Management does not consider a change in any of the key assumptions to be reasonably possible at this time.

18 Non-current assets - Deferred tax assets

	Consolidated 2009 $	2008 $	Parent 2009 $	2008 $
The balance comprises temporary differences attributable to:				
Amounts recognised in profit or loss				
Intangibles	**38,070**	38,392	**-**	-
Accrued expenses	**6,348**	16,146	**6,348**	16,146
Employee benefits	**52,749**	47,276	**15,497**	25,103
Provision for rehabilitation	**166,176**	53,057	**-**	-
Provision for lease make-good expense	**2,940**	2,940	**2,940**	2,940
Lease fitout allowance	**11,688**	-	**11,688**	-
Black hole expenses	**62,565**	-	**62,565**	-
Property, plant and equipment	**165,604**	183,301	**-**	-
Finance leases	**-**	-	**-**	-
Unrealised exchange losses	**-**	165,431	**-**	165,430
Unused tax losses (New Zealand)	**765,364**	1,003,843	**-**	-
	1,271,504	1,510,386	**99,038**	209,619
Amounts recognised directly in equity				
Share issue expenses	**271,504**	194,248	**271,504**	194,248
Amortisation of share issue expense	**(203,699)**	(174,748)	**(203,699)**	(174,748)
	1,339,309	1,529,886	**166,843**	229,119
Set-off of deferred tax liabilities pursuant to set-off provisions (note 23)	**-**	(498,974)	**-**	(106,968)
Net deferred tax assets	**1,339,309**	1,030,912	**166,843**	122,151

18 Non-current assets - Deferred tax assets (continued)

	Consolidated 2009 $	Consolidated 2008 $	Parent 2009 $	Parent 2008 $
Movements:				
Opening balance at 1 July	**1,529,886**	1,005,767	**229,119**	80,852
Credited/(charged) to the income statement (note 8(a))	**(190,577)**	736,338	**(62,276)**	148,267
Credited/(charged) to the income statement due to income tax rate change (note 8(a))	-	(13,302)	-	-
Credited/(charged) to the income statement due to exchange differences (note 8(a))	-	(198,917)	-	-
Credited to equity	-	-	-	-
Closing balance at 30 June	**1,339,309**	1,529,886	**166,843**	229,119

	Consolidated 2009 $	Consolidated 2008 $	Parent 2009 $	Parent 2008 $
Deferred tax assets to be recovered after more than 12 months	**1,339,309**	1,263,663	**166,843**	168,370
Deferred tax assets to be recovered within 12 months		266,223		60,749
	1,339,309	1,529,886	**166,843**	229,119

19 Current liabilities - Trade and other payables

	Consolidated 2009 $	Consolidated 2008 $	Parent 2009 $	Parent 2008 $
Trade payables	**1,763,338**	2,048,824	**469,639**	240,454
Funds held in advance of rights issue (note 9(c))	**390,731**	368,168	**371,231**	-
Other payables and accrued expenses	**147,288**	(270,423)	**69,416**	55,136
Employee benefits payable	**175,831**	157,587	**51,656**	83,678
	2,477,188	2,304,156	**961,942**	379,268

20 Current financial liabilities

	Consolidated 2009 $	Consolidated 2008 $	Parent 2009 $	Parent 2008 $
Secured				
Bank overdrafts	-	1,482,661	-	1,097,259
Lease liabilities (note 32)	**569,229**	307,492	-	-
Bank term loan	**2,295,575**	139,900	-	-
Finance company term loan	**357,615**	176,241	-	-
Other loans	-	17,710	-	**17,710**
Unsecured				
Loan from related company	**2,600,000**	-	**2,600,000**	-
	5,822,419	2,124,004	**2,600,000**	1,114,969

(a) Interest rate risk exposures

Details of the Group's exposure to interest rate changes on borrowings are set out in note 22.

(b) Security

Details of the security relating to each of the secured liabilities are set out in note 22.

21 Non-current financial liabilities

	Consolidated 2009 $	Consolidated 2008 $	Parent 2009 $	Parent 2008 $
Secured				
Lease liabilities (note 32)	**1,435,403**	652,041	-	-
Bank term loan	**-**	2,239,353	-	-
Finance company term loan	**1,059,356**	472,470		
	2,494,759	3,363,864	-	-

(a) Breach of covenant and remedy

As at 30 June 2009, the group had breached the interest cover covenant on its term loan facility with its bank. Because of the breach, the outstanding loan balance was reclassified as a current liability. Since the year end, the bank has advised the company that it has waived the right to recall the loan balances as a result of the breach.

(b) Total secured liabilities

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

	Consolidated 2009 $	Consolidated 2008 $	Parent 2009 $	Parent 2008 $
Bank overdrafts	**-**	1,482,661	-	1,097,259
Lease liabilities	**2,004,632**	959,533	-	-
Bank term loans	**2,295,575**	2,379,253	-	-
Finance company term loan	**1,416,971**	648,711	-	-
Other loans	**-**	17,710	-	17,710
	5,717,178	5,487,868	-	1,114,969

(c) Assets pledged as security

Lease liabilities are effectively secured as the rights to the leased assets recognised in the financial statements revert to the lessor in the event of default. The carrying amount of leased assets pledged as security for the lease liabilities is $2,702,027 (2008: $1,404,359). Refer note 16.

The bank loans and overdraft are secured by an all obligations General Security Agreement (incorporating cross guarantee) given by all the Group's New Zealand subsidiaries ("the NZ Group") under which all members of the NZ Group grant to the bank a first ranking security interest over all their present and future acquired property (including proceeds) and undertakings, and a registered first and exclusive mortgage over the property at Timaru owned by the subsidiary company, Eastern Coal Supplies Ltd, whose combined value is A$14,060,771 (2008: A$12,161,925).

The bank loans and overdraft are also secured by a negative pledge that imposes certain covenants on the NZ Group. The negative pledge states that the NZ companies will not provide any other security over their assets, and the covenants require the NZ Group to ensure that total equity always exceeds 45% of its net assets including mining licences but excluding other intangible assets, and that net profit before income tax always exceeds 2.5 its funding costs.

The NZ Group agreed to subordinate the loans owing to the parent company, Eastern Corporation Limited, to the bank debt and to suspend repayments of the parent company debt (with the exception of an initial repayment of NZ$3,000,000) and interest payments and payments of management fees to the parent company until 30th June 2009.

22 Interest rate risk exposures

The following table sets out the Group's exposure to interest rate risk and the effective weighted average interest rate by maturity periods. Exposures arise predominantly from liabilities bearing variable interest rates as the Group intends to hold fixed rate liabilities to maturity.

		2009 Secured Liabilities $	2009 Weighted average interest rate %	2008 Secured Liabilities $	2008 Weighted average interest rate %
Floating interest rate	Over 1 to 2 years	**4,493,258**	**9.0%**	4,510,625	10.8%
Fixed interest rate	1 year or less	**926,844**	**9.0%**	325,202	7.5%
	Over 1 to 2 years	**1,345,023**	**8.9%**	235,095	8.9%
	Over 2 to 3 years	**961,269**	**9.0%**	217,546	10.0%
	Over 3 to 4 years	**590,784**	**9.6%**	199,400	10.0%
		8,317,178	**9.0%**	5,487,868	10.5%

22 Interest rate risk exposures (continued)

Fair value

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

	2009		2008	
	Carrying amount	**Fair value**	Carrying amount	Fair value
	$	**$**	$	$
On-balance sheet non-traded financial liabilities				
Bank overdraft	**-**	**-**	1,482,661	1,482,661
Lease liabilities	**2,004,632**	**2,004,632**	959,533	959,533
Bank term loan	**2,295,575**	**2,295,575**	2,379,253	2,379,253
Finance company term loan	**1,416,971**	**1,416,971**	648,711	648,711
Other loan	**-**	**-**	17,710	17,710
Loan from related company	**2,600,000**	**2,600,000**	-	-
	8,317,178	**8,317,178**	5,487,868	5,487,868

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

As at 30 June 2009 the group had an unused overdraft facility of NZ$1,000,000 (A$804,365) (2008: NZ$ 514,046 (A$407,682)).

23 Non-current liabilities - Deferred tax liabilities

	Consolidated		Parent	
	2009	2008	**2009**	2008
	$	$	**$**	$
The balance comprises temporary differences attributable to:				
Amounts recognised in profit or loss				
Intangibles	**281,192**	229,121	**-**	-
Property, plant and equipment	**57,569**	29,438	**-**	-
Finance leases	**209,026**	133,448	**-**	-
Receivables	**137,427**	106,968	**137,427**	106,968
Unrealised exchange gains	**63,628**	-	**63,628**	-
Exploration and evaluation expenditure	**216,773**	216,773	**-**	-
	965,615	715,748	**201,055**	106,968
Amounts recognised directly in equity				
Unrealised exchange gains	**-**	-	**-**	-
	965,615	715,748	**201,055**	106,968
Set-off of deferred tax assets pursuant to set-off provisions (note 18)	**-**	(498,974)	**-**	(106,968)
Net deferred tax liabilities	**965,615**	216,774	**201,055**	-
Movements:				
Opening balance at 1 July	**715,748**	817,987	**106,968**	122,370
Charged/(credited) to the income statement (note 8(a))	**249,867**	37,364	**94,087**	(15,402)
Charged/(credited) to the income statement due to income tax rate change (note 8(a))	**-**	(35,968)	**-**	-
Charged/(credited) to the income statement due to exchange differences	**-**	(103,635)		-
Charged to equity	**-**	-	**-**	-
Closing balance at 30 June	**965,615**	715,748	**201,055**	106,968
Deferred tax liabilities to be settled after more than 12 months	**611,415**	392,007	**137,427**	-
Deferred tax liabilities to be settled within 12 months	**354,200**	323,741	**63,628**	106,968
	965,615	715,748	**201,055**	106,968

24 Non-current liabilities - Provisions

	Consolidated		Parent	
	2009	2008	**2009**	2008
	$	$	**$**	$
Provision for rehabilitation	**553,920**	403,585	**-**	-
Provision for make-good obligation under lease agreement	**9,800**	9,800	**9,800**	9,800
	563,720	413,385	**9,800**	9,800

(a) Movement in provision for rehabilitation

	Consolidated		Parent	
	2009	2008	**2009**	2008
	$	$	**$**	$
Opening balance 1 July	**403,585**	202,268	**-**	-
Correction to opening balance (note 1(y)(i))	**-**	226,727		
Additional provisions recognised	**322,464**	-	**-**	-
Amounts used	**(176,728)**	-	**-**	-
Exchange variance	**4,599**	(25,410)	**-**	-
Closing balance 30 June	**553,920**	403,585	**-**	-

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

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

	Consolidated		Parent	
	2009	2008	**2009**	2008
	$	$	**$**	$
Opening balance 1 July	**9,800**	9,800	**9,800**	9,800
Amount recognised	**-**	-	**-**	-
Closing balance 30 June	**9,800**	9,800	**9,800**	9,800

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

25 Share-based payments

On 4th December 2008, two directors were issued with 2,000,000 options each to take up ordinary shares with an exercise date of 3 years from their issue date. 1,000,000 options for each director with an exercise price of $0.30 will vest one year from their issue date, and the remainder with an exercise price of $0.35 will vest two years from their issue date. The options hold no voting or dividend rights and are not transferable, other than to related parties of the directors involved. The fair value of the options granted is deemed to represent the value of the directors' services received over the vesting period.

	Consolidated and Parent			
	2009		2008	
	No. of Options	**Weighted average exercise price**	No. of Options	Weighted average exercise price
Outstanding at beginning of the year	-	-	-	-
Granted	4,000,000	$0.325	-	-
Forfeited	-	-	-	-
Exercised	-	-	-	-
Expired	-	-	-	-
Outstanding at end of year	4,000,000	$0.325	-	-
Exercisable at end of year	-	-	-	-

25 Share-based payments (continued)

The weighted average fair value of options granted during the year was $0.0825. The values were calculated using the Black-Scholes option pricing model applying the following inputs:

Weighted average exercise price:	$0.30	$0.35
Weighted average life of the option:	One year	Two years
Underlying share price:	$0.237	$0.237
Expected share price volatility:	65%	65%
Risk-free interest rate:	4.37%	4.37%
Fair value	$0.084	$0.081

Included under Directors' Remuneration expense in the Income Statement is $145,520 which relates to equity-settled share-based payment transactions (2008: $Nil)

26 Issued capital

(a) Share capital

	Consolidated		Parent	
	2009	2008	**2009**	2008
	$	$	**$**	$
82,202,068 (2008: 71,785,401) fully paid ordinary shares	**43,154,098**	40,654,098	**43,154,098**	40,654,098
Transaction costs relating to share issues (net of tax)	**(542,440)**	(453,245)	**(542,440)**	(453,245)
	42,611,658	40,200,853	**42,611,658**	40,200,853
Gain on capital issued by subsidiary	**4,051,348**	2,283,663	-	-
Issued capital	**46,663,006**	42,484,516	**42,611,658**	40,200,853

(b) Movements in ordinary share capital:

Date	Details	Number of shares	Issue price	$
30 June 2007	Balance	717,853,187		40,200,853
Reduction in number of shares due to 10 for 1 consolidation		(646,067,786)		-
30 June 2008	Balance	71,785,401		40,200,853
Changes in the year from 1 July 2008 to 30 June 2009				
Share placement - May 2009		**10,416,667**	**$0.24**	**2,500,000**
Less: Share issue costs in relation to share placement (net ot tax)				**(89,195)**
30 June 2009	Balance	**82,202,068**		**42,611,658**

(c) Movements in gain on capital issued by subsidiary:

	Consolidated		Parent	
	2009	2008	**2009**	2008
	$	$	**$**	$
Balance at the beginning of the year	**2,283,663**	1,558,095	-	-
Galilee Energy Limited rights issue	**1,767,685**	725,568	-	-
Balance at the end of the year	**4,051,348**	2,283,663	-	-

(d) Ordinary shares

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

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

(e) Treasury stock

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

	2009	2008
	$	$
Parent company contributed equity at 30 June	**42,611,658**	40,200,853
Shares acquired by the Fund - at cost	**(60,100)**	(60,100)
Shares issued by the Fund - at cost	**41,244**	41,244
Consolidated contributed equity at 30 June	**42,592,802**	40,181,997

There have been no shares issued by the Fund during the year (2008: Nil).

26 Issued capital (continued)

(f) Capital Management

Management controls the capital and the debt of the group to ensure that it can fund its operations and continue as a going concern.

The group's capital and debt includes ordinary share capital and financial liabilities, supported by financial assets.

There are no externally imposed capital requirements.

Management manages the the group's capital by assessing the group's financial risks and adjusting its capital structure in response to changes in these risks and in the market. Responses to these changes include management of debt levels and share issues.

There have been no changes in the strategy since the prior year.

The gearing ratios of the group have been as follows:

	Consolidated		Parent	
	2009	2008	**2009**	2008
	$	$	**$**	$
Total borrowings	**8,317,178**	5,487,868	**2,600,000**	1,114,969
Less cash and cash equivalents	**(4,355,943)**	(213,879)	**(983,981)**	(71,133)
Net debt	**3,961,235**	5,273,989	**1,616,019**	1,043,836
Total equity	**8,807,368**	6,804,559	**13,946,413**	12,464,436
Total capital	**12,768,603**	12,078,548	**15,562,432**	13,508,272
Gearing ratio	**31.0%**	43.7%	**10.4%**	7.7%

27 Reserves and accumulated losses

	Consolidated		Parent	
	2009	2008	**2009**	2008
	$	$	**$**	$
(a) Reserves				
Share based payments reserve	**197,885**	52,635	145,250	-
Foreign currency translation reserve	**(529,517)**	(590,823)	-	-
	(331,632)	(538,188)	145,250	-
Movements				
Share based payments reserve				
Balance 1 July	**52,635**	52,635	-	-
Share-based payments expense for year	**145,250**	-	**145,250**	-
Balance 30 June	**197,885**	52,635	**145,250**	-
Foreign currency translation reserve				
Balance 1 July	**(590,823)**	150,928	-	-
Currency translation differences arising during the year	**13,001**	(741,751)	-	-
Less: Deferred tax loss on currency translation (note 8(c))	**48,305**	-		
Balance 30 June	**(529,517)**	(590,823)	-	-

(b) Accumulated losses

Movements in accumulated losses were as follows:

	Consolidated		Parent	
	2009	2008	**2009**	2008
	$	$	**$**	$
Balance 1 July	**33,564,818**	29,229,362	**27,736,417**	26,999,044
Net (profit)/loss for the year	**2,447,323**	4,335,456	**1,074,078**	737,373
Balance 30 June	**36,012,141**	**33,564,818**	**28,810,495**	**27,736,417**

27 Reserves and accumulated losses (continued)

(c) Nature and purpose of reserves

(i) Share based payments reserve

This reserve reflects:

(a) the change in fair value, between the date of purchase and the date of issue, of shares awarded to employees and consultants under the share incentive scheme, and

(b) items recognised as expenses relating to directors' share options.

(ii) Foreign currency translation reserve

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

28 Minority Interest

	Consolidated		Parent	
	2009	2008	**2009**	2008
	$	$	**$**	$
Minority interest as at 30 June	**(1,511,865)**	(1,576,951)	-	-

Correction of Prior Period Errors

The level of equity attributable to minority interests has been stated incorrectly since the Group purchased a controlling stake in Galilee Energy Limited in 2003. The minority interest's share of profit was previously calculated as the level of capital invested in the minority interest in any given period and the minority interest share of net assets was absorbed into the retained earnings attributable to members of the parent entity.

Minority interests represents the share of net assets and attributable profits/loss entitled to be recovered from the minority interest. No agreement currently exists with the minority interests to recover these losses.

As this error related to periods prior to 1 July 2007 the opening balance sheet has been restated above as follows:

Financial Report Balance/Line Item Affected	**June 2008 corrected as per note 1(z)(i)**	**Correction**	**Corrected Jun 2008**
	$	**$**	**$**
Income Statement Extract			
Profit/(loss) for the year	(4,335,456)	-	(4,335,456)
Loss attributable to minority interest	725,568	(725,568)	-
Profit/(loss) attributable to members of Eastern Corporation Ltd	(3,609,888)	(725,568)	(4,335,456)
Balance Sheet Extract			
Contributed equity	40,181,997	2,302,519	42,484,516
Reserves	(538,188)	-	(538,188)
Retained profits/(Accumulated losses)	(32,839,250)	(725,568)	(33,564,818)
Parent company interest	6,804,559	1,576,951	8,381,510
Minority interest	-	(1,576,951)	(1,576,951)
Total equity	6,804,559	-	6,804,559

29 Key management personnel disclosures

(a) Key management personnel compensation

	Consolidated		Parent	
	2009	2008	**2009**	2008
	$	$	**$**	$
Short-term employee benefits	**906,078**	874,602	**534,506**	567,373
Post-employment benefits	**35,549**	35,324	**33,921**	35,324
Share-based equity settled payments	**145,250**	-	**145,250**	-
Termination benefit	-	200,000	-	200,000
	1,086,877	1,109,926	**713,677**	802,697

Detailed remuneration disclosures are provided in sections A-D of the remuneration report on pages 9 to 12.

29 Key management personnel disclosures (continued)

(b) Equity instrument disclosures relating to key management personnel

(i) Employee and consultants share incentive scheme

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

During the year ended 30 June 2009 no shares were issued to any employee or consultant (2008: no shares were issued to any employee or consultant).

(ii) Share holdings

The numbers of shares in the company held during the financial year by each director of Eastern Corporation Limited and other key management personnel of the Group, including their personally related parties, are set out below. There were no shares granted during the reporting period as compensation.

2009	Balance at the start of the year	Shares acquired during the year	Other changes during the year	Balance at the end of the year
Ordinary shares				
Directors of Eastern Corporation Limited				
C G Smith	17,263,953	-	-	17,263,953
J S McIntyre	880,432	-	-	880,432
R J May	241,126	-	-	241,126
S J Koroknay	-	100,000	-	100,000
Other key management personnel of the Group				
S Aarons	137,300	-	-	137,300
CJ Pilcher	240,000	300,000	-	540,000
WA Parker	15,000	-	-	15,000

2008	Balance at the start of the year	Transferred on in-specie distribution by Propwood	Reduction in number of shares on consolidation	Other changes during the year	Balance at the end of the year
Ordinary shares					
Directors of Eastern Corporation Limited					
Propwood Unit Trust	238,905,000	(238,905,000)	-	-	-
CG Smith	10,697,388	160,111,321	(153,727,839)	183,083	17,263,953
J S McIntyre	2,807,000	5,997,325	(7,923,894)	-	880,432
R J May	648,000	1,433,430	(1,873,287)	32,983	241,126
H L Stack	500,000	-	(450,000)	(50,000)	-
Other key management personnel of the Group					
M R O'Brien	250,000	-	(225,000)	(25,000)	-
S Aarons	1,373,000	-	(1,235,700)	-	137,300
CJ Pilcher	-	-	-	240,000	240,000
WA Parker	-	-	-	15,000	15,000

During the 2008 financial year Propwood Unit Trust transferred its 238,905, 000 shares in Eastern Corporation on a pro-rata basis to its unit-holders by means of an in-specie distribution. Propwood previously held 33% of Eastern. The company's largest shareholder is now Becamal Pty Ltd with 19%.

HL Stack and MR O'Brien resigned and are no longer directors or key management personnel.

(iii) Option holdings

2009	Balance at the start of the year	Granted as remuneration	Options Exercised	Balance at the end of the year	Total vested	Total Exercisable	Total Unexercisable
Directors of Eastern Corporation Limited							
R J May	-	2,000,000	-	2,000,000	-	-	-
J S McIntyre	-	2,000,000	-	2,000,000	-	-	-

2008: There were no options on issue at any time during the previous financial year.

29 Key management personnel disclosures (continued)

(c) Other transactions with key management personnel

Becamal Pty Ltd, a company of which C G Smith is a shareholder and director, provided a guarantee to the parent company's bankers as security for an overdraft facility. The parent paid a guarantee fee on normal commercial terms to Becamal Pty Ltd as consideration for the provision of the guarantee.

	Consolidated		Parent	
	2009	2008	**2009**	2008
	$	$	**$**	$
Guarantee fee	**81,712**	8,443	**81,712**	8,443

There were no other loans to or from key management personnel during the year.
The total amount owing to key management personnel at 30 June 2009 in respect of services provided was $63,750 (2008: $Nil).

30 Remuneration of auditors

During the year the group's auditor, PriceWaterhouse Coopers, resigned and was replaced by BDO Kendalls (QLD).

The following fees were paid or payable for services provided by the auditor and its related practices, and the previous auditor and its related practices:

	Consolidated		Parent	
	2009	2008	**2009**	2008
	$	$	**$**	$
Assurance services				
Audit services				
Audit and review of financial reports and other audit work under the Corporations Act 2001				
BDO Kendalls (QLD)	**130,000**	-	**70,000**	-
PricewaterhouseCoopers Australian firm	-	205,492	-	108,083
Other assurance services				
Due diligence, tax and advisory				
BDO Kendalls (QLD)	**8,250**	-	**8,250**	-
PricewaterhouseCoopers Australian firm	-	97,150	-	22,065
	138,250	**302,642**	**78,250**	**130,148**

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

31 Contingent liabilities

(a) Financial support for subsidiaries

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

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

(b) Guarantees

Eastern Corporation Limited has provided unsecured guarantees for bank facilities and finance lease obligations entered into by subsidiary companies. The liability for bank facilities and finance leases is shown in note 22.

(c) Share of cost overruns in joint venture

Under the terms of the joint venture agreement with AGL, a subsidiary company Galilee Energy Limited, is required to contribute 50% of cost overruns to an exploration and development program. At the most recent operations meeting, AGL indicated that cost overrun is not expected.

32 Commitments

(a) Lease commitments : Group as lessee

	Consolidated 2009 $	Consolidated 2008 $	Parent 2009 $	Parent 2008 $
Commitments in relation to leases contracted for at the reporting date but not recognised as liabilities, payable:				
Within one year	**444,894**	343,717	**159,144**	154,517
Later than one year but not later than five years	**1,118,066**	1,074,537	**671,801**	673,440
Later than five years	**88,270**	250,007	**-**	154,096
	1,651,230	1,668,261	**830,945**	982,053
Representing:				
Non-cancellable operating leases	**1,301,938**	1,504,844	**830,945**	982,053
Future finance charges on finance leases	**349,292**	163,417	**-**	-
	1,651,230	1,668,261	**830,945**	982,053

(i) Operating leases

The Group leases offices, equipment and vehicles under non-cancellable operating leases expiring within three years. The leases have varying terms, escalation clauses and renewal rights. On renewal, the terms of the leases are renegotiated. Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:

	Consolidated 2009 $	Consolidated 2008 $	Parent 2009 $	Parent 2008 $
Within one year	**274,356**	265,982	**159,144**	154,517
Later than one year but not later than five years	**939,312**	988,855	**671,801**	673,440
Later than five years	**88,270**	250,007	**-**	154,096
	1,301,938	1,504,844	**830,945**	982,053

(ii) Finance leases

The Group leases various plant and equipment with a carrying amount of $2,702,027 (2008 - $1,404,359) under finance leases expiring within two to five years. Under the terms of the leases, the Group has the option to acquire the leased assets for an agreed percentage of their agreed fair value on expiry of the leases. These percentages range from 10% to 48%. This option lapses in the event the Group fails to maintain its credit rating at the level prevailing at inception of the lease.

	Consolidated 2009 $	Consolidated 2008 $	Parent 2009 $	Parent 2008 $
Commitments in relation to finance leases are payable as follows:				
Within one year	**739,767**	385,227	**-**	-
Later than one year but not later than five years	**1,614,157**	737,723	**-**	-
Later than five years	**-**	-	**-**	-
Minimum lease payments	**2,353,924**	1,122,950	**-**	-
Future finance charges	**(349,292)**	(163,417)	**-**	-
Recognised as a liability	**2,004,632**	959,533	**-**	-
Representing lease liabilities:				
Current (note 20)	**569,229**	307,492	**-**	-
Non-current (note 21)	**1,435,403**	652,041	**-**	-
	2,004,632	959,533	**-**	-

The weighted average interest rate implicit in the leases is 8.94% (2008: 8.36%)

32 Commitments (continued)

(b) Exploration commitments

(i) Galilee Energy Limited

In order to maintain current rights to tenure to exploration and mining tenements, the consolidated entity has discretionary exploration expenditure obligations until expiry of the tenement holdings.

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

These obligations, which in the case of ATP799P are subject to renegotiation upon expiry on 28 February 2010, are not provided for in the financial statements.

In the case of ATP529P, 50% of the exploration rights were transferred to a third party under a farm-in agreement entered into in July 2008 and the Group no longer has any commitment in relation to this tenement, unless the farm-in agreement is terminated.

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

	Consolidated		Parent	
	2009	2008	**2009**	2008
	$	$	**$**	$
Commitments in relation to exploration permit ATP 799 are as follows:				
Within one year	**4,088,000**	4,088,000	**4,088,000**	4,088,000
Later than one year but not later than five years	**-**	-	**-**	-
Minimum payments	**4,088,000**	4,088,000	**4,088,000**	4,088,000

(ii) *Broughton Coal Mining Pty Ltd*

Broughton Coal Mining Pty Ltd currently holds EPC 818 which was renewed from 22 November 2008 for a period of 2 years to 21 November 2010. The exploration area covers 17 sub-blocks. Refer also to Note 37. An expenditure variation has been lodged to vary the committment so that the total expenditure of $60,500 is due in the second year of the period, that is, between 21 November 2009 and 21 November 2010.

	Consolidated		Parent	
	2009	2008	**2009**	2008
	$	$	**$**	$
Commitments in relation to exploration permit EPC 818 are as follows:				
Within one year	**49,500**	-	**-**	-
Later than one year but not later than five years	**11,000**	420,000	**-**	-
Minimum payments	**60,500**	420,000	**-**	-

33 Related party transactions

(a) Parent entities

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

(b) Subsidiaries

Interests in subsidiaries are set out in note 36.

(c) Key management personnel

Disclosures relating to key management personnel are set out in note 29.

(d) Other related parties

Becamal Pty Ltd is a related party because C G Smith is a director and shareholder.

33 Related party transactions (continued)

(e) Transactions with related parties

The following transactions occurred with related parties:

	Consolidated 2009 $	Consolidated 2008 $	Parent 2009 $	Parent 2008 $
Received from subsidiaries for:				
Management services	-	-	**438,886**	556,332
Interest on loans	-	-	**773,555**	731,595
Dividend	-	-	-	355,361
Payable to related company (Becamal Pty Ltd) for:				
Guarantee fee	**(81,712)**	(8,443)	**(81,712)**	(8,443)
Interest on loan	**(196,701)**	-	**(196,701)**	-
Superannuation contributions				
Contributions to superannuation funds on behalf of employees and directors	**40,562**	50,313	**40,562**	50,313

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

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

	Consolidated 2009 $	Consolidated 2008 $	Parent 2009 $	Parent 2008 $
Current receivables	-	-	**83,958**	224,356
Current payables				
Becamal Pty Ltd - Guarantee fee	**(81,712)**	(8,443)	**(81,712)**	(8,443)
Becamal Pty Ltd - Interest on loan	**(196,701)**	-	**(196,701)**	(1,301)

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

(g) Loans to/from related entities

	Consolidated 2009 $	Consolidated 2008 $	Parent 2009 $	Parent 2008 $
Loans to subsidiaries				
Opening balance 1 July	-	-	**9,444,951**	11,070,829
Loans advanced	-	-	**551,961**	900,000
Loan repayments received	-	-	**(1,000,000)**	(2,492,925)
Management fees credited	-	-	**292,894**	309,096
Interest credited	-	-	**315,527**	-
Non-resident withholding tax paid	-	-	-	(8,975)
Dividend credited	-	-	-	355,361
Foreign exchange differences	-	-	**53,229**	(688,435)
Closing balance 30 June	-	-	**9,658,562**	9,444,951
Provision for diminution (Galilee Energy Limited)			**(3,113,935)**	(3,113,935)
	-	-	**6,544,627**	**6,331,016**
Loan from related company (Becamal Pty Ltd)				
Opening balance 1 July	-	-	-	-
Loans received	**(2,600,000)**	-	**(2,600,000)**	-
Closing balance 30 June	**(2,600,000)**	-	**(2,600,000)**	-

(h) Guarantees

Guarantees given by Eastern Corporation Limited in favour of subsidiaries are disclosed in note 31.

(i) Terms and conditions

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

All other transactions were made on normal commercial terms and conditions and at market rates, except that there are no fixed terms for the repayment of loans between the parties. The average interest rate on loans during the year was 9.5% (2008: 9.5%). Outstanding balances are unsecured and are repayable in cash.

34 Notes to the cash flow statement

	Consolidated		Parent	
	2009	2008	**2009**	2008
	$	$	**$**	$
Reconciliation of profit for the period to net cash flows from operating activities				
Profit/(Loss) after tax for the period	**(2,447,323)**	(4,335,456)	**(1,074,078)**	(737,373)
Depreciation	**887,001**	613,961	**25,898**	32,300
Amortisation	**514,727**	390,308	**-**	-
(Loss)/Gain on disposal of property, plant and equipment	**(129,821)**	77,609	**-**	-
Impairment charges relating to write-down of buildings	**-**	181,936	**-**	-
Amounts set aside to provisions	**322,464**	-	**-**	-
Unrealised exchange differences	**127,261**	-	**(53,085)**	688,049
Share-based payments for services received	**145,250**	-	**145,250**	-
Capitalised intercompany interest and management fees	**-**	-	**(746,924)**	(821,226)
Dividend credited by subsidiary	**-**	-	**-**	(355,361)
Changes in operating assets and liabilities:				
(Increase) decrease in trade and other receivables	**270,150**	(295,583)	**38,595**	261,696
(Increase) decrease in current tax asset	**-**	(219,731)	**-**	-
(Increase) decrease in prepayments	**26,022**	344,458	**10,581**	(119,850)
(Increase) decrease in inventories	**(379,301)**	(112,285)	**-**	-
(Increase) decrease in overburden in advance	**218,632**	(842,140)	**-**	-
(Increase) decrease in deferred tax assets	**190,577**	(530,797)	**110,581**	(122,152)
Increase (decrease) in trade and other payables	**(235,943)**	814,241	**243,465**	17,263
Increase (decrease) in deposits received	**-**	-	**-**	-
Increase (decrease) in current tax liability	**-**	-	**-**	-
Increase (decrease) in deferred tax liability	**249,867**	(95,561)	**94,087**	(41,517)
Increase (decrease) in employee entitlements	**18,244**	12,262	**(32,022)**	26,088
Increase (decrease) in other provisions	**-**	(25,410)	**-**	-
Net cash provided by operating activities	**(222,193)**	(4,022,188)	**(1,237,652)**	(1,172,083)

35 Non-cash investing and financing activities

	Consolidated		Parent	
	2009	2008	**2009**	2008
	$	$	**$**	$
Acquisition of plant and equipment by means of finance leases	**1,715,704**	232,781	**-**	-

36 Subsidiaries

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

Name of entity	Country of Incorporation	Class of equity	Equity Holding 2009	Equity Holding 2008
Beaconsfield Energy Development Pty Ltd **	Australia	Ordinary	68%	61%
Broughton Coal Mining Pty Ltd	Australia	Ordinary	100%	100%
Capricorn Energy Pty Ltd **	Australia	Ordinary	68%	61%
Cascade Coal Limited	New Zealand	Ordinary	100%	100%
Cascade West Limited (dormant)	New Zealand	Ordinary	100%	100%
Dorben Pty Ltd (dormant)	Australia	Ordinary	100%	100%
Eastern Corporation Employee Incentive Fund	Australia	Units	100%	100%
Eastern Coal Holdings (NZ) Limited *	New Zealand	Ordinary	100%	100%
Eastern Coal Supplies Limited	New Zealand	Ordinary	100%	100%
Galilee Energy Limited **	Australia	Ordinary	68%	61%
Rochfort Coal Mining Limited	New Zealand	Ordinary	100%	100%
Roverwich Pty Ltd (dormant)	Australia	Ordinary	100%	100%
Takitimu Coal Limited	New Zealand	Ordinary	100%	100%

*

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

**

Galilee Energy Limited is the intermediate parent of Beaconsfield Energy Development Pty Ltd and Capricorn Energy Pty Ltd. These two companies are wholly owned and held directly by Galilee Energy Limited and Indirectly by Eastern Corporation Limited.
All of the above-mentioned subsidiaries have the same reporting date as the parent, Eastern Corporation Limited.

37 Interests in joint ventures

(a) Interest in Joint Venture

The group through its subsidiary galilee Energy Limited has a joint venture agreement in place for the development of its tenement ATP529P in the Galilee basin with AGL Ltd. Under the farm-in and Joint Operating Agreement AGL will provide $37 million of funding for a two stage exploration and development program. The group will retain a 50% interest. As at balance date the development was in progress but had yet to reach the stage of being an accounting joint venture in accordance with AASB 131.

(b) Jointly controlled assets

A subsidiary has entered into a joint venture called Broughton Coal Joint Venture to develop the coal reserves in exploration permit EPC818. The subsidiary has a 90% participating interest in this joint venture and is entitled to 90% of its output of coal. The Group's interests in the assets employed in the joint venture are included in the consolidated balance sheet, in accordance with the accounting policy described in note 1(b), under the following classifications:

	Consolidated		Parent	
	2009	2008	**2009**	2008
	$	$	**$**	$
Non-current assets				
Exploration and evaluation expenditure	**722,576**	722,576	-	-
Share of net assets employed in joint venture	**722,576**	722,576	-	-

38 Earnings per share

	Consolidated	
	2009	2008
	Cents	Cents
(a) Basic earnings per share		
Profit/(Loss) for the year	**(3.33)**	(6.04)
Loss attributable to minority interest	-	-
Profit/(Loss) attributable to the ordinary equity holders of the company	**(3.33)**	(6.04)
(b) Diluted earnings per share		
Profit/(Loss) for the year	**(3.33)**	(6.04)
Loss attributable to minority interest	-	-
Profit/(Loss) attributable to the ordinary equity holders of the company	**(3.33)**	(6.04)

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

	Consolidated	
	2009	2008
	$	$
Basic and diluted earnings per share		
Profit/(Loss) for the year	**(2,447,323)**	(4,335,456)
Loss attributable to minority interest		
Profit/(Loss) attributable to the ordinary equity holders of the company	**(2,447,323)**	(4,335,456)

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

	Consolidated	
	2009	2008
	Number	Number
Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share	**73,521,512**	71,785,401
Adjustments for calculation of diluted earnings per share #	-	-
Weighted average number of ordinary and potential ordinary shares used as the denominator in calculating diluted earnings per share	**73,521,512**	71,785,401

Options have not been included given the group has a loss after tax and options are therefore considered anti-dilutive.

39 Events occurring after the balance sheet date

Other than the matters referred to below, no events have occurred after the balance sheet date that require recognition or disclosure in the financial report.

(a) Rights issues

Prior to the balance date, Eastern Corporation limited had issued a prospectus to Shareholders inviting them to participate in a 1 for 4 rights issue at $0.24 per share. The offer closed after the balance date on 10th July 2009, with eligible shareholders subscribing for 87% of the available shares. The remaining 13% of the available shares were taken up by the underwriters to the issue. In all 20,550,591new shares were issued at $0.24, raising $4,932,142 before allowing for the costs of the issue which were estimated in the prospectus at $511,000.

Also prior to the balance sheet date Galilee Energy Limited announced a non-renounceable 1 for 10 rights issue at $0.065 per share to raise $5,482,351 from shareholders. Galilee's offer closed after the balance date, on 17th July 2009, with the issue fully subscribed. In all 84,343,689 shares were issued, raising $5,482,351.

Eastern Corporation Limited applied for its full entitlement of 56,857,347 shares under the rights issue and also took up the shortfall in acceptances of 5,332,850 shares. Eastern subscribed a total of $4,042,363 being $3,695,728 for its 1 for 10 entitlement and $346,635 for the shortfall. As a result, Eastern's majority ownership in Galilee increased from 67.41% to 67.99%.

(b) Possible sale of mining tenement

Since the balance sheet date Eastern Corporation has entered into an option agreement with Resource Portfolio Partners Pty Ltd to divest its 90% interest in the Broughton Coal Joint Venture (EPC818). The option agreement, which is subject to certain conditions, is for a period of six months, for a consideration in the range of $8.5 million to $12 million.

(c) Waiver

As detailed in note 21, since the balance date the group has received written advice from its bank that it has waived the right to recall loan balances as a result of the group's breach of its interest cover covenant.

Declaration by Directors

The directors of the company declare that:

1. The financial statements, comprising the income statement, balance sheet, cash flow statement, statement of changes in equity, and accompanying notes, are in accordance with the Corporations Act 2001 and:

   (a) comply with Accounting Standards and the Corporations Regulations 2001; and

   (b) give a true and fair view of the company's financial position as at 30 June 2009 and of its performance for the year ended on that date.

2. In the directors' opinion, there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

3. The remuneration disclosures included in pages 6 to 10 of the directors' report (as part of audited Remuneration Report) for the year ended 30 June 2009, comply with section 300A of the *Corporations Act 2001*.

4. The directors have been given the declarations by the chief executive officer and chief financial officer required by section 295A.

This declaration is made in accordance with a resolution of the Board of Directors and is signed for and on behalf of the directors by:

Director

Brisbane
Date: 29/9/2009

BDO Kendalls

BDO Kendalls (QLD)
Level 18, 300 Queen St
Brisbane QLD 4000
GPO Box 457 Brisbane QLD 4001
Phone 61 7 3237 5999
Fax 61 7 3221 9227
info.brisbane@bdo.com.au
www.bdo.com.au

ABN 70 202 702 402

INDEPENDENT AUDIT REPORT TO THE MEMBERS OF EASTERN CORPORATION LIMITED

Report on the Financial Report

We have audited the financial report of Eastern Corporation Limited, which comprises the balance sheet as at 30 June 2009, the income statement, statement of changes in equity and cash flow statement for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at year's end or from time to time during the year.

Directors' Responsibility for the Financial Report

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

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

INDEPENDENT AUDIT REPORT TO THE MEMBERS OF EASTERN CORPORATION LIMITED (CONTINUED)

Independence

In conducting our audit, we have complied with the independence requirements of the Corporations Act 2001. We confirm that the independence declaration required by the Corporations Act 2001 would be in the same terms if it had been given to the directors at the time that this auditor's report was made.

Auditor's Opinion

In our opinion:

(a) the financial report of Eastern Corporation Limited is in accordance with the *Corporations Act 2001*, including:

   (i) giving a true and fair view of the company's and consolidated entity's financial position as at 30 June 2009 and of their performance for the year ended on that date; and

   (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*; and

(b) the financial report also complies with International Financial Reporting Standards as disclosed in Note 1.

Emphasis of Matter on Going Concern

Without qualification to the opinion expressed above, we draw attention to the following matter. As set out in Note 2, the financial statements have been prepared on a going concern basis. The ability of the consolidated entity to maintain continuity of normal business activities and to pay its debts as and when they fall due is dependent upon the matters referred to in that note including continued financial support of its financiers and the New Zealand operations continuing to achieve cashflows as forecast.

No adjustments have been made to the carrying value of assets or recorded amount of liabilities should the company and consolidated entity's plans not eventuate.

Report on the Remuneration Report

We have audited the Remuneration Report included in the directors' report for the year ended 30 June 2009. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

INDEPENDENT AUDIT REPORT TO THE MEMBERS OF EASTERN CORPORATION LIMITED (CONTINUED)

Auditor's Opinion

In our opinion, the Remuneration Report of Eastern Corporation Limited for the year ended 30 June 2009, complies with section 300A of the *Corporations Act 2001*.

BDO Kendalls (QLD)
BDO Kendalls

C R Jenkins
Partner

Brisbane
29 September 2009

TENEMENT INTERESTS

Coal Seam Gas	Interest	Location
ATP 529P	Galilee Energy Limited – 50%	Queensland
ATP 799P	Galilee Energy Limited – 100%	Queensland

Coal	Interest	Location
EPC 818 – Broughton	Broughton Coal Mining Pty Ltd – 90%	Queensland
MP 41 455 – Cascade	Cascade Coal Limited – 100%	New Zealand
CML 37 079 – Takitimu	Takitimu Coal Limited – 100%	New Zealand
EP 40 591 – Whareatea West	Rochfort Coal Limited – 100%	New Zealand
PP 39 319 – Orepuki	Rochfort Coal Limited – 100%	New Zealand
PP 39 321 – Ohai	Rochfort Coal Limited – 100%	New Zealand

Shareholder Information

Shareholder information set out below was applicable as at 30 September 2009.

(a) Distribution of equity securities

Analysis of equity holders by size of holding:

	No of Holders	No of Shares
1 - 1,000	320	199,333
1,001 - 5,000	1,205	3,485,536
5,001 - 10,000	579	4,732,039
10,001 - 100,000	708	21,590,733
100,001 and over	104	72,745,018
Total Holders	**2,916**	

Total Ordinary Shares	**102,752,659**

The number of shareholders holding less than a marketable parcel (820 ordinary shares) is 190

(b) Equity Security Holders

(i) The names of the twenty largest holders of quoted equity securieties are listed below :

Rank	Shareholder	Number held	Percentage of Issued Shares
1	Becamal Pty Ltd <Gordon Smith Family A/C>	18,686,620	18.20
2	AMP Life Limited	8,419,967	8.19
3	Corostar Pty Ltd <The Campbell Smith Trust>	3,919,116	3.81
4	J P Morgan Nominees Australia Limited	3,515,745	3.42
5	National Nominees Ltd	3,267,846	3.18
6	Pacific Tug Pty Ltd <The Kythera Unit A/C>	1,698,984	1.65
7	Jade Securities Pty Ltd <Bek Unit A/C>	1,318,786	1.28
8	Aspac Mining Ltd	1,228,609	1.20
9	Ekco Investments Pty Ltd	1,209,956	1.18
10	Mr DK and Mrs RM Edwards <Edwards Super Fund A/C>	1,183,956	1.15
11	Mr PR & Mrs EA Kirkham <Kirkham Super Fund A/C>	1,165,206	1.13
12	McIntyre Superannuation Fund Pty Ltd <McIntyre Family S/F A/C>	1,056,791	1.03
13	HSBC Custody Nominees (Aust) Limited	1,033,919	1.01
14	Namrog Investments Pty Ltd	980,236	0.95
15	Cogent Nominees Pty Ltd <SMP Accounts>	948,626	0.92
16	Marford Group Pty Ltd	939,681	0.91
17	Mr Stephen Boyd	928,250	0.90
18	Pacific Road Provident Pty Ltd	810,037	0.79
19	Farjoy Pty Ltd	800,000	0.78
20	Ujanta Pty Ltd <David Bird Family A/C>	750,000	0.73
	Totals :	**53,862,331**	**52.41**

	(c) Substantial Shareholders	Number held	Percentage of Issued Shares
1	Becamal Pty Ltd <Gordon Smith Family A/C>*	18,686,620	18.20
2	AMP Life Limited	8,419,967	8.19

* Becamal Pty Ltd is an entity associated with Mr Campbell Smith, who also holds a relevant interest in Corostar Pty Ltd <ATF the Campbell Smith Trust> and has shares in his own name. Total securities held are 22,909,264, or 22.3% of total issued shares.

(d) Voting Rights

The voting rights attaching to each class of equity securities are set out below:

(i) Ordinary Shares

On a show of hands every member present at a meeting in person or by proxy shall have one vote and upon a poll each share shall have one vote.

(e) Share Buy-backs

There is no current on-market buy-back

CORPORATE DIRECTORY

Principal registered office in Australia

Level 2, 895 Ann Street
Fortitude Valley QLD 4000
PO Box 2145,
Fortitude Valley BC QLD 4006

Phone: (07) 3216 1155
Fax: (07) 3216 1199
Email: email@easterncorp.com.au
www.easterncorp.com.au

Share and options registry

Computershare Investor Services Pty Limited
Level 19
307 Queen Street
Brisbane QLD 4000
Phone: 1300 552 270

Stock exchange

Australian Securities Exchange
Home Branch: Brisbane

Auditor

BDO Kendalls (QLD)
300 Queen St
Brisbane QLD 4000

Solicitors

Hopgood Ganim Lawyers
Waterfront Place
1 Eagle Street QLD 4000

Bankers

Westpac Banking Corp
260 Queen St
Brisbane QLD 4000