

# EASTERN CORPORATION LIMITED

## Quarterly Activities Report : December 2009

### Activity Overview

During the December quarter Eastern Corporation made further progress with the development of its coal seam gas assets in the Galilee Basin held through 68% subsidiary, Galilee Energy Limited.

The Galilee Basin is currently attracting intense exploration and development activity for both coal and coal seam gas. Interest in the area has increased in recent months with drilling programmes underway in the tenements surrounding Galilee's permits.

In ATP 529P held jointly by Galilee and Operator AGL Energy Limited, dewatering of the Glenaras 5 spot production commenced. AGL also brought forward its 2010 drilling programme and is now drilling the third of seven scheduled holes, designed to probe the vast coal measures in the completely undeveloped Galilee Basin, and produce cores for testing. A seismic survey of 540 kilometres acquisition was also undertaken.

AGL is spending \$37 million on the farm-in exploration programme to earn its interest, and is targeting the certification of initial 2P gas reserves during late 2010. ATP 529P is approximately 80 km north-west of the Barcaldine gas power station which is linked by a gas pipeline to Moomba and Brisbane, opening up multiple gas sales opportunities.

In the adjoining northern permit, ATP 799P, 150 kilometres of seismic acquisition was completed and two core-holes were drilled. Galilee holds 100% of this tenement and is the operator.

In New Zealand in the three months to December the company's coal operations maintained a strong cash positive position. Coal production was higher than in the previous quarter, as the Takitimu mine lifted output to meet the heavier summer demand created by the seasonal increase in dairy and food processing.

Discussions were also progressed with a potential joint venture partner to further explore the highly prospective Whareatea West coking coal project near Eastern's Cascade coal mine. An exploration programme is being developed for implementation during 2010.



Campbell Smith

Managing Director

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## NEW ZEALAND OPERATIONS

### PRODUCTION

Cascade and Takitimu coal mines have continued to perform to expectations generating revenue to underpin further developments in Eastern's New Zealand coal strategy.

#### Cascade coal mine

The Cascade open cut coal mine in the historic Buller Coalfields region on the west coast of New Zealand's South Island continues to meet targets for overburden removal and coal winning, supplying major contracted customer, Holcim. A drilling programme has commenced to better determine the extent of the remaining resource at Cascade.

#### Takitimu coal mine

Growth in the dairy industry overall in the South Island of New Zealand has presented further sales opportunities for the Takitimu mine. Negotiations have been finalised with Fonterra to extend the existing contract to supply the Clandeboye processing plant for a ten year period subject to certain conditions and further plant upgrades are being undertaken on-site to ensure the mine's capabilities are sufficient to meet increased production targets, particularly now that Takitimu stands as the only major supplier of thermal coal in the Southland region.

#### Cascade & Takitimu mines – Year to Date

Coal extracted (tonnes)	Overburden (bcm)	Sales (tonnes)	Sales (NZ\$)
118,040	1,074,541	121,468	8,905,824

### EXPLORATION

#### Whareatea West

Ongoing discussions have resulted in an agreement being reached in principle with a Joint Venture partner to progress the next stage of development of this export coking coal prospect. To date, only 40% of the tenement has been explored. Planning is now underway for a further exploration programme to commence in 2010, subject to approval from the Department of Conservation.

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### **Ohai/Orepuki**

Applications are pending with the Department of Crown Minerals for the upgrade of the Ohai tenement to Exploration Permit status.

After the completion of a successful drilling programme at the Ohai permit an agreement has been reached with the adjoining landowner with a view to extending the area under development at Takitimu. A further drilling programme will commence in February to obtain data for future mine planning and future resource consents process on the assumptions that part of this area will come under the current Takitimu mining permit.

At Orepuki, a review of available data has resulted in a decision to relinquish the prospecting permit, enabling the company to direct its focus on the development of the Ohai permit as an extension to the existing Takitimu resource.

## **COAL – QUEENSLAND**

### **Broughton Coal Joint Venture**

As announced in September, an offer has been received for the divestment of this asset. The offer is by way of a Put and Call Option for a consideration between AUD \$8.5 - \$12 million over a 6 month period. The 6 month option period ends in March 2010.

## **COAL SEAM METHANE – QUEENSLAND**

### **Galilee Energy Limited**

Eastern's 68% subsidiary, Galilee Energy Limited, holds the highly prospective coal seam gas and hydrocarbon tenements, ATP 529P (50%) and the adjoining ATP 799P (100%) tenement to the north. These tenements are in the Galilee Basin in central Queensland which is recognised as the next frontier for coal seam gas prospects in Australia.

### **ATP 799P (Galilee 100%)**

The exploration programme in ATP 799P has progressed according to plan.

150km of 2D seismic was acquired by Terrex in a programme that was recognised as being completed in record time and under budget.

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Major Drilling were engaged to drill two core holes, Dunrossie-01 and Dotswood-01. Dunrossie-01 was drilled to 1,330m. The hole was cored then plugged and abandoned as planned. Cores were then despatched for testing with results due in Q1 2010. Dotswood-01 is currently coring ahead at 1,110m as of 25 January 2010.

The programme was funded by \$5.48 million raised in a rights issue to Galilee shareholders which completed earlier in 2009.

### **ATP 529P (Galilee 50%)**

Eastern is making good progress in its efforts to understand the potential of ATP 529P after encouraging results from the 2007 Rodney Creek 8 drilling and the subsequent farm-in by AGL Energy as a 50% partner and Operator.

The first phase of the exploration work programme funded by operator AGL is well underway. The Glenaras 5 spot production pilot has commenced with pumps installed in late December. A water holding pond was constructed to handle the produced water.

It is envisaged that the pilot programme will be completed by mid 2010 with a view to achieving reserve certification late in September.

AGL have accelerated work on the second phase of the exploration program which includes ~ 540km seismic acquisition and seven core-holes. This programme was originally scheduled for 2010 but commenced in Q3 2009. The seismic acquisition completed in November 2009. Two core-holes, Muttaborra-02 and Vera Park-01 were drilled in November and December respectively.

### **Conventional Hydrocarbons**

Although a desktop study has indicated the possible presence of conventional oil and gas at the Galilee tenements, any further work on this prospect has been deferred subject to the CSG exploration programme.

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### CORPORATE

#### Options Issue

At the company's AGM in November, shareholders approved the issue of 4,000,000 options to Galilee Energy's non-executive chairman, Steve Koroknay, and non-executive director, Cam Rathie. The options, to subscribe for ordinary shares, were issued in December on the following terms: 2,000,000 vesting after 12 months with an exercise price of \$0.80 and 2,000,000 vesting after 24 months, exercisable at \$0.87. Shareholders also approved the issue of 1,000,000 options to Patersons Securities Limited as part of the fee payable under their corporate advisory mandate. These options, vesting on issue, have an exercise price of \$0.24. All tranches have an expiry date of 3 years from the date of issue.

#### Financials

The attached statement provides further details of the cash flows for Eastern Corporation Limited.

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#### **For further information contact:**

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## Appendix 5B

**Mining Exploration Entity Quarterly Report**

Introduced 1/7/96. Origin: Appendix 8. Amended 1/7/97, 1/7/98, 30/9/2001.

Name of entity

**Eastern Corporation Limited**

ABN

11 064 957 419

Quarter ended ("current quarter")

31 December 2009

## Consolidated statement of cash flows

<b>Cash flows related to operating activities</b>		Current quarter \$A'000	Year to date \$A'000
1.1	Receipts from product sales and related debtors	8,439	11,615
1.2	Payments for (a) exploration and evaluation	(3,631)	(4,353)
	(b) development	-	-
	(c) production	(5,251)	(8,422)
	(d) administration	(628)	(1,935)
1.3	Dividends received	-	-
1.4	Interest and other items of a similar nature received	67	145
1.5	Interest and other costs of finance paid	(187)	(383)
1.6	Income taxes paid	-	-
1.7	Other	16	18
	<b>Net Operating Cash Flows</b>	<b>(1,175)</b>	<b>(3,315)</b>
<b>Cash flows related to investing activities</b>			
1.8	Payment for purchases of:		
	(a)prospects	-	-
	(b)equity investments	-	-
	(c)other fixed assets	42	(150)
1.9	Proceeds from sale of:		
	(a)prospects	-	-
	(b)equity investments	-	-
	(c)other fixed assets	-	-
1.10	Loans to other entities	-	-
1.11	Loans repaid by other entities	-	-
1.12	Other (provide details if material)		
	(a) exploration and evaluation expenditure (net of refunds)	-	-
	(b) Joint venture equity contribution	-	-
	(c) Payments for bonds and deposits	37	(364)
	(d) Other	-	-
	<b>Net investing cash flows</b>	<b>79</b>	<b>(514)</b>
1.13	Total operating and investing cash flows (carried forward)	<b>(1,096)</b>	<b>(3,829)</b>

1.13	Total operating and investing cash flows (brought forward)	(1,096)	(3,829)
<b>Cash flows related to financing activities</b>			
1.14	Proceeds from issues of shares, options, etc. -	-	5,647
1.15	Proceeds from sale of forfeited shares	-	-
1.16	Proceeds from borrowings	-	-
1.17	Repayment of borrowings	(406)	(604)
1.18	Dividends paid	-	-
1.19	Other (provide details if material)	-	-
<b>Net financing cash flows</b>		(406)	5,043
<b>Net increase (decrease) in cash held</b>		(1,502)	1,214
1.20	Cash at beginning of quarter/year to date	7,187	4,356
1.21	Exchange rate adjustments	(102)	13
1.22	<b>Cash at end of quarter</b>	5,583	5,583

Payments to directors of the entity and associates of the directors  
Payments to related entities of the entity and associates of the related entities

		Current quarter \$A'000
1.23	Aggregate amount of payments to the parties included in item 1.2	194
1.24	Aggregate amount of loans to the parties included in item 1.10	-

1.25 Explanation necessary for an understanding of the transactions

The amounts paid to the directors in this quarter of \$194k per 1.23 above represents fees paid to non-executive directors for the 3 months to 31/12/2009

Non-cash financing and investing activities

2.1 Details of financing and investing transactions which have had a material effect on consolidated assets and liabilities but did not involve cash flows

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2.2 Details of outlays made by other entities to establish or increase their share in projects in which the reporting entity has an interest

Financing facilities available

Add notes as necessary for an understanding of the position.

	Amount available \$A'000	Amount used \$A'000
3.1 Loan facilities	8,544	8,004
3.2 Credit standby arrangements	-	-

Estimated cash outflows for next quarter

	\$A'000
4.1 Exploration and evaluation	633
4.2 Development	-
<b>Total</b>	<b>633</b>

Reconciliation of cash

Reconciliation of cash at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts is as follows.	Current quarter \$A'000	Previous quarter \$A'000
5.1 Cash on hand and at bank	1,913	482
5.2 Deposits at call	3,670	6,705
5.3 Bank overdraft	-	-
5.4 Other	-	-
<b>Total: cash at end of quarter (item 1.22)</b>	<b>5,583</b>	<b>7,187</b>

Changes in interests in mining tenements

	Tenement reference	Nature of interest (note (2))	Interest at beginning of quarter	Interest at end of quarter
6.1	Interests in mining tenements relinquished, reduced or lapsed	-		
6.2	Interests in mining tenements acquired or increased	-		



Issued and quoted securities at end of current quarter

Description includes rate of interest and any redemption or conversion rights together with prices and dates.

	Total number	Number quoted	Issue price per security (see note 3) (cents)	Amount paid up per security (see note 3) (cents)
7.1 <b>Preference + securities</b> <i>(description)</i>	-			
7.2 Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs, redemptions	-			
7.3 <b>+Ordinary securities</b>	<b>102,752,659</b>			
7.4 Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs				
7.5 <b>+Convertible debt securities</b> <i>(description)</i>	-			
7.6 Changes during quarter (a) Increases through issues (b) Decreases through securities matured, converted	-			
7.7 <b>Options</b> <i>(description and conversion factor)</i>	Options issued as part corporate advisory fee & Non-executive director options – convertible to 1 ordinary share each		<i>Exercise price</i>	<i>Expiry date</i>
7.8 Issued during quarter	1,000,000 2,000,000 2,000,000	- - -	24¢ 80¢ 87¢	3/12/12 3/12/12 3/12/12
7.9 Exercised during quarter	-			
7.10 Expired during quarter	-			
7.11 <b>Debentures</b> <i>(totals only)</i>	-			
7.12 <b>Unsecured notes</b> <i>(totals only)</i>	-			

Compliance statement

1 This statement has been prepared under accounting policies which comply with accounting standards as defined in the Corporations Act or other standards acceptable to ASX (see note 4).

2 This statement does ~~does not~~\* (*delete one*) give a true and fair view of the matters disclosed.

Sign here:                      Date: 28 January 2010  
(~~Director~~/Company secretary)



Name : Bill Lyne

Notes

1 The quarterly report provides a basis for informing the market how the entity's activities have been financed for the past quarter and the effect on its cash position. An entity wanting to disclose additional information is encouraged to do so, in a note or notes attached to this report.

2 The "Nature of interest" (items 6.1 and 6.2) includes options in respect of interests in mining tenements acquired, exercised or lapsed during the reporting period. If the entity is involved in a joint venture agreement and there are conditions precedent which will change its percentage interest in a mining tenement, it should disclose the change of percentage interest and conditions precedent in the list required for items 6.1 and 6.2.

3 **Issued and quoted securities** The issue price and amount paid up is not required in items 7.1 and 7.3 for fully paid securities.

4 The definitions in, and provisions of, *AASB 1022: Accounting for Extractive Industries* and *AASB 1026: Statement of Cash Flows* apply to this report.

5 **Accounting Standards** ASX will accept, for example, the use of International Accounting Standards for foreign entities. If the standards used do not address a topic, the Australian standard on that topic (if any) must be complied with.