

EASTERN CORPORATION LIMITED

Quarterly Activities Report : March 2010

Overview

The activities this quarter have been concentrated on a restructure of Eastern Corporation Limited (Eastern) to position the company as one purely focussed on the exploration and development of its coal seam gas assets in Australia, supported by a profitable stand alone coal business in New Zealand.

During the period an offer was made to buy out the minority shareholders in Galilee Energy Limited (Galilee) and the option was exercised for the divestment the Company's interest in the Broughton coal tenement in Queensland.

In terms of the Galilee buyout, an offer was made to purchase the 32% of shares that Eastern did not already hold. Subsequent to period end the offer lapsed and a new offer was submitted to the Galilee shareholders. This offer closes on May 28. At the time of writing, acceptances have been received from over 26% of those shareholders which will enable Eastern to acquire 100% of its subsidiary. Shareholder approval will also be sought to change the company name to Galilee Energy Limited, in line with the focus moving forward to position the company as a dedicated coal seam gas explorer in the Galilee Basin.

To further underpin the development of the Eastern in the CSG sector I have announced my decision to step aside as Managing Director to enable the company to recruit a dedicated CSG executive. I will remain as a director on both the Eastern and Galilee boards and will also be appointed to the new combined company board to be announced once the minority buyout is complete. I will also retain an interest in the management of the New Zealand coal operations.

The enclosed report on operations outlines the activities for the quarter of the exploration programmes on Galilee's CSG tenements which have been affected somewhat by the unusually heavy wet season in Central Queensland.

It also includes an update on the New Zealand coal operations. The operating mines are continuing to perform above budget and the Company is moving forward with its strategy for the development of its coal exploration tenements.



Campbell Smith

Managing Director

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NEW ZEALAND OPERATIONS

PRODUCTION

Cascade and Takitimu coal mines continue to generate steady profits, underpinning Eastern's exploration and development programmes in New Zealand.

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 deliver steady production of 40,000 tonnes per annum to major contracted customer, Holcim. During the quarter coal winning continued in the Gravel Pit block and pre stripping was underway in the Durkins block which is the next area to be mined. No Lost Time Injuries were reported for the period.

Takitimu coal mine

Production at the Takitimu coal mine in the Ohai/Nightcaps area in the far South Island tracked ahead of expectations with sales exceeding forecasts.

During the quarter a new purpose built primary crusher was installed taking the mine's processing capabilities to over 230 tonnes per hour. New dust suppression systems were also installed to ensure continued compliance with Resource Consents.

In February a variation to the Fonterra contract was signed, extending the agreement for a 10 year period, subject to certain conditions.

During the quarter rehabilitation was completed at the Mossbank pit as part of the original purchase obligation at Takitimu. The tenement has now been relinquished.

No Lost Time Injuries were reported for the period at Takitimu.

Cascade & Takitimu mines – Year to Date

Coal extracted (tonnes)	Overburden (bcm)	Sales (tonnes)	Sales (NZ\$)
180,923	1,558,701	189,045	13,851,325

EXPLORATION

Whareatea West

Eastern is continuing to progress plans to develop the highly prospective Whareatea West coking and thermal coal resource. Discussions were held with potential joint venture partners to take the project through its next stage of development however the Company is also considering alternative options for the development of the project. A work programme for the next two years of the permit has been submitted to the Department of Crown Minerals and discussions initiated with the Department of Conservation for drilling approvals.

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Ohai

The Ohai permit (PP 39-321) covers an extensive area immediately surrounding the existing Takitimu mining lease area and is prospective for sub bituminous coal.

During the period an application was pending with the Department of Crown Minerals for the upgrade of this tenement to an Exploration Permit. This was granted in April subsequent to period end.

The Company has negotiated an access agreement with the adjoining land owner with a view to extending the area under development at Takitimu. In February a drilling programme was undertaken to obtain data for future mine planning and resource consents processes on the assumptions that part of this area will come under the current Takitimu mining permit. In March, Resource Consents were obtained for a 10 year period to access and mine part of this area.

COAL – QUEENSLAND

Broughton Coal Joint Venture

The Broughton Coal project (EPC 818) in the Bowen Basin is a joint venture with Mitsui Coal Holdings.

In keeping with the Eastern's strategy to concentrate on developing its coal seam gas assets in Australia, the Company announced an offer to purchase its 90% interest in the Broughton coking coal asset. This was by way of a put and call option over a 6 month period ending in March 2010. In February the Board of Eastern elected to exercise the put option. The sale, for a consideration of AUD \$8.5 million, is expected to complete in May.

COAL SEAM METHANE – QUEENSLAND

Galilee Energy Limited

The highly prospective coal seam gas and hydrocarbon tenements, ATP 529P and the adjoining ATP 799P tenement to the north, continue to be the focus of our exploration efforts.

ATP 799P

In March 2006, Galilee was formally granted ATP 799P, which originally formed part of the larger ATP 529P permit.

Activities during the first part of the quarter centred on completing the exploration programme commenced in late 2009. This programme comprised 150 km of 2D seismic acquisition and the drilling of two core holes, Dunrossie-01 and Dotswood-01.

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The seismic acquisition was completed and Dunrossie-01 was drilled, cored, plugged and abandoned as planned in the previous quarter. The rig then mobilised to Dotswood-01 in the southern part of the tenement. This was spudded in December and was drilled to a depth of 865 metres before operations were suspended for the Christmas break. Drilling recommenced in early January 2010 and was completed and cores despatched for testing in February 2010.

The core analysis and seismic interpretation will be integrated with existing historical data in order to better understand the permit's CSG prospectivity and to assist in identifying potential locations for a production pilot as part of a reserve certification process.

Interpretations of existing data also assisted in identifying the appropriate areas within the tenement for the 33.3% relinquishment required to be submitted in February to comply with the permit conditions. A \$6 million Later Work Programme was also submitted during the quarter for the next 4 year term.

The Company believes that ATP 799P continues to offer excellent farm-in potential and represents a highly prospective frontier for coal seam gas production over the long-term. The potential of the Galilee Basin is aptly demonstrated by the huge increase in permit applications seen in recent years, joining Origin, Blue Energy and Comet Ridge among a growing list of coal seam gas explorers involved in nearby tenements.

ATP 529P

Eastern's subsidiary, Galilee, holds a 50% interest in ATP 529P together with joint venture partner, AGL Energy Limited (AGL) who is the operator. Good progress is being made in the efforts to understand the potential of ATP 529P after encouraging results from the 2007 Rodney Creek 8 drilling. The AGL farm-in agreement comprised a two stage, \$37 million commitment which included a production pilot, construction of a water management facility and dewatering to target reserve certification later this year and a further exploration programme of seismic and 7 core holes.

The Glenaras production pilot commenced early stages of dewatering late in the previous quarter.

540 km of 2D seismic was undertaken and the first of two cores holes of the exploration programme, Muttaborra-01 and Vera Park-01, were drilled to total depth. The third hole in the programme, Crossmore South-01 was spudded late in 2009 however drilling operations were suspended for the Christmas break.

Unprecedented wet season conditions were then experienced in the area delaying the recommencement of operations. Drilling is expected to resume shortly. Again, data from this current programme will be correlated with historical data and reserve certification is still targeted for later this year.

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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 whilst focus is on the CSG exploration programme.

CORPORATE

In February 2010, an offer was made to acquire the shares of the minority shareholders in the Company's 68% subsidiary, Galilee. The offer was in line with Eastern's desire to simplify the ownership structure of its coal seam gas assets in Australia and would effectively merge Eastern and Galilee, resulting in a single board and management team to efficiently realise the value of the significant coal seam gas project assets in the Galilee Basin.

The offer was extended in March and lapsed on April 19, subsequent to period end. On April 20 a new offer was made to the minority holders of Galilee on the basis of 1 Eastern share for every 7 Galilee shares held. Agreements have now been reached with a number of Galilee shareholders (representing 26.25% of those Galilee shares) to accept the offer. Further, a recommendation to accept the offer was sent to the remaining Galilee shareholders by the Independent Directors of Galilee. With commitments currently to hand, Eastern will hold in excess of 90% of Galilee enabling it to procure any remaining shares by way of compulsory acquisition if necessary.

An EGM will be convened to approve the issue of shares under the new offer. This is expected to be held in June 2010. This is further to the EGM held in March to approve the issue of shares under the previous offer.

MANAGEMENT

Eastern Managing Director, Campbell Smith, has announced his intention to resign to enable the company to appoint an executive with skills in the oil and gas sector to lead the Company through its next stage as an emerging CSG company in Queensland. Mr Smith will retain oversight for the New Zealand coal operations.

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FINANCIALS

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

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 March 2010

Consolidated statement of cash flows

Cash flows related to operating activities		Current quarter \$A'000	Year to date \$A'000
1.1	Receipts from product sales and related debtors	6,718	18,333
1.2	Payments for (a) exploration and evaluation	(1,170)	(5,523)
	(b) development	(390)	(390)
	(c) production	(4,396)	(12,818)
	(d) administration	(1,409)	(3,344)
1.3	Dividends received	-	-
1.4	Interest and other items of a similar nature received	44	189
1.5	Interest and other costs of finance paid	(158)	(541)
1.6	Income taxes paid	-	-
1.7	Other	29	47
	Net Operating Cash Flows	(732)	(4,047)
Cash flows related to investing activities			
1.8	Payment for purchases of:		
	(a)prospects	-	-
	(b)equity investments	-	-
	(c)other fixed assets	(60)	(210)
1.9	Proceeds from sale of:		
	(a)prospects	-	-
	(b)equity investments	-	-
	(c)other fixed assets	128	128
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	1	(363)
	(d) Other	-	-
	Net investing cash flows	69	(445)
1.13	Total operating and investing cash flows (carried forward)	(663)	(4,492)

1.13	Total operating and investing cash flows (brought forward)	(663)	(4,492)
	Cash flows related to financing activities		
1.14	Proceeds from issues of shares, options, etc. -	(37)	5,610
1.15	Proceeds from sale of forfeited shares	-	-
1.16	Proceeds from borrowings	113	113
1.17	Repayment of borrowings	(1,268)	(1,872)
1.18	Dividends paid	-	-
1.19	Other (provide details if material)	-	-
	Net financing cash flows	(1,192)	3,851
	Net increase (decrease) in cash held	(1,855)	(641)
1.20	Cash at beginning of quarter/year to date	5,583	4,356
1.21	Exchange rate adjustments	(285)	(272)
1.22	Cash at end of quarter	3,443	3,443

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	205
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 \$205k per 1.23 above represents fees paid to non-executive directors for the 3 months to 31/03/2010

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

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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	7,333	6,558
3.2 Credit standby arrangements	-	-

Estimated cash outflows for next quarter

	\$A'000
4.1 Exploration and evaluation	247
4.2 Development	-
Total	247

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	2,165	1,913
5.2 Deposits at call	1,278	3,670
5.3 Bank overdraft	-	-
5.4 Other	-	-
Total: cash at end of quarter (item 1.22)	3,443	5,583

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 Preference securities <i>(description)</i>	-			
7.2 Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs, redemptions	-			
7.3 *Ordinary securities	102,752,659			
7.4 Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs				
7.5 *Convertible debt securities <i>(description)</i>	-			
7.6 Changes during quarter (a) Increases through issues (b) Decreases through securities matured, converted	-			
7.7 Options <i>(description and conversion factor)</i>			<i>Exercise price</i>	<i>Expiry date</i>
7.8 Issued during quarter				
7.9 Exercised during quarter	-			
7.10 Expired during quarter	-			
7.11 Debentures <i>(totals only)</i>	-			
7.12 Unsecured notes <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 April 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.