



EASTERN CORPORATION LIMITED

Dear Shareholder,

I write to you in my new role of Managing Director for Eastern Corporation Limited.

Being appointed to this role at this stage of Eastern's development is a great opportunity. Your company is a producing coal miner with considerable potential in the energy business and I look forward to leading the management team in our commitment to add shareholder value.

Mike O'Brien left us last month and I would like to thank him for his contribution to the company as Chief Executive Officer.

I have been involved in the mining industry for 15 years, having worked off shore at Ivanhoe Copper's operation in Myanmar, and also at the Ernest Henry mine in Queensland. I was also in charge of the Galilee Energy pilot programme when the company first took an interest in the project in early 2003.

In recent years, I have managed Eastern Corporation's New Zealand activities, acquiring two coal mines to give Eastern an initial operating cash flow, planning expansions of our mining and exploration activities in the South Island, purchasing the coal handling and distribution centre at Timaru and expanding the customer base including securing the contract to supply Fonterra's large Clandeboye plant. Eastern now has a sound business in New Zealand, generating revenue and with cash in the bank.

As Managing Director, I will continue to have responsibility for our New Zealand activities and will be working closely with the expanding management team there. Our New Zealand operations, Cascade, Takitimu and Eastern Coal Supplies, have put Eastern Corporation into a positive cashflow position and will show a profit for the 2007-2008 financial year. This I believe, is an enviable position for a listed company of our size.

As a director of your company, concerned with corporate strategy and corporate governance, I will be drawing on my experience as an alternate for some years for my late father, Gordon Smith who, as Chairman, shaped the restructuring of Eastern into the company we know today. I strongly believe that the present share price does not accurately reflect the value of our company and one of my key roles will be to help the market and shareholders understand the value within our company and our projects.

Review of activities

The company coal business continues to grow in New Zealand, while in Australia the new programme of exploration for coal seam methane has commenced in the Galilee Basin in central Queensland.

The Cascade open cut coal mine is situated in the historic Buller coalfields region approximately 25 km north-east of Westport on the west coast of New Zealand's South Island. Based on the results of recent exploration and surveys we have developed a revised mine plan which now shows production of between 50,000 and 55,000 tonnes per year over the next four years. Work will continue to maximise resource recovery at Cascade. At the same time, the company will increase its focus on the nearby Whareatea West deposit as a target for development as we plan the continuation and growth of coal mining in and around the Cascade area.



An initial combined resource of 25.7 million tonnes (Measured 18 mt and Indicated 7.7 mt*) has been identified at Whareatea West. Early tests indicate a range of qualities from coking to high ash thermal coals. However only 40% of the permit has been explored at this stage. Further exploration and coal quality testing are required to gain a full understanding of what can be mined. An information memorandum is being prepared for potential joint venture partners.

The Takitimu coal mine is located in the far south of the South Island of New Zealand. Production is building up in line with demand for its sub-bituminous thermal coal. Stripping of the first block was completed in the June 2007 quarter. This has been followed by building and improving mine infrastructure. Sales are forecast to total 40,000 tonnes in the 2007/08 year, and to increase further in subsequent years up to a forecast 220,000 tonnes. The company has signed a two-year contract to supply major dairy products cooperative Fonterra with 130,000 tonnes a year to its Clandeboye manufacturing site near Timaru, commencing in September 2008.

Eastern holds extensive exploration tenements, prospective for sub-bituminous coal, surrounding Takitimu and to the south-west.

The Broughton Coal Joint Venture in Queensland's Bowen Basin has established a coal resource of 30 million tonnes (Measured 16.5 mt, Indicated 8.5 mt and Inferred 5 mt*). Coal quality studies have revealed both coking and thermal coals. The project will not sustain the costs of stand alone development. However, we are confident that the deposit holds value and we are talking with interested parties about options to realise its worth. In joint venture with Eastern is Mitsui Coal Holdings Pty Ltd with a 10% interest that Mitsui has confirmed it intends to maintain.

Eastern holds an exploration tenement at Dorben in the southern region of the Bowen Basin. It is believed to be prospective for low volatile PCI (pulverised coal injection) coal. No further activities have been planned there in the short term.

Eastern has a 67% interest in Galilee Energy Limited which holds exploration tenements prospective for coal seam methane (CSM) and conventional hydrocarbons (oil and gas) near Longreach in central Queensland. An exploration hole for CSM was drilled to 1100 metres last month. The results of testing and analysis are expected in the December quarter.

Galilee has been working with US consultants Dr Read Holland and Dr Jim Applegate to also evaluate the potential for conventional hydrocarbons. The first stage of a desktop study has been completed and further studies will be undertaken once the current CSM exploration program has been finalised.

It is pleasing to report that the financial positions of Eastern and Galilee are strong. Last month, Eastern secured a debt facility in New Zealand of approximately NZ\$4 million to fund operating activities in New Zealand, secured against the assets and operating cashflows from the company's two mines and coal distribution facility. This will enable Eastern's New Zealand subsidiary companies to repay \$2.5 million to the Australian parent with the balance available as working capital to fund further development in New Zealand, including the Takitimu mine ramp up to full production.

The CSM exploration program in Queensland was funded by a rights issue offered to Galilee shareholders. Completed last month, the issue raised \$2.58 million.

My aim is to build Eastern into a significant energy company, by increasing coal production, developing existing energy assets and acquiring others, taking advantage of the expertise and experience that the company possesses. Another intention is to progress projects in conjunction with joint venture partners when particular expertise or additional funding is required to maximise development. We are also currently undergoing a management restructure focussed on reducing corporate overheads. In these ways Eastern can add substantial value for shareholders.



I would like to ensure that shareholders have every opportunity to stay up to date on the company's progress. One way to do that is to receive by email Eastern's announcements as they are made. Please register on-line at the company's website (www.easterncorp.com.au) or email us at info@easterncorp.com.au. The company will shortly be distributing information to give shareholders the opportunity to receive all statutory communications by email including distribution of the Annual Report.

I look forward to providing regular updates on Eastern's progress in the future.

Yours sincerely,



Campbell Smith
Managing Director

** The information in this report that relates to the estimated coal resource for Whareatea West is based on information compiled by Mr Ian Poppitt of Rockmode Proprietary Limited, who is a member of The Australasian Institute of Mining and Metallurgy. The information in this report that relates to the estimated coal resource for Broughton is based on information compiled by Barry Saunders of Queensland Geological Services Pty Ltd, who is a member of The Australasian Institute of Mining and Metallurgy. Mr Poppitt and Mr Saunders have sufficient experience which is relevant to the style and type of the deposits under consideration and to the activity which they have undertaken 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 and Mr Saunders consent to the inclusion in this report of the matters based on their information in the form and context in which it appears.*

For further information please contact:

Miss Sam Aarons
Manager – Business Development & Corporate Relations
Tel: 07 3216 1155 Mob: 0418 906 621
Email: saarons@easterncorp.com.au

