

26 February 2010

ASX Announcement

Offer to Galilee Energy Limited Shareholders

Further to the Offer Document lodged on 10 February 2010, the enclosed Supplementary Information to the Offer was despatched to Galilee Energy Limited shareholders today.

For further information contact:

Sam Aarons
Manager, Business Development & Corporate Relations

Tel: 07 3216 1155
Email: info@easterncorp.com.au
Website: www.easterncorp.com.au



SUPPLEMENTARY INFORMATION

**TO THE OFFER ISSUED BY
EASTERN CORPORATION LIMITED
to acquire all of your fully paid shares in
GALILEE ENERGY LIMITED**

If you have any questions about the Offer or this document or about how to accept the Offer, please call Eastern Corporation Limited on (07) 3216 1155 (for callers within Australia) or +61 7 3216 1155 (for callers outside Australia).

This document contains important information and requires your immediate attention. If you are in any doubt as to how to deal with this document, you should consult your legal, financial or other professional adviser immediately.

IMPORTANT DATES

Date of Offer Document: 10 February 2010 (Offer Date)

Offer period ends: 5pm Eastern Standard Time on 19 March 2010 (unless extended or withdrawn)

SUPPLEMENTARY INFORMATION TO THE OFFER

ECU has received a request from the Independent Board Committee formed by the GEL Board to provide further information to GEL Shareholders regarding the basis of the value that has been attributed by ECU to the GEL Shares.

In order to assist GEL Shareholders to consider the Offer, ECU provides the following additional information in respect of the Offer. This information is provided subject to the terms, conditions and disclaimers set out in the Offer Document.

Value attributed by ECU to GEL Shares

As set out in the Offer Document, based on the last closing price for ECU Shares of 27.5 cents on 9 February 2010, the Offer values each GEL Share at 3.1 cents, which the Independent ECU Directors believe to be a fair estimate of the value of GEL Shares. Set out below is some further detail which was considered by the Independent ECU Directors in determining this value.

Basis of value attributed to the GEL Shares

In arriving at the Offer of 1 ECU Share for every 9 GEL Shares, the Independent ECU Directors estimated the value attributed to GEL Shares based on the current trading price of ECU – as noted above and in the Offer Document, this was 27.5 cents on the day immediately before the date of the Offer.

The assets of ECU at the date of the Offer included:

- (a) ECU's 68% interest in the GEL Project;
- (b) ECU's New Zealand Coal Mining assets; and
- (c) ECU's interest in the Broughton Coal exploration permit in Queensland.

In determining the terms of the Offer and their estimate of the value to be attributed to GEL Shares, the Independent ECU Directors considered these assets and the value that the assets attributed to ECU's market price.

The principal factors considered by the Independent ECU Directors in this regard were:

- ECU's New Zealand coal mining operations produced a 6 monthly pre tax profit of NZ\$1.3 million for the 6 months to 31 December 2009. The ECU Board expects continued profitable trading from its New Zealand coal mining operations for the balance of the current financial year. ECU has recently signed a coal supply agreement with its major customer in New Zealand (Fonterra) that will extend the existing contract by a period of up to 10 years.
- ECU had in place a Put and Call Option in respect of its interest in the Broughton Coal project in Queensland and had no reason to expect that this option would not be exercised (and the Put Option has in fact now been exercised), which would see this interest sold for the sum of \$8.5 million in cash. ECU expects to receive the proceeds from this transaction in approximately 3 months.

In formulating the Offer to GEL Shareholders, and with the background knowledge of the New Zealand and Queensland assets of ECU, the Independent ECU Directors adopted (based on their own assessment) what they believe is a conservative view (which is in fact favourable to GEL Shareholders) that the New Zealand coal assets and the Broughton project represented a value equal to 10 cents in the ECU share price. This was based on a combined value of approximately \$10.2 million for both assets.

The Independent ECU Directors consider that it would not be unreasonable to attribute a higher value to the New Zealand coal assets and the Broughton Project, particularly in the light of current profitable operations in New Zealand, ECU having secured long term supply contracts in New Zealand and the

existence of the Put and Call Option in respect of the interest in Broughton (which has subsequently been exercised). However, ECU adopted a conservative approach to this aspect of the valuation.

Deducting value attributable to the New Zealand coal assets and the interest in the Broughton Project from the ECU market price of 27.5 cents, the Independent ECU Directors took the view that the value of ECU's 68% interest in the GEL project was worth around 17.5c per share.

Applying this value to GEL as a whole, resulted in a value of 2.85 cents for each GEL Share, calculated as follows:

- The proportion of ECU's market price of 27.5 cents attributable to ECU's interest in the Galilee Project was 17.5 cents.
- The total number of ECU shares on issue at time of Offer was 102,752,659.
- This equates to the total value of ECU's interest in the Galilee Project being approximately \$18 million.
- ECU owns 68% of GEL Shares and therefore indirectly has an interest in 68% of the Galilee Project, thus 68% of the Galilee Project equates to approximately \$18 million. This would result in the overall value of the Galilee Project being approximately \$26.5 million.
- The total number of GEL Shares on issue at time of the Offer was 927,782,562.
- On this basis, the value per GEL share assuming the total value of the Galilee Project was \$26.5 million is 2.85c per GEL Share.

As noted above, the estimated value attributed by the Independent ECU Directors for each GEL Share in making the Offer was in fact 3.1 cents per share. This equates to **a premium of approximately 8.8%** above the value attributed by ECU to the GEL Shares.

In light of the factors noted above, including the conservative approach of the ECU Board in valuing its assets, and the interest that is sought to be acquired by ECU in GEL being a minority interest, the Independent ECU Directors believe that the estimate of the value of the GEL Shares is fair to the GEL Shareholders in the circumstances.

At the time of making the Offer, the Independent ECU Directors were also aware of the general effect of share market movements on the valuation of coal seam gas (CSG) entities in recent months. ECU has been advised by its Corporate Advisors the market valuation of CSG entities has generally reduced by approximately 40% since late 2009. (Please refer to the charts **attached** in this regard). Given that the last indicator of a traded GEL share was 5 cents per share in October 2008 and that GEL Shares would, in the opinion of the Independent ECU Directors, not be immune from the general 40% downward trend in recent CSG valuations, there is an implied market value of 3 cents for each GEL Share, assuming that there is a willing buyer for these shares and that the vendor of the shares is prepared to forgo any potential upside the Galilee Project.

Conclusion

The Independent ECU Directors consider that the Offer on the basis of 1 ECU Share for every 9 GEL Shares to be fair. The reasons for this are:

- (a) the Offer to the minority GEL Shareholders is based on an informed independent market value of the Galilee Project and that valuation is represented by the market assessment of the ECU share price which was 27.5 cents at the date of issue of the Offer;
- (b) in formulating the Offer on a 1:9 basis, the Independent ECU Directors have, in their opinion, acted conservatively in valuing ECU's non CSG assets;

- (c) there have been recent significant falls in recent valuations of CSG entities and, in the opinion of the Independent ECU Directors, GEL Shares would not be immune from this general fall in value;
- (d) implicitly no discount for the acquisition of a minority interest in the Galilee Project has been applied in formulating the Offer to the GEL minority shareholders;
- (e) the Offer Document outlines the reasons why GEL shareholders should accept the Offer and, without restating the full reasons in this document they include:
 - (1) Liquidity of Investment;
 - (2) Maintain Interest in Galilee Project;
 - (3) Potential to Unlock Value in Galilee Project;
 - (4) Continuity of Board Representation;
 - (5) Streamlined Management;
 - (6) Simplification of Future Fundraising Requirements; and
 - (7) Ability to Participate in ECU Coal Operations.

On the basis of the above information, the Offer to GEL Shareholders to effectively exchange their combined existing 32% interest in GEL for a combined 24% interest in the post merger listed ECU is considered by the Independent ECU Directors to be fair to the GEL minority interests.

The ECU Board wishes to confirm that the Offer opened on 10 February 2010 and will close at 5pm (Eastern Standard time) on 19 March 2010. ECU has reserved the right to extend the Offer Period or to withdraw the Offer by notifying the GEL Shareholders, however ECU will not withdraw the Offer before 10 March 2010. The ECU Board confirms that the Offer remains subject to and conditional upon the terms of the Offer set out in the Offer Document. Nothing in this document shall vary the terms of the Offer in any way.

This information is not a variation of any of the terms of the Offer – it is merely provided as additional information for the consideration of GEL Shareholders and has been provided at the request of the Independent Board Committee established by the GEL Board.

Dated 26 February 2010.



Richard May
Chairman

Definitions

In this document, the following words have these meanings unless the contrary intention or the context otherwise requires:

A\$ or \$ means Australian dollars;

Board of ECU or ECU's Board means the board of directors of ECU;

Board of GEL or GEL's Board means the board of directors of GEL;

Corporations Act means the *Corporations Act 2001* (Cth);

Directors means the directors of GEL from time to time;

ECU means Eastern Corporation Limited ACN 064 957 419;

ECU Share means a fully paid ordinary share in the capital of ECU;

Galilee Project means GEL's interest in ATP 529P and ATP 799P;

GEL means Galilee Energy Limited ACN 067 998 323;

GEL Shareholder means a holder of GEL Shares;

GEL Shares means the issued fully paid ordinary shares in the capital of GEL and includes all Rights attaching to them and the term GEL Share shall have a corresponding meaning;

Independent ECU Directors means those members of the ECU Board who are not directors of GEL and do not hold any GEL Shares;

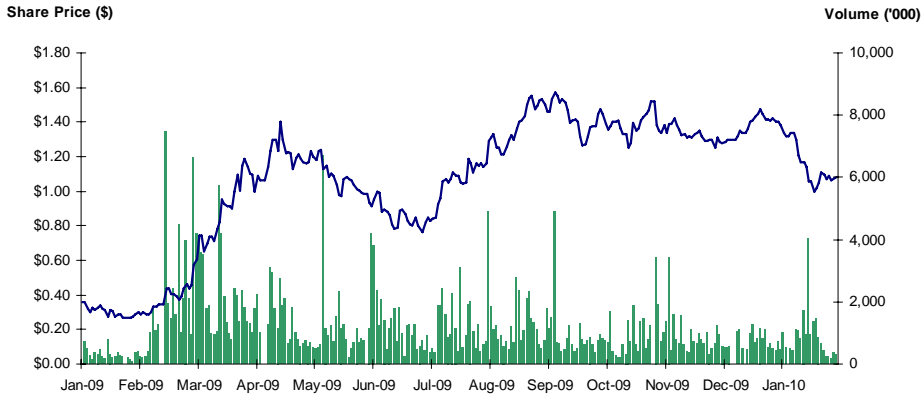
Offer means ECU's offer to acquire GEL Shares as contained in the Offer Document;

Offer Date means the date on which the Offer was first made to shareholders of GEL, namely 10 February 2010;

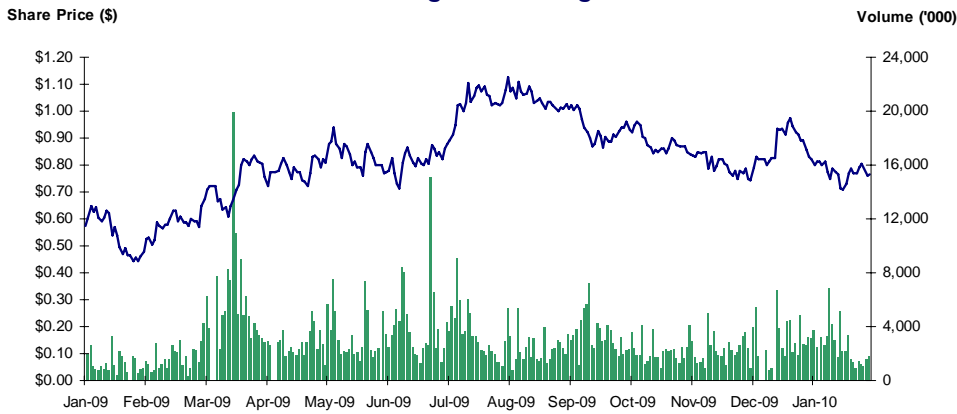
Offer Document means the Offer Document issued by ECU to GEL Shareholders dated 10 February 2010;

Offer Period means the period during which the Offer will remain open for acceptance in accordance with the Offer Document.

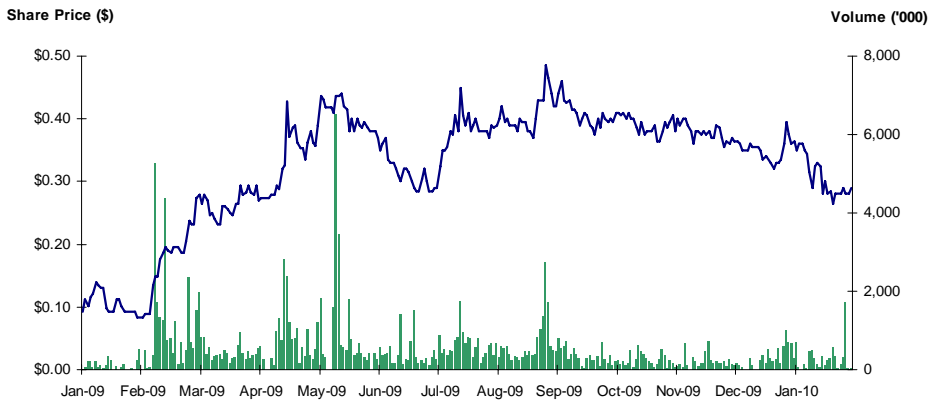
Bow Energy Limited (ASX: BOW): -31.2% since September 2009 high



Eastern Star Gas Limited (ASX: ESG): -32.0% since August 2009 high



Comet Ridge Limited (ASX: COI): -40.2% since September 2009 high



Arrow Energy Limited (ASX: AOE): -24.2% since August 2009 high

