

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.