EASTERN CORPORATION LIMITED

ABN 11 064 957 419

&

Controlled Entities

Financial Statements
for the year ended 30 June 2004

Contents:

Highlights

1. Eastern's energy focus expanded to include coal, transforming the company into a potential coal producer in Australia and New Zealand and complementing the company's coal seam methane assets.

2. Completed the $4 million acquisition of the Galilee Energy shareholding and advanced the Rodney Creek pilot coal seam methane project. Data collection for reservoir modelling commenced following upgrades of in-hole pumping equipment.

3. Introduced additional technical expertise and experience both at board level and senior management.

4. Successfully completed share capital raisings of approximately $3m to fund the Rodney Creek project and ongoing acquisition-related activities

5. Attracted sophisticated investors to the shareholder register and gained a broader recognition of Eastern Corporation's activities throughout Australian financial markets.

6. Increased the Company's ASX share market capitalisation to almost $25m.

Since June 2004:

Implemented the coal strategy:

1. Exercised the option to acquire all of the shares in Restpine Pty Ltd, which holds coal exploration assets at Broughton in the Bowen Basin, Queensland, Australia's premier coal province, and Whareatea West, New Zealand.

2. Announced plans to determine whether to acquire and develop the coal assets of New Zealand resources company Kenham Holdings Limited.

Chairman's Report

Dear Shareholders,

The financial year ended 30 June 2004 saw Eastern implement a strategic decision to expand its activities within the energy sector.

As mentioned in my address at the Annual General Meeting last year, a decision was made by your board to broaden our base of activities with a view to strengthening the company and achieving early cash flow.

In addition to continuing the Galilee coal seam methane project, we have taken a number of initiatives in coal in the Bowen Basin in Queensland, and in New Zealand.

During the last year a number of steps have also been taken to enhance the skill base of our management team. John McIntyre has joined the board as a non-executive director, and I would like to welcome Paul Williams as the new Chief Executive Officer.

I refer you to the Chief Executive Officer's report which further details the activities of Eastern and our plans for expansion as an emerging energy company.

We as a board thank you for your support during the last year and commend our future programme to you.

Sincerely

Gordon Smith
Executive Chairman
30 September 2004

Chief Executive Officer's Report

In April 2004 Eastern announced the expansion of its energy interests to include coal, transforming your company into a potential coal producer in Australia and New Zealand while continuing to pursue the longer term commercial development of the Rodney Creek Coal Seam Methane project.

In coal, Eastern aims to capitalise on a range of opportunities that may give the company an ability to generate early cash flow, through longer term development prospects.

Eastern directors have widely recognised coal mining expertise and, to support this expanded energy focus, the company has added further technical skills and experience to the Eastern management and consultancy teams.

During the year, Eastern raised additional capital via a share placement and share purchase plan to fund ongoing activities and the acquisition of the coal interests. It also created a new class of ASX listed options which, if exercised, will underpin the Company's financial stability over the next few years.

Since June 2004, Eastern's coal strategy has progressed significantly with moves to:

- Exercise an option to acquire Restpine Pty Ltd, the holder of coal exploration interests adjoining Rio Tinto's Hail Creek coking coal mine at Broughton in Queensland's Bowen Basin, Australia's premier coal province, and at Whareatea West in New Zealand.
- Acquire and develop the coal assets of New Zealand resources company Kenham Holdings Limited.

I believe that combining these coal opportunities, together with the company's CSM project, will continue to strengthen Eastern's commercial prospects over the coming year as it seeks to establish itself as a broad based energy company.

Coal seam methane

(a) Galilee Energy Limited (Eastern 51%)

Eastern's subsidiary, Galilee Energy is advancing the Rodney Creek project, which has been the principal focus of activities within the ATP 529P asset. The 5 well pilot programme, which is providing data for a gas simulation model, is aimed at proving a CSM resource for commercial development. The target is to move from resource to reserve status. Approximately twelve months of continuous gas flow is required to achieve this. Reserve status will improve the opportunities for commercial agreements with potential end users and other prospective investors to take the project forward to development.

Progress over the past 12 months has included:

- Approval from the Queensland Department of Natural Resources and Mines (DNRM) for a further 4-year renewal of ATP 529P. This includes 100 blocks (8,000 sq km) of the original 181 blocks. Galilee has since re-applied for a separate ATP over the relinquished 81 block area.
- Progressive upgrading of in-well water pumping equipment has improved flow control and allowed water levels to be held at the constant levels necessary for data collection for reservoir modelling.
- Maintained contact with potential end users of the gas that may be produced from the project.

In order to progress the project, the boards of Eastern and Galilee Energy have initiated a thorough technical review of all data from the Rodney Creek pilot wells and throughout the ATP area. The aim is to gain a clear picture of the likely development scenarios for the field and to assist with economic modelling for the project. Following completion of the review, a comprehensive report will be prepared which will be made available to potential joint venture partners and end-users alike. The report is expected to be completed during the December quarter 2004.

It is expected that additional funds will be required to implement the anticipated recommendations of the technical review. Funds are likely to be sourced from existing Galilee shareholders (including Eastern) and possible joint venture partners. The raising of further funds in Galilee will be required before the end of 2004.

(b) Dorben Pty Ltd – Laura Basin

Dorben Pty Ltd, which is a wholly owned Eastern subsidiary company, holds an Authority to Prospect (ATP) application within the Laura Basin region in north east Queensland. The Laura Basin, which includes significant coal resources, is considered prospective for coal seam methane and lies close to the eastern branch route of the proposed Papua New Guinea gas pipeline. Eastern is in the process of completing further analysis of available technical data as part of any application for formal grant of an ATP.

Coal

The portfolio of coal interests that Eastern is pursuing presents the company with its best opportunity to become a significant participant in the energy production sector in Queensland and in New Zealand. This is further supported by the coal production expertise of Eastern's board members, and a strong outlook for the coal sector (both for coking and thermal coal product). The board's coal strategy is to:

- Identify areas of prospectivity.
- Carry out detailed technical assessments of available data and consider market opportunities
- Conduct further exploration drilling and resource evaluation, where warranted.
- Seek potential joint venture and other partners in order to take identified potential projects to bankable feasibility study status.
- Proceed to develop identified economic projects.

(a) Restpine Pty Ltd

In September 2004, Eastern exercised its option to purchase all of the shares in Restpine, and will now move to develop the Restpine assets at Broughton in Queensland and Whareatea West in New Zealand into potential projects.

Restpine's Broughton project is situated near Rio Tinto's Hail Creek mine in Queensland's Bowen Basin, Australia's premier coal province. Encouraging early results from drilling programmes at Broughton have indicated:

- The presence of high quality hard coking coal.
- Interest from adjoining tenement holders in potential co-operative operations.
- Interest from potential customers and joint venture partners.

Eastern is aiming to establish a measured resource (JORC status) at Broughton within the next few months.

Whareatea West is located in the north west coast of the South Island of New Zealand, near Westport in the Denniston Plateau region. Initial geological studies indicate the potential for a significant, high quality coking coal resource. Previous work has outlined a coal resource, and further drilling is planned to confirm this earlier work and establish a reportable, JORC standard, resource estimate.

(b) Kenham Holdings – New Zealand

Also in September 2004, Eastern announced plans to assess and, if found to be attractive, acquire and develop the coal assets of New Zealand-based resources company, Kenham Holdings Limited. Kenham is chaired by mining and resources investor, Mr Geoff Loudon, and holds a suite of coal exploration assets throughout both the North and South Islands of New Zealand, covering a considerable amount of known in-ground coal. The New Zealand coal market is essentially dominated by the Government-owned Solid Energy. However, in our view, New Zealand has potential opportunities for companies such as Eastern which can apply their expertise to specific project areas and, subject to obtaining all relevant mining and development consents, establish projects reasonably quickly to derive cash flow over the short to medium term.

Share capital

During the last 12 months, the issued share capital of Eastern increased by 32% to approximately 425m shares, and with a further 78m options issued. This raised nearly $3m to fund the company's activities during the period. The exercise of options within the next two years is expected to generate substantial additional funds for Eastern – further underpinning its activities going forward.

While the company is establishing its project interests, the number of issued shares is not a cause for concern to the board. However, as projects and assets of substance are being established or acquired, a share capital maintenance or consolidation programme will be considered.

Additional share placements and issues are likely to be effected over the next few months. However, the board will endeavour to minimise these, and the resulting dilutionary impact on existing holders, through the use of project financing arrangements as well as joint ventures, where participating equity is sold down to joint venture partners.

During my 18 months with the company, firstly as a non-executive director and, since August 2004, as Chief Executive Officer, I have watched Eastern develop into an emerging coal and gas producer with a clear strategy to utilise the expertise of a strong management team in developing a sound portfolio of assets in the energy sector.

As CEO, I look forward, with much enthusiasm, to the challenges and opportunities that lay ahead and importantly, to delivering value for shareholders.

Yours sincerely,

Paul Williams
Chief Executive Officer
30 September 2004

Coal and Coal Seam Methane

Eastern is an emerging diversified energy company planning to mine coal in the Bowen Basin and New Zealand and develop coal seam methane (CSM) in the Galilee Basin.

Coal

Eastern plans to grow by acquiring and consolidating coal assets, utilising the proven coal mining expertise of its directors and creating a pipeline of projects. Eastern's initial focus lies with the Restpine Pty Ltd coal exploration assets acquired in September 2004, and the proposed acquisition and development of the coal assets of New Zealand resources company Kenham Holdings Limited. The latter is targeting the anticipated increase in thermal coal demand in coming years for electricity generation in New Zealand.

Coal is the world's most significant fossil fuel resource, providing both an economically competitive fuel for the generation of electricity, and an essential input to the production of iron, steel and cement.

The global outlook for coal consumption is positive with growth in demand driven by increasing thermal coal consumption for power generation in the developing Asian economies. Coal also remains competitive as a source of fuel for power generation in developed countries and there is increasing research into clean coal technologies aimed at improving thermal conversion efficiencies and reducing the environmental impact of coal fired generators.

Demand for hard coking coal in steel manufacture remains strong particularly in the north east Asian economies and global consumption of coking coal is expected to grow as the supply sources of good quality hard coking coal are limited.

The recently acquired Restpine assets include potential coking coal resources at:

- Broughton in Queensland's Bowen Basin. Broughton comprises EPC 818 which adjoins Rio Tinto's Hail Creek coking coal mine in the northern Bowen Basin and is approximately 100 kilometres from the Dalrymple Bay coal export facility by rail line which crosses the tenement. Preliminary results from drilling give confidence that the resources at Broughton would produce an export quality, hard coking coal.
- Whareatea West in New Zealand's South Island. Initial geological studies indicate the potential for a significant coking coal resource. A preliminary mine plan has been prepared and discussions are in progress with New Zealand Government officials aimed at securing access to enable a resource drilling programme to commence at the tenement.

Eastern's New Zealand the coal development strategy is driven by the planned acquisition of Kenham's coal assets. These include coal exploration licences and licence applications in both the North and South Islands of New Zealand at locations close to urban areas and industrial sites where future energy needs have been identified.

New Zealand's energy usage has doubled since the 1980's and continues to grow whilst energy self-sufficiency in the past decade has slumped to around 27% and continues to fall. The decline in gas production from the Maui field and likely environmental constraints on new hydro power schemes means new generation options are limited and increased power generation requirements for New Zealand in coming years are expected to result in increased demand for thermal coal. This will reopen opportunities for commercial development of New Zealand's extensive coal resources.

Coal Seam Methane

Eastern subsidiary Galilee Energy (Eastern 51%) is progressing the Rodney Creek CSM project within authority to prospect ATP 529P in the Galilee Basin of central Queensland. A 5-well pilot programme is providing data for a gas reservoir simulation model to provide a clearer understanding of the field's characteristics and the potential as a commercial producer of gas. The aim is to progress the project from resource to reserve status by mid 2005. The Rodney Creek project lies relatively close to the Barcaldine power station.

In addition to the Galilee asset, Eastern, through its wholly owned subsidiary Dorben Pty Ltd, is submitting an Authority to Prospect application (ATP 627P) to commence CSM exploration in the Laura Basin of northeast Queensland. The Basin is known to contain thick deposits of coal and is highly prospective for CSM.

Coal Seam Methane in Queensland

Queensland is highly prospective for CSM due to a combination of favourable geology and extensive coal resources. Interest in CSM as an energy source has increased significantly in recent years and exploration has steadily grown, encouraged by the Queensland Government's 2002 Queensland Energy Policy – a Cleaner Energy Strategy. This Policy required 13% of the State's electricity to be generated from gas (including CSM) by 2005.

The first production of CSM in Queensland was in 1996 and most CSM production to date has been limited to the shallower coal seams of the Bowen Basin. Queensland CSM production is growing rapidly with output more than doubling since 2001. In 2003 CSM production had increased to approximately 27 Petajoules, or about 25% of Queensland's gas demand.

According to research by the National Institute of Economic and Industry Research, Queensland has the largest forecast growth for gas consumption of any Australian state, driven by industrial use and power generation. The Queensland gas supply market has traditionally been dominated by the Santos-led southwest Queensland producers. However over recent years, this traditional dominance has been challenged with a number of smaller producers of CSM emerging as a viable alternative.

The importance of CSM as a potentially significance source of natural gas for power generation in Queensland is illustrated by the United States experience. A decade ago CSM was a negligible energy source but today contributes about 7 percent of the demand of the world's largest energy-using economy.

Board of Directors

Gordon G Smith
Executive Chairman
Appointed as an executive director 12 February 2003 and Executive Chairman on 15 December 2003.
Mr Smith has extensive experience in the mining industry, spanning more than 30 years. In 1997 Mr Smith and three partners formed CAML Resources Pty Ltd, which established a joint venture to develop the now successful Foxleigh open cut coal mine in the Bowen Basin of Queensland. He is also a director of Propwood Pty Ltd and Galilee Energy Limited.

Since Eastern completed its acquisition of the 51% shareholding interest in Galilee Energy Limited, Mr Smith has been supervising all aspects of Galilee's activities and in particular, Galilee Energy's forthcoming programme to conduct a comprehensive technical review of its existing coal bed methane project in central Queensland.
Age 60

Paul R Williams
Chief Executive Officer
Appointed as a non-executive director 12 February 2003 and Chief Executive Officer on 16 August 2004.
Mr Williams holds a Bachelor of Arts and Bachelor of Law degree from the University of Queensland. Formerly a partner with the Brisbane legal firm Hopgood Ganim, he advised corporate clients, particularly those carrying out activities in the resources industry during his 17-year association with the law firm. Mr Williams is a director of the unlisted public company Shortcuts Software Limited. He is also a director of Propwood Pty Ltd and Galilee Energy Limited.
Age 40

John S McIntyre
Non-Executive Director
Appointed as a non-executive director 7 July 2004.
Mr McIntyre is a professional mining engineer with both open pit and underground management expertise and expertise in the feasibility evaluation and development of mining projects. Managing director of the Australian subsidiary of US mineral industry consultant, Behre Dolbear, Mr McIntyre has previously held senior positions at the Goonyella and Curragh mines in Queensland's Bowen Basin.
Age 54

Directors' Report

Your directors present their report on the consolidated entity consisting of Eastern Corporation Limited ("Eastern" or "the Company") and the entities it controlled at the end of, or during, the year ended 30 June 2004.

Directors

The following persons were directors of Eastern during the whole of the financial year and up to the date of this report (particulars of their qualifications, experience and special responsibilities are found on page 8 of this Annual Report):

Executive directors:

G G Smith

P R Williams

Non-executive directors:

J S McIntyre was appointed a director on 7 July 2004 and continues in office at the date of this report.

C G Smith was a director from the beginning of the financial year until his resignation on 2 December 2003 following which he was appointed alternate director to G G Smith on 15 December 2003 and continues in office at the date of this report.

R V Gazzard was a director from the beginning of the financial year until his resignation on 6 July 2004.

D K Barwick was a director from the beginning of the financial year until his resignation on 2 December 2003.

Principal activities

During the year the principal continuing activities of the consolidated entity consisted of exploration for and proposed development of coal seam methane, coal and other economic resources.

There were no significant changes in the nature of the activities of the consolidated entity during the year. The Company did however, take steps to broaden the base of its asset holdings by seeking to acquire certain coal interests in Queensland's Bowen Basin, as well as in New Zealand. In addition, the Company completed the disposal of its interests in Sur American Gold Corporation during the year.

Dividends

No dividends were paid to members during the financial year.

Since the end of the financial year the directors have not recommended the payment of any ordinary dividend.

Review of operations

A review of operations of the consolidated entity during the financial year to 30 June 2004 is incorporated into the Chief Executive Officer's report.

Significant changes in the state of affairs

There have been no significant changes in the consolidated entity's state of affairs during the twelve months to 30 June 2004.

Matters subsequent to the end of the financial year

(a) Restpine Pty Ltd

Since 30 June 2004 the Company has exercised its option to acquire all of the issued shares in Restpine Pty Ltd, the holder of certain coal exploration interests in Queensland and New Zealand for a total consideration of $500,000. The consideration is to be paid by the Company by way of both cash (to the extent of existing indebtedness of Restpine Pty Ltd – approximately $400,000) and the balance in Eastern shares at an issue price of 4 cents per share. Completion of this purchase is due to occur on or before 30 November 2004.

(b) Galilee Energy Limited

On 30 July 2004, Galilee Energy entered into a Heads of Agreement with United Kingdom company, Viking International Petroleum Plc ("Viking") to acquire a 50% interest in the assets of Galilee Energy. On 11 September 2004 Viking advised that it did not intend to proceed with this acquisition on the basis that the current Rodney Creek project did not fit its investment strategy however it did not discount the possibility of considering participation in the project as it progresses.

Except for the new Restpine Pty Ltd acquisition discussed above, no other matter or circumstance has arisen since 30 June 2004 that has significantly affected, or may significantly affect:

(a) the consolidated entity's operations in future financial years, or

(b) the results of those operations in future financial years, or

(c) the consolidated entity's state of affairs in future financial years.

Likely developments and expected results of operations

Likely developments in the operations of the consolidated entity constituted by the Company and the entities it controls from time to time that were not finalised at the date of this report included:

(a) the Restpine Pty Ltd acquisition, as mentioned above;

(b) the possible acquisition of shares in the New Zealand company Kenham Holdings Limited, the holder of certain coal exploration interests in New Zealand: and

(c) possible joint venture and other participation by external parties in the coal and coal seam methane interests that the Company is developing.

Further information on likely developments in the operations of the consolidated entity and the expected results of operations have not been included in this report because the directors believe it would be likely to result in unreasonable prejudice to the consolidated entity.

Environmental regulation

The Company's operations are regulated by environmental regulation under the laws of the Commonwealth of Australia and of the State of Queensland. Operations are conducted in compliance with the Queensland Petroleum Act. Environmental considerations are reviewed with and approved by the Queensland Department of Natural Resources and Mines. The Company has not been notified of any environmental breaches by any Government agency during the year.

Both the coal and coal seam methane activities are at an exploration stage, so the environmental requirements are established under the terms of the granted exploration tenures held by the consolidated entity. In addition, with the area on New Zealand's south island held by Restpine Pty Ltd, environmental requirements of the Department of Conservation and local regional authorities need to be addressed before exploration can take place.

Information on directors

Particulars of directors' and the interests in shares and options of Eastern held by current directors:

Director	Position	Special responsibilities	Ordinary shares	Options
G G Smith BEc,	Executive Chairman	Member of the Corporate Governance Committee	219,445,000	11,820,000
P R Williams BA, LLB	Chief Executive Officer	Member of the Corporate Governance Committee Chairman of the Audit Committee	214,445,000	11,820,000
J S Mcintyre BEng	Non-executive Director	Member of the Audit Committee from July 2004	214,795,000	11,820,000
C G Smith	Alternate Director to G G Smith		219,445,000	11,820,000
D K Barwick *(resigned 2 December 2003)*	Non-executive Director		-	-
C G Smith *(resigned 2 December 2003)*	Non-executive Director		-	-
R V Gazzard *(resigned 7 July 2004)*	Non-executive Director		1,000,000	-

The three current directors and alternate director all have a common interest in 214,445,000 shares and 11,820,000 options held in the name of Propwood Pty Ltd of which Messrs G G Smith and P R Williams and directors and all four are unit holders with the following percentage interest of units:

G G Smith	49.5%
C G Smith	13.8%
J S McIntyre	2.54%
P R Williams	1.90%

Messrs G G and C G Smith have a common interest in shares held in the name of Becamal Pty Ltd of which Mr G G Smith is a director and Mr C G Smith is a director and shareholder.

Company secretary

The company secretary Mr W G (Bill) Lyne B.Com (Econs), CA, FCIS (UK), FCSA, FAICD, ASIA was appointed on 12 February 2003. Mr Lyne is the principal of Australian Company Secretary Service and secretary of many listed and other public companies. He is a State Councillor and a member of Chartered Secretaries Australia and lecturer at CSA and other courses on company secretarial practice.

Meetings of directors

The numbers of meetings of the Company's board of directors and of board committees held during the year ended 30 June 2004, and the numbers of meetings attended by each director were:

	Full meetings of directors		Audit committee meetings	
Director	Number of meetings eligible to attend	Number of meetings attended	Number of meetings eligible to attend	Number of meetings attended
G G Smith	9	8	-	-
P R Williams	9	9	3	3
C G Smith	5	5	2	2
D K Barwick	5	5	2	2
R V Gazzard	7	7	1	1

Remuneration report

Details of directors and specified executives remuneration, benefits, shares and options for the twelve months to 30 June 2004 are disclosed in note 23 of the notes to the financial statements.

Insurance of officers

During the financial year the Company paid a premium to insure the directors and secretaries of the company and the general managers of each of the divisions of the consolidated entity.

The liabilities insured are legal costs that may be incurred in defending civil or criminal proceedings that may be brought against the officers in their capacity as officers of entities in the consolidated entity, and any other payments arising from liabilities incurred by the officers in connection with such proceedings, other than where such liabilities arise out of conduct involving a willful breach of duty by the officers or the improper use by the officers of their position or of information to gain advantage for themselves or someone else or to cause detriment to the Company. It is not possible to apportion the premium between amounts relating to the insurance against legal costs and those relating to other liabilities.

Auditor

PricewaterhouseCoopers continues in office in accordance with s327 of the *Corporations Act 2001*.

Directors' resolution

This report is made in accordance with a resolution of the directors of the Company.

Gordon Smith

Gordon Smith
Executive Chairman

Brisbane
30 September 2004

Corporate Governance Statement

The main corporate governance practices of the Company are set out below.

The primary role of the board is to ensure the long-term health and prosperity of the Company, which it aims to accomplish by:

- Setting objectives, goals and strategic direction for management with a view to maximising Shareholder value;
- Adopting an annual budget and monitoring financial performance;
- Ensuring adequate internal controls exist and are appropriately monitored for compliance;
- Ensuring significant business risks are identified and appropriately managed;
- Ensuring that the board comprises an appropriate level of expertise, experience and skill, so as to ensure the commercial opportunities are taken advantage of; and
- Setting the highest of business standards and codes for ethical behaviour.

(a) Board of directors

(i) Responsibilities

The board is responsible for the corporate governance and business strategy of the Company. It authorises all major transactions and reviews operational and financial performance. The Chief Executive Officer conducts the day-to-day affairs of the Company and is accountable to the board.

(ii) Composition

The board currently comprises three members, being one non-executive director and two executive directors. The Chairman is not independent of related party interests. Details of each director's background appear on page 8 of this document. The Chairman is elected by the board.

(iii) Nomination and Election of Directors

The board can at any time appoint any suitably qualified and experienced person to be a director. That person holds office until the next Annual General Meeting and is then eligible for election at that meeting. One third of the directors retire at each Annual General Meeting.

(iv) Meetings

Nine meetings were held during the financial year at the Company's principal administrative office.

(v) Independent Advice

Directors have access to the advice of independent external experts at the expense of the Company, should they consider it necessary. Any advice that is obtained is also made available to the Chairman.

(b) Directors' indemnity

Under clause 99 of the Company's constitution and pursuant to respective Deeds of Indemnity each director of the Company (and its subsidiaries) is indemnified to the extent permitted by law against:

- Liability to third parties arising out of conduct undertaken in good faith in their capacity as a director; and
- The costs and expenses of defending legal proceedings arising out of conduct undertaken in their capacity as a current or former director, unless the defence is unsuccessful.

The Company (and its subsidiaries, Galilee Energy Limited and Dorben Pty Ltd) have in place a Directors and Officers Liability Insurance Policy, for which the Company (and Galilee) pay the premium, insuring the directors against certain liabilities they may incur in carrying out their duties and responsibilities for the Company.

(c) Contracts with directors

The Company's constitution provides that a director may enter into an arrangement with the Company and directors or their firms may act in a professional capacity for the Company. However, these arrangements are subject to the restrictions and disclosures in the *Corporations Act* applicable to public companies and common law directors' duties.

During the course of last year, no director has received or become entitled to receive a benefit because of a contract between the Company and the director, or a firm of which the director is a member, other than in the case of legal services provided on normal commercial terms by Hopgood Ganim, a firm of which Paul Williams was a partner until 27 August 2004.

(d) Ethical standards

The Company is committed to high ethical standards in its operations and in its dealings with shareholders. All directors are required to adhere to a Corporate Ethics Policy and they are restricted from dealing in Company securities when they are in possession of price sensitive information. Directors who may be in possession of price sensitive information generally may only buy or sell securities in the Company in specified periods before or after the release of half and full year results.

(e) Shareholder communication

The Board ensures that the shareholders are provided with adequate information regarding the performance of the Company and any price sensitive information in a timely manner. The Company's policy is to lodge with the ASX and place on its web-site market sensitive information, including annual and half yearly results announcements and any relevant analyst presentations, as soon as practicably possible. The Company's web-site (www.easterncorp.com.au) contains recent announcements, shareholders' circulars and relevant financial data.

(f) Directors' remuneration

There is currently one director (Paul Williams – Chief Executive Officer) who acts in an executive capacity and is remunerated (pursuant to specific contractual arrangements) for his services to the Company.

Non-executive directors are also remunerated for the extent of their work and commitment to the Company as it strives to maximise the value of its asset holdings. The current level of total remuneration payable to non-executive directors (as approved by shareholders under the Company's Constitution) is $150,000 and is allocated among the non-executive directors as they decide. The amount currently paid to each non-executive director is at the rate of $30,000 per annum.

The directors are specifically excluded from participating in the allocation of shares held by the Company's Employee and Consultants Share Incentive Scheme.

(g) Board committees

(i) Audit

The Audit Committee comprises three persons – Paul Williams, John McIntyre and Corporate Services Manager, Miss Sam Aarons. Other board members are invited to attend. Audit matters are considered at meetings of the committee. In addition to statutory reporting issues, the Audit Committee also considers business risks, the adequacy of the Company's control environment and all internal audit findings. The Company's external auditors attend relevant meetings as do the executive directors. Non-executive directors also meet separately with auditors at each meeting and on an "as needs" basis.

(ii) Corporate Governance

Two directors comprise the Corporate Governance Committee – Paul Williams and Gordon Smith. Miss Sam Aarons - Corporate Services Manager, also sits on the committee. This committee's charter includes responsibility for the review of board performance, ensuring an appropriate board and committee structure is in place, determines the remuneration policies of the Company, as well as review of the Company's Corporate Ethics Policy and other issues related to corporate governance.

(h) ASX Corporate Governance Guidelines

On 31 March 2003 the ASX Corporate Governance Council released its Principles of Good Corporate Governance and Best Practice Recommendations ("the ASX Guidelines"), which apply to the Company's Financial Statements for the year ended 30 June 2004. Before referring to the specific principles set out in the ASX Guidelines and the steps being taken by the Company to comply with those Guidelines, the following observations need to be made:

- The Company has a relatively small market capitalisation and (as a resource exploration entity) no current source of ongoing income. As a consequence, the available cash reserves of the Company (and its controlled entities) are intended to be applied so as to maximise shareholder value.
- Again, because of limited available financial resources, the Company (apart from its directors, company secretary and on-site Galilee employees) has only three other employees. Rather than the task of rigorously adhering to the ASX Guidelines (which are still acknowledged as being important), the principal focus of the Company is to maximise the technical skill and expertise of its directors and employees, so as to enhance the Company's assets.
- Each of the board (both executive and non-executive directors) dedicate considerable amounts of time and effort to the affairs of the Company. They manage to do so within busy schedules for other work and business commitments and as a consequence, the principal focus of their endeavours (while operating within a sound base for corporate governance) must necessarily be promotion of the Company's activities and improving shareholder value.

It is within the above context that the directors believe they have established the most appropriate processes to ensure compliance (wherever possible) with most of the ASX Guidelines. In the context of those Guidelines, the directors make the following observations:

Principle One – Lay solid foundations for management and oversight

The Company has two executive directors, namely Gordon Smith and Paul Williams, as well as two senior management personnel, namely, Campbell Smith – Operations Manager and Miss Sam Aarons – Corporate Services Manager. Each of these persons have entered into arrangements with the Company (and/or its controlled entities) making provision for the conduct of their responsibilities in respect of the day-to-day activities of the Company. In all other respects the board members are in regular contact with a view to overseeing the Company's affairs.

Principle Two – Structure the Board to Add Value

None of the three directors of the Company could be considered to be independent as each of them holds interests in the Propwood Unit Trust, which is the Company's largest shareholder. The board is currently structured in such a way that a majority of board members (Gordon Smith and John McIntyre) have many years of experience in the mining industry. The other director, Paul Williams, has nearly 20 years experience as a corporate lawyer specialising in the mining and resources sectors. Accordingly, the blend of experience and skills assembled at the Eastern board is considered appropriate for a company at this stage of its commercial existence. Nonetheless, it remains the board's intention to continue to seek additional board appointees who satisfy the test of independence under the ASX Guidelines and can further add value to the Company's activities.

The Company has not established a nomination committee – rather, its Corporate Governance Committee has, as part of its charter, the responsibility of assessing competencies of board members and the evaluation of board performance.

Principle Three – Promote Ethical and Responsible Decision Making

The Company has a formal Corporate Ethics Policy, to which each director is a party and signatory. Specific features of the Policy include:

- Restrictions on directors' dealings with company shares;
- Requirements in terms of disclosure of information to the ASX and the Company's continuous disclosure obligations generally:
- Notification of directors' shareholding and contractual interests;
- Restrictions in the Company's ability to provide financial benefits to directors and other related entities;
- Responsibilities in respect of the Company's accounts and other financial statements; and
- The process of constantly identifying and evaluating risks and control objectives of the Company.

Principle Four – Safeguard Integrity in Financial Reporting

The Company does not have the financial resources to appoint a Chief Financial Officer. Nonetheless (as identified above) an Audit Committee has been established that works in conjunction with the Company's external auditors to ensure the presented accounts are in accordance with accounting principles. The composition of the audit committee represents a blend of executive, non-executive and senior management personnel.

Principle Five – Make Timely and Balanced Disclosure

The Company's Corporate Ethics Policy (as referred to above) includes a contractual obligation on the part of each director to disclose information in their possession, and in particular, their dealings in relation to shares in the Company. In addition, there is an internal protocol that has been established involving the Chief Executive Officer, Corporate Services Manager (Miss Sam Aarons) and the company secretary (Mr W G Lyne) to arrange for the timely preparation and release of all statements to the ASX.

Principle Six – Respect the Rights of Shareholders

The Company has established a reasonably sophisticated web-site as the basis for maintaining close contact with shareholders and it is regularly updating the site, in recognition that the Company's website is one of the main avenues for keeping shareholders and market participants aware of the Company's activities.

In addition, the Company is intending to implement other strategies so as to provide shareholders with an opportunity to access reports and other releases by way of email, subject to the *Privacy Act* requirements. The Company's Corporate Services Manager is a full-time employee with the principal responsibility for shareholder liaison.

Principle Seven – Recognise and Manage Risk

Apart from the work that is undertaken on a day-to-day basis by the Company's executive team, the Corporate Governance Committee has (as part of its charter) specific responsibility for ensuring that necessary controls are in place for risk management to be maintained.

Principle Eight – Encourage Enhanced Performance

As identified above, part of the Corporate Governance Committee's Charter is to evaluate the performance of the board and senior executives. To the present time, no such evaluation has been undertaken by the Corporate Governance Committee because the principal focus of the board has been to consolidate the asset position of the Company and to promote its project activities. It is considered too early at this time in the tenure of the current board to consider reviewing their performance.
The company secretary, Mr Bill Lyne, plays an integral role in monitoring the conduct of activities of the board and its various committees, as well as the dispatch of material to board members.

Principle Nine – Remunerate Fairly and Responsibly

Within the Company's limited financial resources, the board maintains a view that a remuneration policy exists which provides the requisite degree of incentive so as to not only attract but to maintain suitably qualified personnel. The Board take a clear and unashamed view that the Company's future success lies in the quality of its team. As a result, slowly but surely, a highly-competent and experienced management team is being assembled but in order to do so, and also to keep that team together, adequate financial rewards must be provided.

Principle Ten – Recognise the Legitimate Interests of Stakeholders

In what would be a departure from the ASX Guidelines, the Company has not yet established any formal Code of Conduct, for the observance by directors and employees, of legal and other compliance obligations that relate to the Company's activities from time to time other than what has been specified in individual employment agreements. Nonetheless, the Company's executive team have, in recent months, worked hard to establish good relationships with key stakeholders involved with the projects in which the Company has an interest. As a potential producer of coal and gas, the board recognise a strong need to maintain good relations with government departments, local authorities, landowners, indigenous peoples, potential joint venture partners and the like.

Financial Report for the year ended 30 June 2004

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Notes to the financial statements

Statements of financial performance for the year ended 30 June 2004

	Notes	Consolidated 2004 $	Consolidated 2003 $	Parent Entity 2004 $	Parent Entity 2003 $
Revenue from ordinary activities	3	50,033	1,424,365	608,030	1,294,111
Employee benefits expense		(164,145)	(72,502)	(612,657)	(50,575)
Depreciation and amortisation expenses		(13,696)	(6,581)	(1,128)	(2,254)
Corporate and investor relations		(306,319)	(455,164)	(274,314)	(419,889)
Insurance		(71,923)	(26,833)	(68,489)	(12,574)
Borrowing cost expense		(113,981)	(61,774)	-	(2,586)
Capitalised exploration and evaluation expenditure written off	13	-	(2,322,186)	-	-
Investment in Sur American Corporation written down		(82,247)	(1,005,541)	(82,247)	(3,205,000)
Debt forgiveness		-	-	-	(846,441)
Consulting fees expenses		(414,240)	(424,362)	(239,231)	(264,688)
Directors fee expenses		(103,939)	(116,750)	(103,939)	(116,750)
Investment in Sabena Limited disposed of		-	-	-	-
Net assets of Sabena Limited disposed of		-	-	-	-
Exploration costs expensed		(86,801)	-	(86,801)	-
Other expenses from ordinary activities	3(b)	(157,566)	(279,963)	(133,839)	(178,063)
Loss from ordinary activities after/before related income tax expense	4	(1,464,824)	(3,347,291)	(994,615)	(3,804,708)
Income tax expense	5	-	-	-	-
Loss from ordinary activities after income tax		(1,464,824)	(3,347,291)	(994,615)	(3,804,708)
Net profit attributable to outside equity interest		230,404	166,242	-	-
Net loss attributable to members of Eastern Corporation Limited	19	(1,234,420)	(3,181,049)	(994,615)	(3,804,708)
Total changes in equity attributable to members of Eastern Corporation Limited other than those resulting from transactions with owners as owners		(1,234,420)	(3,181,049)	(994,615)	(3,804,708)
Basic earnings (loss) per share	31	(0.380 cents)	(1.442 cents)		
Diluted earnings (loss) per share	31	(0.380 cents)	(1.442 cents)		

The above statements of financial performance should be read in conjunction with the accompanying notes.

Statements of financial position for the year ended 30 June 2004

	Notes	Consolidated 2004 $	Consolidated 2003 $	Parent Entity 2004 $	Parent Entity 2003 $
Current assets					
Cash	7	2,276,802	521,773	1,281,634	363,654
Deposits	7	-	8,543	-	8,543
Receivables	8	576	-	1,090,414	-
Investments	9	-	400,000	-	400,000
Other	10	89,006	62,229	78,778	54,748
Total current assets		2,366,384	992,545	2,450,826	826,945
Non-current assets					
Investments	11	-	-	4,020,120	4,000,000
Exploration and evaluation expenditure	13	8,594,279	6,399,273	48,308	-
Property, plant and equipment	12	822,184	569,331	5,097	5,272
Bonds and deposits	14	236,500	218,500	6,750	6,750
Total non-current assets		9,652,963	7,187,104	4,080,275	4,012,022
Total assets		12,019,347	8,179,649	6,531,101	4,838,967
Current liabilities					
Payables	15	949,131	576,804	165,783	2,034,004
Interest bearing liabilities	16	1,654,002	4,461	-	-
Total current liabilities		2,603,133	581,265	165,783	2,034,004
Non-current liabilities					
Interest bearing liabilities	17	17,236	1,289,552	-	-
Total non-current liabilities		17,236	1,289,552	-	-
Total liabilities		2,620,369	1,870,817	165,783	2,034,004
Net assets		9,398,978	6,308,832	6,365,318	2,804,963
Equity					
Contributed equity	18	25,653,563	21,098,593	25,653,563	21,098,593
Accumulated losses	19	(19,701,077)	(18,466,657)	(19,288,245)	(18,293,630)
Outside equity interest in controlled entities		3,446,492	3,676,896	-	-
Total equity	21	9,398,978	6,308,832	6,365,318	2,804,963

The above statements of financial position should be read in conjunction with the accompanying notes.

Statements of cash flows for the year ended 30 June 2004

	Notes	Consolidated 2004 $	Consolidated 2003 $	Parent Entity 2004 $	Parent Entity 2003 $
Cash flows from operating activities					
Receipts from customers and/or subsidiaries		930	-	587,579	-
Payments to suppliers and employees		(578,273)	(1,267,974)	(1,501,935)	(1,026,635)
Interest received		49,103	21,091	20,451	4,657
Borrowing costs		(113,981)	(61,774)	-	(2,586)
Net cash outflow from operating activities	30	(642,221)	(1,308,657)	(893,905)	(1,024,564)
Cash flows from investing activities					
Payment for purchase of controlled entity, net of cash acquired	27	(20,120)	(370,669)	(20,120)	(2,000,000)
Final payment for purchase of controlled entity	27	-	-	(2,000,000)	-
Disposal of Sur American shares		317,753	-	317,753	-
Payments for property, plant & equipment		(454,251)	(323,407)	(953)	-
Payments for exploration expenditure		(1,987,184)	(855,387)	(48,308)	-
Loans to associated entities		-	-	(1,000,000)	-
Payments for bonds and deposits		(18,000)	(213,500)	-	(6,750)
Re-draw of deposits		8,543	200,000	8,543	-
Net cash outflow from investing activities		(2,153,259)	(1,562,963)	(2,743,085)	(2,006,750)
Cash flows from financing activities					
Proceeds from issues of shares/options		4,699,800	3,385,108	4,699,800	3,385,108
Share issue costs		(144,830)	-	(144,830)	-
Repayment of borrowings		(4,461)	(3,039)	-	-
Net cash inflow from financing activities		4,550,509	3,382,069	4,554,970	3,385,108
Net increase (decrease) in cash held		1,755,029	510,448	917,980	353,794
Cash at the beginning of the financial year		521,773	19,868	363,654	18,403
Cash at the end of the financial year	7	2,276,802	530,316	1,281,634	372,197

The above statements of financial position should be read in conjunction with the accompanying notes.

NOTE 1. Summary of significant accounting policies

This general purpose financial report has been prepared in accordance with Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board, Urgent Issues Group Consensus Views and the Corporations Act 2001.

It is prepared in accordance with the historical cost convention, except for certain assets which, as noted, are at valuation. Unless otherwise stated, the accounting policies adopted are consistent with those of the previous year.

The Australian Accounting Standards Board (AASB) is adopting International Financial Reporting Standards (IFRS) for application to reporting periods beginning on or after 1 January 2005. The AASB has issued Australian equivalents to IFRS, and the Urgent Issues Group will issue abstracts corresponding to IASB interpretations originated by the International Financial Reporting Interpretations Committee or the former Standing Interpretations Committee. The adoption of Australian equivalents to IFRS will be first reflected in the consolidated entity's financial statements for the half-year ending 31 December 2005 and the year ending 30 June 2006. Information about how the transition to Australian equivalents to IFRS is being managed, and the key differences in accounting policies that are expected to arise, is set out in note 1(q).

(a) Basis of preparation

The financial report is prepared on the going concern basis. The continued development of the group's resource prospects and the realisation of the carrying amount of the group's exploration and evaluation expenditure included in non-current assets continues to be dependent on both successful commercial development of the prospects and the securing of significant additional funding.

As explained in the CEO's report the directors believe the prospects will move to commercial development in the near future. The directors also remain confident of raising adequate funding through the conversion of outstanding options, current plans to raise additional funding by way of private placement and also through future fund raising activities, including discussions with potential joint venture partners. However should this not occur, there is significant uncertainty whether the group will be able to realise its exploration and evaluation expenditure at the amounts stated in the financial statements. The financial statements do not include any adjustments relating to the recoverability and classification of these asset amounts that might be necessary should this not occur.

In addition, in the accounts of Galilee Energy, there are loans, accrued interest and administration fees of approximately $2 million payable to certain shareholders of Galilee Energy on or before 31 December 2004.

The repayment of these monies is secured by way of a fixed and floating charge over the assets of Galilee Energy. Under the terms of the Heads of Agreement dated 22 October 2002, there is provision for these monies (at the election of the lenders) to be paid in the form of Eastern shares at an issue price which is 85% of the weighted average share trading price of Eastern's shares on the ASX for the preceding 25 days. Accordingly, on or before 31 December 2004, in the absence of Galilee Energy having adequate cash available to repay these monies, there is significant uncertainty as to whether the lenders will seek to extinguish the loan monies in the form of Eastern shares (under the 22 October 2002 Heads of Agreement formula) or seek to enforce rights under their fixed and floating charge over the assets of Galilee Energy. Eastern is not liable to repay the loan monies in cash but has already committed to the lenders that the appropriate number of shares in Eastern will be issued to them, in extinguishment of the loan monies by 31 December 2004, in the event of Galilee Energy not having sufficient cash funds to do so.

(b) Principles of consolidation

The consolidated financial statements incorporate the assets and liabilities of all entities controlled by Eastern Corporation Limited ("Eastern", "the Company" or "parent entity") as at 30 June 2004 and the results of all controlled entities for the year then ended. Eastern and its controlled entities together are referred to in this financial report as the consolidated entity. The effects of all transactions between entities in the consolidated entity are eliminated in full. Outside equity interests in the results and equity of controlled entities are shown separately in the consolidation statement of financial performance and statement of financial positions respectively.

Where control of an entity is obtained during a financial year, its results are included in the consolidated statement of financial performance from the date on which control commences. Where control of an entity ceases during a financial year its results are included for that part of the year during which control existed.

(c) Income tax

Tax effect accounting procedures are followed whereby the income tax expense in the statement of financial performance is matched with the accounting profit or loss after allowing for permanent differences. The future income tax benefit relating to tax losses is not carried forward as an asset unless the benefit is virtually certain of realisation. Income tax on cumulative timing differences is set aside to the deferred income tax or the future income tax benefit accounts at the rates which are expected to apply when those timing differences reverse.

(d) Exploration and evaluation expenditure

Exploration and evaluation expenditure incurred subsequent to acquisition in respect of an exploration asset acquired, is accounted for in accordance with the policy outlined above for exploration expenditure incurred by or on behalf of the entity.

Acquired exploration assets are not written down below acquisition cost until such time as the acquisition cost is not expected to be recovered. Exploration expenditure which no longer satisfies the above policy is written off. In addition, a provision may be raised against exploration expenditure where the directors are of the opinion that the carry forward net cost may not be recoverable.

Where an area of interest is abandoned, any expenditure carried forward in respect of that area is written off firstly against any existing provision for that expenditure, with any remaining balance being charged to the statement of financial performance. Expenditure is not carried forward in respect of any area of interest unless the company's rights of tenure to that area of interest are current.

(e) Foreign currency transactions

(i) Transactions

Foreign currency transactions are initially translated into Australian currency at the average monthly rates of exchange at the date of the transaction. At balance date amounts payable and receivable in foreign currencies are translated to Australian currency at rates of exchange current at that date. Resulting exchange differences are recognised in determining the profit and loss for the year.

(ii) General commitments

Exchange gains or losses on other hedge transactions are brought to account in the statement of financial performance in the financial year in which the exchange rates change. Gains or costs arising on entry into hedges of general commitments are recognised as assets or liabilities at the time of entry into the hedges and are amortised over the lives of the hedges.

(f) Acquisition of assets

The purchase method of accounting is used for all acquisitions of assets regardless of whether equity instruments or other assets are acquired. Cost is measured as the fair value of the assets given up, shares issued or liabilities undertaken at the date of acquisition plus incidental costs directly attributable to the acquisition. Where equity instruments are issued in an acquisition the value of the instrument is their market price as at the acquisition date, unless the notional price at which they could be placed in the market is a better indicator of fair value. Transaction costs arising on the issue of equity instruments are recognised directly in equity.

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of the acquisition. The discount rate used is the entity's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions.

Where an entity or operation is acquired and the fair value of the identifiable net assets acquired, including any liability for restructuring costs, exceeds the cost of acquisition, the difference, representing a discount on acquisition, is accounted for by reducing proportionately the fair values of the non-monetary assets acquired until the discount is eliminated. Where, after reducing the recorded amounts of the non-monetary assets acquired to zero, a discount balance remains it is recognised as revenue in the statement of financial performance.

Costs relating to the acquisition of new areas of interest are classified as either exploration and evaluation expenditure, development properties or mine properties based on the stage of development reached at the date of acquisition. Assets acquired may also include mineral reserves, mineral resources and unexplored and unevaluated acreage.

(g) Revenue recognition

Amounts disclosed as revenue are net of returns, trade allowances and duties and taxes paid. Revenue on shares held for resale is recognised where there is an unconditional contract of sale.

(h) Receivables

All trade debtors are recognised at the amounts receivable, as they are due for settlement no more than 120 days from the date of recognition for loans to other corporations, and no more than 30 days for other debtors.

Collectibility of trade debtors is reviewed on an ongoing basis. Debts, which are known to be uncollectible, are written off. A provision for doubtful debts is raised when some doubt as to collection exists and in any event when the debt is more than 60 days overdue.

(i) Recoverable amount of non-current assets

The recoverable amount of an asset is the net amount expected to be recovered through the cash inflows and outflows arising from its continued use and subsequent disposal.

Where the carrying amount of a non-current asset is greater than its recoverable amount, the asset is written down to its recoverable amount. Where net cash inflows are derived from a group of assets working together, recoverable amount is determined on the basis of the relevant group of assets. The decrement in the carrying amount is recognised as an expense in net profit or loss in the reporting period in which the recoverable amount write-down occurs.

The expected net cash flows included in determining recoverable amounts of non-current assets are discounted to their present values using a market-determined, risk-adjusted discount rate. The discount rates used would range from 9.5%-11% depending upon the nature of the assets.

(j) Investments

Interests in listed and unlisted securities, other than controlled entities and associates in the consolidated financial statements, are brought to account at cost. Controlled entities are accounted for in the consolidated financial statements as set out in Note 1(a).

The directors review the recoverable amount of investments annually. The recoverable amount of an investment is the net amount expected to be recovered through the net cash inflows arising from its continued use and subsequent disposal. Where the carrying amount of an investment is greater than its recoverable amount, the investment is re-valued to its recoverable amount.

The expected net cash flows included in determining recoverable amounts of investments are included at their nominal value.

Potential capital gains tax is not taken into account in determining revaluation amounts unless it is expected that a liability for such tax will crystallise.

Investments in securities, other than controlled entities, expected to be sold within 12 months are brought to account as a current asset at their market value at balance date.

(k) Depreciation of property, plant and equipment

Depreciation is calculated on a declining balance method to write off the net cost or revalued amount of each item of property, plant and equipment over its expected useful life to the consolidated entity. Estimates of the remaining useful lives are made on a regular basis for all assets, with annual reassessments for major items. The depreciation rates used are as follows:

Office Equipment	20% to 30%
Office Machines	25% to 30%
Computer Equipment	30% to 40%

Where items of plant and equipment have separately identifiable components, which are subject to regular replacement, those components are assigned useful lives distinct from the item of plant and equipment to which they relate.

(l) Trade and other creditors

These amounts represent liabilities for goods and services provided to the consolidated entity prior to the end of the financial year and which are unpaid. These amounts are unsecured.

(m) Interest bearing liabilities

Loans are carried at their principal amounts, which represent the present value of future cash flows associated with servicing the debt. Interest is accrued over the period it becomes due and is recorded as part of other creditors.

(n) Employee benefits

(i) Wages and salaries, annual leave

Liabilities for annual leave expected to be settled within 12 months of the reporting date are recognised in other creditors in respect of employees' services up to the reporting date and are measured at the amounts expected to be paid when the liabilities are settled. Employee benefit on-costs, are recognised and included in employee benefit liabilities and costs when the employee benefits to which they relate are recognised as liabilities.

(ii) Profit sharing and bonus plans

Eastern operates an employee and consultants share incentive scheme. Both employees and consultants are rewarded for their efforts from the scheme. Funding for the scheme is expensed when incurred.

(iii) Employee benefit on-costs

Employee benefit on-costs, including payroll tax, are recognised and included in employee benefit liabilities and costs when the employee benefits to which they relate are recognised as liabilities.

(iv) Equity-based compensation benefits

Equity-based compensation benefits are provided to employees via the employee and consultants share incentive scheme. The scheme is administered by way of a separate trust. The Company initially provided funds to the trust to enable the latter to purchase shares that are then awarded to employees and consultants by the trust from time to time.

Shares that were issued into the employee and consultants share incentive scheme were expensed at the price the shares were purchased from the market. It is company policy not to issue shares into the scheme but to purchase the shares on the open market.

(o) Borrowing costs

Borrowing costs are recognised as expenses in the period in which they are incurred.

The capitalisation rate used to determine the amount of borrowing costs to be capitalised is the weighted average interest rate applicable to the entity's outstanding borrowings during the year.

Borrowings costs include:

- interest on bank overdrafts and short-term and long-term borrowings
- amortisation of discounts or premiums relating to borrowings
- amortisation of ancillary costs incurred in connection with the arrangement of borrowings
- finance lease charges
- certain exchange differences arising from foreign currency borrowings

(p) Cash

For purposes of the statement of cash flows, cash includes deposits at call which are readily convertible to cash on hand and which are used in the cash management function on a day-to-day basis, net of outstanding bank overdraft.

(q) Earnings per share

(i) Basic earnings per share
Basic earnings per share is determined by dividing the loss from ordinary activities after income tax and adjustments for outside equity interest by the weighted average number of shares outstanding during the financial year.

(ii) Diluted earnings per share
Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

(r) International Financial Reporting Standards (IFRS)

The Australian Accounting Standards Board (AASB) is adopting IFRS for application to reporting periods beginning on or after 1 January 2005. The AASB has issued Australian equivalents to IFRS, and the Urgent Issues Group will issue abstracts corresponding to IASB interpretations originated by the International Financial Reporting Interpretations Committee or the former Standing Interpretations Committee. The adoption of Australian equivalents to IFRS will be first reflected in the consolidated entity's financial statements for the half-year ending 31 December 2005 and the year ending 30 June 2006.

Entities complying with Australian equivalents to IFRS for the first time will be required to restate their comparative financial statements to amounts reflecting the application of IFRS to that comparative period. Most adjustments required on transition to IFRS will be made, retrospectively, against opening retained earnings as at 1 July 2004.

The consolidated entity's audit committee will manage the transition to Australian equivalents to IFRS, including training of staff, system and internal control changes necessary to gather all the required financial information. The audit committee, which reports to the Board, has prepared a detailed timetable for managing the transition and is currently on schedule. To date the audit committee has analysed most of the Australian equivalents to IFRS and has identified a number of accounting policy changes that will be required. In some cases choices of accounting policies are available, including elective exemptions under Pending Accounting Standard AASB 1 First-time Adoption of Australian Equivalents to International Financial Reporting Standards. Some of these choices are still being analysed to determine the most appropriate accounting policy for the consolidated entity.

Major changes identified to date that will be required to the consolidated entity's existing accounting policies include the following:

(i) Income tax
Under the Australian equivalent to IAS 12 Income Taxes, deferred tax balances are determined using the balance sheet method which calculates temporary differences based on the carrying amounts of an entity's assets and liabilities in the statement of financial position and their associated tax bases. In addition, current and deferred taxes attributable to amounts recognised directly in equity are also recognised directly in equity.

(ii) Equity-based compensation benefits
Under the Australian equivalent to IFRS 2 Share-based Payment, equity-based compensation to employees will be recognised as an expense in respect of the services received.

This will result in a change to the current accounting policy, under which no expense is recognised for equity-based compensation.

(iii) *Financial instruments*
Under the Australian equivalent to IAS 32 Financial Instruments: Disclosure and Presentation the current classification of financial instruments issued by entities in the consolidated entity will not change.

Under the Australian equivalent to IAS 39 Financial Instruments: "Recognition and Measurement", there may be major impacts as a result of financial assets held by the consolidated entity being subject to classification as either held for trading, held-to-maturity, available for sale or loans and receivables and, depending upon classification, measured at fair value or amortised cost. The most likely accounting change is that investments in equity securities will be classified as available for sale and measured at fair value, with changes in fair value recognised directly in equity until the underlying asset is derecognised.

The above should not be regarded as a complete list of changes in accounting policies that will result from the transition to Australian equivalents to IFRS, as not all standards have been analysed as yet, and some decisions have not yet been made where choices of accounting policies are available. For these reasons it is not yet possible to quantify the impact of the transition to Australian equivalents to IFRS on the consolidated entity's financial position and reported results.

NOTE 2. Segment information

(a) Business segments

The consolidated entity's primary business is exploration and development of coal and coal seam methane projects in Queensland.

(b) Geographic segments

The consolidated entity operates in Australia, which is the home country of the parent entity and all subsidiaries as at 30 June 2004.

NOTE 3. Revenue

	Consolidated		Parent Entity	
	2004	2003	2004	2003
	$	$	$	$
Revenue from ordinary activities (excluding shares of equity accounted net profits of associates)				
Interest received/receivable	50,033	21,091	608,030	4,657
Revenue from sale of shares	-	1,185,653	-	1,185,653
Loan forgiveness	-	217,621	-	103,801
	50,033	1,424,365	608,030	1,294,111

NOTE 4. Profit/(Loss) from ordinary activities

(a) Profit/loss from ordinary activities before related income tax includes the following specific net gains and expenses:

	Consolidated		Parent Entity	
	2004	2003	2004	2003
	$	$	$	$
Expenses				
Depreciation and goodwill				
Depreciation - plant and equipment	201,398	70,351	1,128	2,254
Depreciation - capitalised into exploration and evaluation expenses	(187,702)	(63,770)	-	-
	13,696	6,581	1,128	2,254
Rental expenses relating to operating leases				
Minimum lease payments	23,353	27,463	35,708	20,581
Surplus lease space	10,000	10,000	10,000	10,000
	33,353	37,463	45,708	30,581
Borrowing costs				
Interest paid/payable	113,981	61,774	-	2,586
Write down of investment to recoverable amount				
Sur American Gold Corporation Limited	-	205,000	-	205,000
Foreign exchange gains/losses (net)	(16,719)	-	-	-
	(16,719)	205,000	-	205,000

(b) Profit/loss from ordinary activities before income tax includes the following specific net gains and expenses:

	Consolidated	
	2004	2003
	$	$
Carrying amount of assets and liabilities		
Plant and equipment	-	-
Exploration and evaluation expenditure	-	800,000
Cash	-	567
Total assets	-	800,567
Trade creditors	-	(26)
Total liabilities	-	(26)
Net assets	-	800,541

NOTE 5. Income tax

No income tax benefit has been brought to account on the loss from ordinary activities for the year, as this benefit is not considered virtually certain of realisation. The Company has carried forward tax losses of approximately $3.1m (2003: $1.7m) and carried forward capital losses of approximately $6,2m (2003: $6.2m). The future income tax benefit attributable to these losses at current income tax rates is approximately $2.8m

(2003: $2.4m). The potential benefit for income tax purposes has not been recognised as an asset because realisation of the benefit cannot be regarded as virtually certain.

Realisation will only be obtained if:

(a) The Company derives future assessable income of a nature and an amount sufficient to enable the benefit from the deduction for the losses to be realised.

(b) The Company continues to comply with the conditions for deductibility imposed by the tax legislation.

(c) No changes in tax legislation adversely affect the Company in realising the benefit from the deductions of those losses.

Eastern and its wholly-owned Australian controlled entities have decided to implement the tax consolidation legislation as of 1 July 2003. The Australian Taxation Office has not yet been notified of this decision. The accounting policy on implementation of the legislation is set out in note 1(b). The impact on the income tax expense for the year is disclosed in the reconciliation above.

NOTE 6. Discontinuing operations

	Consolidated		Parent Entity	
	2004 $	2003 $	2004 $	2003 $
Consideration				
Loans forgiven	-	580,653	-	580,653
Fair value of shares in Sur American	-	605,000	-	605,000
	-	1,185,653	-	1,185,653
Carrying amount of operation sold	-	800,541	-	3,000,000
Net gain /(loss) on sale	-	385,112	-	(1,814,347)
Financial performance information for the year ended 30 June 2004				
Revenue from outside ordinary activities, excluding the sale of Sabena	-	113,820		
Revenue from sale of Sabena	-	1,185,653		
	-	1,299,473		
Expenses from ordinary activities, excluding the carrying amount of assets of Sabena	-	2,363,033		
Carrying amount of net assets sold	-	800,541		
	-	3,163,574		
Loss from ordinary activities before tax	-	(1,864,101)		
Income tax expense	-	-		
Net loss	-	(1,864,101)		

NOTE 7. Current assets - Cash assets and deposits

	Consolidated		Parent Entity	
	2004	2003	2004	2003
	$	$	$	$
Cash at bank and on hand	2,276,802	521,773	1,281,634	363,654
Deposits at call*	-	8,543	-	8,543
	2,276,802	530,316	1,281,364	372,197

* The deposit bearing a fixed interest rate of 1.7% in 2004.

NOTE 8. Current assets - Receivables

	Consolidated		Parent Entity	
	2004	2003	2004	2003
	$	$	$	$
Other Debtors				
Loans to associated entities	-	-	1,000,000	-
Other debtors	576	-	90,414	-
	576	-	1,090,414	-

NOTE 9. Current assets - Investments

	Consolidated		Parent Entity	
	2004	2003	2004	2003
	$	$	$	$
Other non-traded investments				
Shares in Sur American Gold Corporation	-	400,000	-	400,000
	-	400,000	-	400,000

NOTE 10. Current assets - Other

	Consolidated		Parent Entity	
	2004	2003	2004	2003
	$	$	$	$
Other current assets				
Prepaid expenses	89,006	62,229	78,778	54,748
	89,006	62,229	78,778	54,748

NOTE 11. Non-current assets - Investments

	Consolidated 2004 $	Consolidated 2003 $	Parent Entity 2004 $	Parent Entity 2003 $
Non-traded investments				
Shares in controlled entities at cost	-	-	4,020,120	4,000,000
	-	-	4,020,120	4,000,000

NOTE 12. Non-current assets - Property, plant and equipment

	Consolidated 2004 $	Consolidated 2003 $	Parent Entity 2004 $	Parent Entity 2003 $
Plant and equipment				
Plant and equipment - at cost	1,611,676	1,051,947	6,225	45,094
Less accumulated depreciation	(789,492)	(482,616)	(1,128)	(39,822)
	822,184	569,331	5,097	5,272

Reconciliation

Reconciliation of the carrying amounts of plant and equipment at the beginning and end of the current year are set out below:

	Consolidated $	Parent $
2004		
Carrying amount at start of year	569,331	5,272
Additions	454,251	953
Depreciation/amortisation expense (refer note 4a)	(201,398)	(1,128)
Carrying amount at end of year	822,184	5,097

NOTE 13. Non-current assets - Exploration and evaluation expenditure

	Consolidated 2004 $	Consolidated 2003 $	Parent Entity 2004 $	Parent Entity 2003 $
Exploration and evaluation expenditure				
Cost brought forward	6,399,273	3,122,186	-	-
Expenditure written off during the year	-	(2,322,186)	-	-
Sale of Sabena Limited	-	(800,000)	-	-
Purchase of Galilee Energy Limited	-	5,480,116	-	-
Expenditure incurred during the year	2,195,006	919,157	48,308	-
Net exploration and evaluation expenditure	8,594,279	6,399,273	48,308	-

Ultimate recoupment of exploration and evaluation expenditure carried forward is dependent on successful development and commercial exploitation, or alternatively, sale of the respective areas. In the absence of a sale at its carrying value or the availability of funding to continue its development to realise a value equivalent to carrying value, there is significant uncertainty whether the carrying value of exploration and evaluation expenditure will realise the amounts set out in the financial statements. However, the directors are confident that they will be successful in the foregoing matters and therefore believe the exploration and evaluation expenditure is appropriately carried forward.

Details of the economic entity's areas of interest are disclosed on page 11. The financial statements do not include any adjustment to the carrying amount of exploration and evaluation expenditure that might be necessary due to the uncertainty set out above.

NOTE 14. Non-current Assets – Bonds and securities

	Consolidated		Parent Entity	
	2004	2003	2004	2003
	$	$	$	$
Bonds and securities	236,500	218,500	6,750	6,750
	236,500	218,500	6,750	6,750

Cash securities of $223,000 have been issued to the Minister for the Department of Natural Resources and Mines as security deposits on exploration tenement ATP 529P.

NOTE 15. Current liabilities - Payables

	Consolidated		Parent Entity	
	2004	2003	2004	2003
	$	$	$	$
Trade creditors	949,131	576,804	165,783	2,034,004
	949,131	576,804	165,783	2,034,004

NOTE 16. Current liabilities - Interest bearing liabilities

	Consolidated		Parent Entity	
	2004	2003	2004	2003
	$	$	$	$
Loans from Galilee Energy Limited Shareholders	1,645,080	-	-	-
Bank loan	8,922	4,461	-	-
	1,654,002	4,461	-	-

Loans from related parties are secured by an existing mortgage debenture registered over Galilee Energy Limited. Under an agreement dated 13 November 2000, certain shareholders agreed to advances totalling $1.5 million to meet ongoing cash flow requirements. On 9 April 2002 it was agreed to increase the advances by $200,000 to $1,700,000 and extend the facility to 30 September 2002. By subsequent agreement, repayment of the facility was extended to 31 December 2004. Under the terms of the Heads of Agreement dated 22 October 2002, there is provision for the facility (at the election of the lenders) to be paid in the form of Eastern shares at an issue price which is 85% of the weighted average share trading price of Eastern's shares on the ASX for the preceeding 25 days. Eastern has already committed to the lenders to retiring the facility by the issue of these shares, in the absence of Galilee Energy having the available alternative option of repaying the facility in cash.

NOTE 17. Non-current liabilities - Interest bearing liabilities

	Consolidated		Parent Entity	
	2004	2003	2004	2003
	$	$	$	$
Loans from Galilee Energy Limited Shareholders	-	1,263,394	-	-
Bank loan*	17,236	26,158		
	17,236	1,289,552	-	-

* Bank loan commenced January 2003 for a period of 36 months with final payment due 30 January 2006 with an applicable interest rate of 7.0221% per annum.

NOTE 18. Contributed equity

		Parent Entity		Parent Entity	
		2004	2003	2004	2003
		Shares	Shares	$	$
(a)	**Share capital**				
	Ordinary shares fully paid	439,360,304	321,865,304	25,653,563	21,098,593
	Ordinary shares fully paid	439,360,304	321,865,304	25,653,563	21,098,593

(b) Movements in issued and paid up ordinary share capital of the company during the past two years were as follows:

Date	Details	Notes	No. of shares	Issue price	$
01/07/02	Opening Balance		148,610,091		17,383,489
17/02/02	Issue of ordinary shares		15,000,000		300,000
22/11/02	Issue of ordinary shares		1,500,000	$0.02	30,000
17/01/03	Issue of ordinary shares		12,500,000	$0.02	250,000
17/01/03	Issue of ordinary shares		2,500,000	$0.02	50,000
31/01/03	Issue of ordinary shares		60,000,000	$0.02	1,200,000
31/01/03	Issue of ordinary shares		51,755,213	$0.02	1,035,104
10/02/03	Issue of ordinary shares		17,500,000	$0.02	350,000
20/06/03	Issue of ordinary shares		12,500,000	$0.04	500,000
30/06/03	Balance		321,865,304		21,098,593
29/07/03	Issue of ordinary shares	(i)	25,000,000	$0.04	1,000,000
31/12/03	Issue of ordinary shares	(ii)	22,500,000	$0.04	900,000
04/05/04	Issue of ordinary shares	(iii)	55,000,000	$0.04	2,055,170
09/06/04	Issue of ordinary shares	(iv)	1,675,000	$0.04	67,000
28/06/04	Issue of ordinary shares	(v)	1,500,000	$0.04	60,000
28/06/04	Issue of ordinary shares	(vi)	11,820,000	$0.04	472,800
30/06/04	Balance		439,360,304		25,653,563

(i) 22,500,000 ordinary shares at an issue price of $0.04 each were allotted to Propwood Pty Ltd as a result of the exercise of options.

(ii) 25,000,000 ordinary shares at an issue price of $0.04 each were allotted to Propwood Pty Ltd as a result of exercise of options.

(iii) 55,000,000 ordinary shares at an issue price of $0.04 each were allotted as a placement to Resource Capital Fund III L.P. (12,500,000) and to clients of stockbrokers and AFS License holders (42,500,000) on 4 May 2004. Share issue costs of $144,830 have been incurred in securing this issue of shares.

(iv) 1,675,000 ordinary shares at an issue price of $0.04 each were allotted under the Company's share purchase plan.

(v) 1,500,000 ordinary shares at an issue price of $0.04 each were allotted as part of the share purchase plan shortfall.

(vi) 11,820,000 ordinary shares at an issue price of $0.04 each were allotted to Propwood Pty Ltd as a placement pursuant to shareholder approval on 27 May 2004.

(c) The number of unissued ordinary shares relating to options not exercised at year-end:

Date	Details	Notes	Number of options 2004	Number of options 2003
30/06/03	Options exercisable on or before 31 December 03 at 4c			47,500,000
27/05/04	Options exercisable on or before 30 June 2005 at 4c	(i)	55,000,000	
04/06/04	Options exercisable on or before 30 June 2005 at 4c	(ii)	10,000,000	
28/06/04	Options exercisable on or before 30 June 2005 at 4c	(iii)	13,470,000	
30/06/04	Balance		78,470,000	47,500,000

(i) On 27 May 2004, 55,000,000 options to subscribe for ordinary shares exercisable at 4 cents each on or before 30 June 2005 were issued to the 4 May 2004 placement recipients pursuant to shareholder approval on 27 May 2004.

(ii) On 4 June 2004, 10,000,000 options to subscribe for ordinary shares exercisable at 4 cents each on or before 30 June 2005 were issued to brokers in lieu of fees relating to the placement on 4 May 2004, pursuant to shareholder approval on 27 May 2004.

(iii) On 28 June 2004, 1,650,000 options to subscribe for ordinary shares exercisable at 4 cents each on or before 30 June 2005 were issued as part of the share purchase plan shortfall fee. In addition, 11,820,000 options to subscribe for ordinary shares exercisable at 4 cents each on or before 30 June 2005 were issued to Propwood Pty Ltd, pursuant to shareholder approval on 27 May 2004.

NOTE 19. Reserves and accumulated losses

	Consolidated		Parent Entity	
	2004	2003	2004	2003
	$	$	$	$
Accumulated losses at the beginning of the financial year	18,466,657	15,285,608	18,293,630	14,488,922
Net loss attributable to members of Eastern Corporation Limited	1,234,420	3,181,049	994,615	3,804,708
Accumulated losses at the end of the financial year	19,701,077	18,466,657	19,288,245	18,293,630

NOTE 20 Outside equity interests in controlled entities

	Consolidated	
	2004	2003
	$	$
Interest in:		
Share capital	7,900,993	7,900,993
Retained profits	(4,454,501)	(4,224,097)
	3,446,492	3,676,896

NOTE 21 Equity

	Consolidated		Parent Entity	
	2004	2003	2004	2003
	$	$	$	$
Total equity at the beginning of the financial year	6,308,832	5,941,019	2,804,963	2,894,567
Total changes in equity recognised in the statement of financial performance	(1,464,824)	(3,347,291)	(994,615)	(3,804,708)
Transactions with owners as owners:				
Contributions of equity, net of transaction costs	4,554,970	3,715,104	4,554,970	3,715,104
Total changes in outside equity interest	-	-	-	-
Total equity at the end of the financial year	9,398,978	6,308,832	6,365,318	2,804,963

NOTE 22. Financial instruments

(a) Forward exchange contracts

	2004	2003
Realised gains	-	-
Unrealised gains	-	-
Total Gains*	-	-
Realised losses	(16,719)	-
Cost of contracts	-	-
Total losses and costs (note 4)	(16,719)	-
Net losses and costs	(16,719)	-

** Included in the statement of financial position as other current liabilities.*

The consolidated entity had no speculative contracts outstanding at balance date.

(b) Credit risk exposures

The credit risk on financial assets of the consolidated entity, which have been recognised on the statement of financial position, other than investment in shares, is generally the carrying amount, net of any provisions for doubtful debts.

(c) Interest rate risk exposures

The consolidated entity's exposure to interest rate risk and the effective weighted average interest rate is set out below. For interest rates applicable to each class of asset or liability refer to individual notes to the financial statements.

Exposures arise predominantly from assets and liabilities bearing variable interest rates as the consolidated entity intends to hold fixed rate assets and liabilities to maturity.

2004	Notes	Floating 1 year or less	Fixed 1 year or less	Fixed Over 1 to 5 years	Non-interest bearing	Total
Financial assets						
Cash and deposits*	7	2,276,802	-	-	-	2,276,802
Investments	9	-	-	-	576	576
Bonds and deposits		-	-	-	236,500	236,500
		2,276,802	-	-	237,076	2,513,878
**Weighted average interest rate 4.4%*						
Financial liabilities						
Accounts payable	15	-	(1,654,002)	(17,236)	(949,131)	(2,620,369)
Interest-bearing liabilities*		-	(1,654,002)	(17,236)	(949,131)	(2,620,369)
**Weighted average interest rate: 9%*						
Net financial assets/(liabilities)		2,276,802	(1,654,002)	(17,236)	712,055	106,491
2003						
Financial assets						
Cash and deposits*	7	-	8,543	-	521,773	530,316
Investments	9	-	-	-	400,000	400,000
Bonds and deposits		-	-	-	218,500	218,500
		-	8,543	-	1,140,273	1,148,816
** Weighted average interest rate: 1.7%*						
Financial liabilities						
Accounts payable	15	-	(4,461)	1,289,552	(576,805)	(1,870,818)
Interest-bearing liabilities*		-	(4,461)	1,289,552	-	-
**Weighted average interest rate: 7.1%*						
Net financial assets/(liabilities)		2,276,802	(4,082)	1,289,552	563,468	(722,002)

(d) Net fair value of financial assets and liabilities

The net fair value of cash and cash equivalents and non-interest bearing monetary financial assets and financial liabilities of the consolidated entity approximates their carrying amounts.

The net fair value of other monetary financial assets and financial liabilities is based upon market prices where a market exists or by discounting the expected future cash flows by the current interest rates for assets and liabilities with similar risk profiles.

Equity investments traded on organised markets have been valued by reference to market prices prevailing at balance date. For non-traded equity investments, the net fair value is an assessment by the directors based on the underlying net assets, future maintainable earnings and any special circumstances pertaining to a particular investment.

NOTE 23. Director and executive disclosures

(a) Directors

The names of persons who were directors of Eastern Corporation Limited at any time during the financial year and up to the reporting date are as follows:

		Appointed	Resigned
(i)	*Executive Chairman*		
	G G Smith	15 12 2003	
(ii)	*Executive directors*		
	G G Smith	12 02 2003	
	P R Williams	16 08 2004	
(iii)	*Non-executive directors*		
	P R Williams	12 02 2003	
	C S Smith*	12 02 2003	02 12 2003
	D K Barwick	04 09 2002	02 12 2003
	R V Gazzard	28 08 2003	06 07 2004
	J S McIntyre	07 07 2004	

(b) Company secretary

W G Lyne – Company Secretary	12 02 2003

(c) Specified Executives

Name	Position	Employer
J W Jones	General Manager – Galilee Energy Limited *(from 1 July 2003 to 24th August 2004)*	Eastern Corporation Limited
C G Smith*	Operations Manager – Galilee Energy Limited	Eastern Corporation Limited
S Aarons	Corporate & Investor Relations Manager	Eastern Corporation Limited

* C G Smith resigned as a director but was employed by the company as the Operations Manager for the Galilee Energy pilot project and for disclosure purposes, all amounts paid to him during the year are shown under specified executives.

(d) Remuneration of directors and executives

(i) Principles used to determine the nature and amount of remuneration

The objective of the company's directors and executives reward framework is to ensure reward for performance is competitive, commensurate with the skills of the persons concerned, and appropriate for the results delivered. The framework aligns director and executive rewards with achievement of strategic objectives and the creation of value for shareholders, and conforms to market best practice for delivery of reward. The Board ensures that executive rewards satisfy the following key criteria for good reward governance practices:

- Competitiveness and reasonableness
- Acceptability to shareholders
- Performance linkage/alignment of executive compensation
- Transparency
- Capital management

In consultation with external remuneration consultants when required, the Board determines the remuneration policies of the company, reviews the remuneration of senior management and determines the remuneration of executive directors. Non-executive director remuneration is considered by the full board within the overall limits approved by shareholders.

The Chairman's fees are determined independently to the fees of non-executive directors based on comparative roles in the external market. The Chairman is not present at any discussions relating to determination of his own remuneration.

(ii) *Alignment to framework participants' interests:*

- Rewards capability and experience
- Reflects competitive reward for contribution
- Provides clear structure for earning rewards
- Provides recognition for contribution

The framework provides a mix of fixed and variable pay, and a blend of short and long-term incentives. As executives gain seniority, the balance of this mix shifts to a higher proportion of "at risk" rewards.

(iii) *Non-executive directors*

Fees and payments to non-executive directors reflect the demands which are made on, and the responsibilities of, the directors. Non-executive directors' fees and payments are reviewed by the Board and to ensure non-executive directors' fees and payments are appropriate and in line with the market.

(iv) *Details of remuneration*

Details of the remuneration of each director of Eastern and specified executives of the consolidated entity, including their personally related entities, are set out in the following tables.

Information for directors and individual specified executives is not shown for 2003 as this is the first financial report prepared since the issue of AASB 1046 *Directors and Executive Disclosing Entities*. In some cases, different individuals are included than those specified in the year ended 30 June 2003.

2004		**Primary**		**Post-employment**		**Equity**	
	Cash salary and fees	**Cash bonus**	**Non-monetry benefits**	**Super-annuation**	**Retirement benefits**	**Options**	**Total**
	$	**$**	**$**	**$**	**$**	**$**	**$**
Directors:							
G G Smith	27,523	-	-	2,477	-	-	30,000
C G Smith	3,364	-	-	303	-	-	3,667
R V Gazzard	23,185	-	-	2,087	-	-	25,272
P R Williams	27,523	-	-	2,477	-	-	30,000
D K Barwick	13,762	-	-	1,239	-	-	15,000
	95,357	-	-	8,582	-	-	103,939
Executives:							
J W Jones	287,067	-	-	25,836	-	-	312,903
C G Smith	116,825	-	-	10,514	-	-	127,339
S Aarons	64,220	-	16,457	5,780	-	-	86,457
	468,112	-	16,457	42,130	-	-	500,892
	563,469	-	16,457	50,712	-	-	604,831

2003	Primary			Post-employment		Equity	
	Cash salary and fees	Cash bonus	Non-monetary benefits	Super-annuation	Retirement benefits	Options	Total
	$	$	$	$	$	$	$
Directors &	72,684	-	-	4,067	-	-	76,750
Executives	26,758	-	2,866	2,408	-	-	32,033
	99,442	-	2,866	6,475	-	-	108,783

(vi) *Service agreements and/or employment contracts*

G G Smith – Executive Chairman

- Term of agreement – open-ended agreement commencing 12 February 2003.
- Base salary, inclusive of superannuation, for the year ended 30 June 2004 of $60,000, to be reviewed by the board. Salary includes directors' fees of $30,000 per annum payable by Galilee Energy.
- The agreement does not provide for termination benefits.

P R Williams – Executive Director & Chief Executive Officer.

- Term of agreement – 3 years commencing 13 August 2004 subject to a annual review.
- Base salary, inclusive of superannuation, for the year ended 30 June 2005 of $438,750, to be reviewed by the board. Salary includes directors' fees of $30,000 per annum payable by Galilee Energy.
- The agreement does not provide for termination benefits.

D K Barwick – Non-executive Director

- Term of agreement – No agreement.
- Base salary, inclusive of superannuation, for the year ended 30 June 2004 of $60,000. Salary included directors' fees of $30,000 per annum paid by Galilee Energy.
- The agreement did not provide for termination benefits.

R V Gazzard – Non-executive Director

- Term of agreement – No agreement.
- Base salary, inclusive of superannuation, for the year ended 30 June 2004 of $30,000.
- The agreement did not provide for termination benefits.

J S McIntyre – Non-executive Director

- Term of agreement – No agreement.
- Base salary, inclusive of superannuation, for the year ended 30 June 2004 of $30,000, to be reviewed by the board.
- The agreement does not provide for termination benefits.

J W Jones – Director and General Manager, Galilee Energy Limited

- Term of agreement –commenced 1 July 2003 and terminated 24 August 2004.
- Base salary, inclusive of superannuation, for the year ended 30 June 2004 of $330,000.
- The agreement did not provide for termination benefits.

C G Smith – Operations Manager, Galilee Energy Limited

- Term of agreement – open ended agreement commencing 1 July 2003
- Base salary, inclusive of superannuation, for the year ended 30 June 2004 of $170,000.
- The agreement does not provide for termination benefits.

S Aarons – Corporate and Investor Relations Manager

- Term of agreement – open-ended agreement commencing 1 September 2004.
- Base salary, inclusive of superannuation, for the year ended 30 June 2004 of $70,000, to be reviewed annually by the board.
- Motor vehicle fringe benefit of $16,457 provided during the year ended 30 June 2004.
- The agreement does not provide for termination benefits.

(vii) *Share-based compensation – Employee and Consultants Share Incentive Scheme*

No shares were allocated to employees during the twelve months to 30 June 2004.

(e) Equity instrument disclosures relating to directors and executives

(i) *Options provided as remuneration*

There were no options over ordinary shares in the Company provided as remuneration to any director of Eastern of the consolidated entity.

(ii) *Shares provided on exercise of remuneration options*

There were no ordinary shares in the Company provided as a result of the exercise of remuneration options to any director of Eastern

(iii) *Option holdings*

The number of options over ordinary shares in the Company held during the financial year by each director of Eastern and each of the specified executives of the consolidated entity, including their personally-related entities, are set out below:

Name	Balance at start of year	Granted during the year as remuneration	Exercised during the year	Other changes during the year	Balance at the end of the year	Vested and exercisable at the end of the year
Directors of Eastern						
Propwood Unit Trust	47,500,000	-	47,500,000	11,820,000	11,820,000	11,820,000
Interests in above units: G G Smith (49.5%); C G Smith (13.8%); J S McIntyre (2.54%); P R Williams (1.9%)						
Specified executives of the consolidated entity						
Propwood Unit Trust	47,500,000	-	47,500,000	11,820,000	11,820,000	11,820,000
Interests in above units: A L Jones - related party to J W Jones (1.4%)						

No options are vested and un-exercisable at the end of the year.

(iv) Share holdings

The numbers of shares in the company held during the financial year by each director of Eastern and the specified executives of the consolidated entity, including their personally related entities, are set out below.

Name	Balance at start of year	Received during the year on the exercise of options	Other changes during the year	Balance at the end of the year
Directors of Eastern				
Propwood Unit Trust	155,000,000	47,500,000	11,945,000	214,445,000
Interests in above units: G G Smith (49.5%); C G Smith (13.8%); J S McIntyre (2.54%); P R Williams (1.9%)				
Becamal Pty Ltd of which G G Smith and C G Smith are directors	3,000,000	-	2,000,000	5,000,000
Queensland Underwriters Limited of which D K Barwick is a director	1,000,000		(1,000,000)	-
J S McIntyre	-	-	350,000	350,000
Kerick Pty Ltd of which R V Gazzard is a director	-	-	1,000,000	1,000,000
Specified executives of the consolidated entity				
Propwood Unit Trust	180,000,000	22,500,000	11,945,000	214,445,000
Interests in above units: A L Jones who is a related party to J W Jones (1.4 %)				
A L Jones who is a related party to J W Jones	1,265,000	-	(400,000)	865,000
S Aarons	50,000	-	23,000	73,000

Related party transactions with directors are disclosed in note 27.

NOTE 24. Remuneration of auditors

During the year the following amounts were paid to the auditor of the parent entity, its related practices and non-related audit firms.

	Consolidated		Parent Entity	
	2004	2003	2004	2003
	$	$	$	$
(a) Audit services				
Fees paid to PricewaterhouseCoopers				
Audit and review of financial reports and other audit work under the Corporations Act 2001	60,815	36,486	47,400	36,486
Parent entity	47,400	36,486	47,400	36,486
Controlled entities	13,415	-	-	-
	60,815	36,486	47,400	36,486
(b) Due diligence services				
Fees paid to PricewaterhouseCoopers	-	23,649	-	11,649
Parent entity	-	11,649	-	11,649
Controlled entities	-	12,000	-	-
	-	23,649	-	11,649

It is the consolidated entity's policy to employ PricewaterhouseCoopers on assignments additional to their statutory audit duties where PricewaterhouseCoopers' expertise and experience with the consolidated entity are important. These assignments are principally tax advice and due diligence reporting on acquisitions, or where PricewaterhouseCoopers is awarded assignments on a competitive basis. It is the consolidated entity's policy to seek competitive tenders for all major consulting projects.

NOTE 25 Commitments for expenditure

	Consolidated		Parent Entity	
	2004	**2003**	**2004**	**2003**
	$	**$**	**$**	**$**
(a) Operating lease commitments				
Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:				
Not later than one year	46,290	46,114	-	-
Later than one year but not later than two years	7,678	46,290	-	-
Later than two years but not later than five years				
	53,968	92,404	-	-

(b) Exploration commitments

(i) Galilee Energy Limited - ATP 529P

In order to maintain current rights to tenure to exploration and mining tenements, the consolidated entity has the following discretionary exploration expenditure requirements up until expiry of tenement holdings. These obligations, which are subject to renegotiation upon expiry of ATP 529P on 30 November 2008, are not provided for in the financial statements:

Exploration commitments under the terms of ATP 529P on a pro rata basis:

	Consolidated		Parent Entity	
	2004	**2003**	**2004**	**2003**
	$	**$**	**$**	**$**
Not later than one year	583,000	2,960,000	-	-
Later than one year but not later than two years	1,160,000	8,900,000	-	-
Later than two years but not later than five years	3,657,000	-	-	-
	5,400,000	11,860,000	-	-

If the consolidated entity decides to relinquish certain leases and/or does not meet these obligations, assets recognised in the balance sheet may require review to determine the appropriateness of carrying values. The sale, transfer or farm-out of exploration rights to third parties will reduce or extinguish these obligations.

The ability of the Company to meet its ongoing expenditure commitments and its borrowing repayment commitments, as set out in Note 13, will be dependent upon the success of future capital raising initiatives.

Expenditure targets both annual and for the period of the term can be reduced by the relinquishment of unwanted blocks, nominated by the ATP holder. The expenditure reduction is proportional to the number of blocks relinquished. This gives the ATP holder the ability to manage expenditure against the most prospective areas.

The Department of Natural Resources and Mines granted a renewal of ATP 529P for a four-year term commencing 1 December 2004. The renewal is over 100 blocks equivalent to an area of approximately 8,000km, the maximum size now available under the Queensland Petroleum Act and provides the Company with certainty of tenure to November 2008. The total expenditure commitment for the new term of 4 years to November 2008 is $5,400,000.

(ii) *Dorben Pty Ltd - ATP 627P*
In December of 2003, the Company completed the purchase of Dorben Pty Ltd, a company with an ATP application 627P in place in Queensland's Department of Natural Resources and Mines. The ATP is located in the Laura Basin of NE Queensland, contains significant coal resources and may have a prospectivity for coal seam methane. The main focus of activity with this project will be to undertake a study of the area of the ATP application and make arrangements with the Department to have the ATP formally granted, as such no expenditure commitments have been made.

NOTE 26. Contingent liabilities

The ability of Eastern subsidiary, Galilee Energy, to continue as a going concern and successfully develop its coal seam methane project depends entirely on Galilee Energy's ability to raise additional funds. These additional funds are likely to be sourced from existing shareholders and possible external sources, but inevitably by way of a rights or other entitlements issue to existing Galilee Energy shareholders.

Eastern has given a commitment to the board of Galilee Energy that it will continue to provide financial support to Galilee Energy by way of contributing its share of funds toward further raisings from existing shareholders as well as assisting with any shortfall. At this time, the extent of funds Eastern will be required to provide to Galilee Energy (and the timing of those funds) is not known, and depends on the results of the technical review of Galilee Energy assets currently being undertaken.

NOTE 27. Employee benefits

Employee and consultants share incentive scheme

The Company has established an employee and consultants share incentive scheme. The scheme is administered by way of a separate trust. The Company initially provided funds to the trust to enable the latter to purchase shares that are then awarded to employees and consultants by the trust from time to time. The directors of the Company from time to time are the trustees of this trust but have no right to participate in any shares held by the trust.

None of the shares issued during the year ended 30 June 2004:

	Number of ordinary shares	
	2004	**2003**
Consultants	174,800	50,000
Employees	-	100,000
Executives		50,000

Employee numbers

	Consolidated		Parent Entity	
	2004	**2003**	**2004**	**2003**
	$	**$**	**$**	**$**
Employee numbers	9	8	8	5

NOTE 28. Related parties

(a) Other transactions of directors and director-related entities

Directors Messer's G G Smith and P R Williams are also directors of Propwood Pty Ltd as trustee of the Propwood Unit Trust.

A director, Mr P R Williams, was a partner in Hopgood Ganim Lawyers until 27 August 2004. Legal services were provided to the consolidated entity on commercial terms and conditions through the year.

Aggregate amounts on each of the above types of other transactions with directors and their director related entities were as follows:

	Consolidated		Parent Entity	
	2004	2003	2004	2003
	$	$	$	$
Project introduction fees	-	50,000	-	50,000
Underwriting fees	-	41,400	-	41,400
Consulting fees	143,000	142,091	143,000	5,500
Office services	-	8,385	-	8,385
Legal services	61,173	140,374	61,173	116,652
	204,173	382,250	204,173	221,937

(b) Related party transactions - Galilee Energy Limited

(i) Provision of technical consultancy services by Becamal Pty Ltd a company of which G G Smith is a director, to the value of $10,000 (2003: $87,000). At balance date there were no amounts outstanding in relation to services provided by Becamal Pty Ltd.

(ii) Provision of legal services by Hopgood Ganim a firm in which P R Williams was a partner, to the value of $1,554 (2003: $nil). At balance date there were no amounts outstanding in relation to services provided by Hopgood Ganim.

Aggregate amounts on each of the above types of other transactions with directors and their director related entities were as follows:

	Consolidated		Parent Entity	
	2004	2003	2004	2003
	$	$	$	$
Directors fees	11,220	55,962	-	-
Consultancy fees	-	88,391	-	-
Legal services	3,054	23,722	-	-
Loan interest	57,214	267,704	-	-
	71,488	435,779	-	-

(c) Wholly owned group

The wholly owned group consists of the ultimate parent entity Eastern Corporation Limited and its controlled entity, Galilee Energy and Dorben Pty Ltd. Ownership interests in these controlled entities are set out in note 28.

Transactions between Eastern Corporation Limited and other entities in the group during the year ended 30 June 2004 consisted of loans advanced by Eastern Corporation Limited (which were provided interest free to controlled entities) and equity contributed to Galilee Energy in full payment of its 51% holding by way of partly paid shares.

Aggregate amounts receivable from entities in the wholly-owned group at balance date:

	Parent Entity	
	2004	2003
	$	$
Current receivable (loans)	1,000,000	-
Investment in Galilee Energy *	4,000,000	2,000,000
Short term payable *	-	(2,000,000)

* In terms of the Heads of Agreement entered into between Eastern and Galilee Energy, Eastern Corporation paid $4,000,000 for a 51% controlling interest in Galilee Energy. Also see the commentary in note 16.

NOTE 29 Investments in controlled entities

Name of Entity	Country of Incorporation	Class of Shares	Equity Holding		Parent Entity Investment	
			2004	2003	2004	2003
			%	%	$	$
Galilee Energy Limited	Australia	Ordinary	51%	51%	4,000,000	4,000,000
Beaconsfield Energy Development Pty Ltd *	Australia	Ordinary	100%	100%	-	-
Capricorn Energy Pty Ltd *	Australia	Ordinary	100%	100%	-	-
Dorben Pty Ltd	Australia	Ordinary	100%	100%	20,120	-

** Shares owned by Galilee Energy Limited*

(a) Galilee Energy Limited

At the date of acquisition, the acquired entity was involved in exploration for coal seam methane. Details of the acquisition are as follows:

On 23 October 2002, Eastern entered into a Heads of Agreement to acquire a 51% shareholding interest in Galilee Energy.

Eastern shareholders at the Company's Annual General Meeting approved the agreement for the acquisition of the 51% interest in Galilee Energy on 29 November 2002 and by Galilee Energy shareholders at a General Meeting on 19 December 2002.

Galilee Energy is an unlisted public company, which holds (through wholly-owned subsidiaries) an extensive onshore authority to prospect (ATP) for oil and gas in the Galilee basin in central Queensland. The area is especially prospective for coal bed methane.

Eastern was obliged to subscribe for new shares in Galilee Energy (for its 51% interest) for a total amount of $4 million payable by way of instalments of $2m (which was paid on 31 January 2003), and two further $1m instalments - one paid in July 2003 and the final instalment paid in January 2004.

Fair value of identifiable net assets of controlled entity acquired:

	$
Exploration and evaluation expenditure	5,480,115
Plant and equipment	310,961
Pre-payments and other receivables	126,968
Cash	(370,669)
Deposits	200,000
Accruals & other payables	(607,564)
Loans	(1,296,674)
	3,843,137
Less: outside equity interests	(3,843,137)
Cash consideration	-

	Consolidated 2003 $	Parent Entity 2003 $
Outflow of cash to acquire controlled entity:		
Cash consideration	-	(2,000,000)
Cash balances acquired:		
Bank overdraft	(370,669)	-
Outflow of cash	(370,669)	(2,000,000)

(b) Dorben Pty Ltd

In December of 2003, the company completed the purchase of Dorben Pty Ltd, a company with an ATP application 627P in place in Queensland's Department of Natural Resources and Mines. The ATP is located in the Laura Basin of NE Queensland, contains significant coal resources and may have a prospectivity for coal seam methane, which would complement the Eastern subsidiary Galilee Energy's coal seam methane project.

Fair value of identifiable net assets of controlled entity acquired:

	$
Exploration and evaluation expenditure	20,120
Cash consideration	20,120

	Consolidated 2004 $	Parent Entity 2004 $
Outflow of cash to acquire controlled entity		
Cash consideration	(20,120)	(20,120)
Outflow of cash	(20,120)	(20,120)

NOTE 30. Events Occurring after Balance Date

(a) Galilee Energy Limited & Viking International Petroleum Plc

On 30 July 2004, Galilee entered into a non-binding Heads of Agreement with United Kingdom company, Viking International Petroleum Plc ("Viking") to acquire a 50% interest in the assets of the company.

On the 14 of September 2004 it was announced that Viking did not intend to proceed with the acquisition on the basis that the current project did not fit its investment strategy however Viking did not discount the possibility of considering participation in the project as it progresses.

(b) Restpine Pty Ltd – Option exercised

On 14 September 2004 it was announced that existing Restpine Pty Ltd shareholders had agreed to allow Eastern to exercise the option agreement for the Company to buy the Restpine shares for $500,000, comprising approximately $400,000 in cash and the balance in Eastern shares at an issue price of 4 cents per share.

Restpine is the holder of coal exploration interests at Broughton (EPC 818) and Whareatea West in the south island of New Zealand. Eastern commenced a drilling program at Broughton in July where preliminary results indicate good coking coal characteristics.

NOTE 31. Reconciliation of loss from ordinary activities after income tax to net cash inflow/(outflow) from operating

	Consolidated		Parent Entity	
	2004	2003	2004	2003
	$	$	$	$
Loss from ordinary activities after income tax	(1,464,824)	(3,347,291)	(994,615)	(3,804,708)
Depreciation and amortisation	13,696	6,581	1,128	2,254
Interest paid	113,981	-	-	-
Interest received	(49,103)	-	(20,451)	-
Foreign exchange gain/(loss)	16,719	-	-	-
Exploration expenditure written off	-	2,324,398	-	-
Loss / (Profit) on disposal of investments	-	(385,112)	-	1,814,346
Loss with revaluation of investment	82,247	205,000	82,247	205,000
Loan forgiveness	-	(215,082)	-	(101,262)
Debt forgiveness	-	694,473	-	1,501,363
Issue shares for debt	-	330,000	-	330,000
Other non-cash movements	-	(4,796)	-	(4)
Changes in operating assets and liabilities				
(Increase) decrease in receivables	(576)	14,849	(90,414)	14,849
(Increase) decrease in prepayments	(26,777)	1,030	(24,030)	(52,720)
Increase (decrease) in employee entitlements	-	6,995	-	2,513
Increase (decrease) in creditors	672,416	(345,573)	152,230	(342,066)
Increase (decrease) in non current liabilities	-	(594,129)	-	(594,129)
Net Cash Inflow/(Outflow) from operating activities	(642,221)	(1,308,658)	(893,905)	(1,024,564)

NOTE 32. Earnings per share

(a) Earnings per share

	2004 Cents	2003 Cents
Basic earnings (loss) per share	(0.380)	(1.442)
Diluted earnings (loss) per share	(0.380)	(1.442)

The calculation of earnings per share is based on a loss of $1,234,420 (2003:loss of $3,181,049) and a weighted average number of shares of 324,753,396 (2003: 220,582,796).

	Consolidated	
	2004 $	2003 $
Loss from ordinary activities after income tax	(1,464,824)	(3,347,291)
Outside equity interest	230,404	166,242
Loss attributable to shareholders	(1,234,420)	(3,181,049)

The calculation is based on the following weighted number of shares:		
Weighted number of shares used in earnings per share calculation	324,753,396	220,582,796
Options converted on 20 June 2003	-	1,523,973
Options outstanding on 30 June 2003	-	5,937,500
Weighted number of shares used in diluted earnings per share calculation	324,753,396	228,044,269

No adjustments were made to the loss attributable to shareholders for the calculation of diluted earnings per share. The options outstanding at 30 June 2004 have no dilution effect as the options were out of the money as at that date.

(b) Information concerning the classification of securities

Options over the ordinary shares of Eastern are considered to be potential ordinary shares and where they are dilutive, have been included in the determination of diluted earnings per shares. The options have not been included in the determination of basic earnings per share. Details relating to the options are set out in note 18.

Directors' Declaration

The directors declare that the financial statements and notes set out on pages 19 to 54:

(a) Comply with the Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements; and

(b) Give a true and fair view of the Company's and consolidated entity's financial position as at 30 June 2004 and of their performance, as represented by the results of their operations and their cash flows, for the financial year ended 30 June 2004.

In the directors' opinion:

(a) the financial statements and notes are in accordance with the *Corporations Act 2001*; and

(b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

The financial statements and notes of the company and consolidated entity are in accordance with the Corporations Act 2001, including:

i. Giving a true and fair view of the company's and consolidated entity's financial position as at 30 June 2004 and of the performance for the twelve month period ended on that date; and

ii. Complying with Accounting Standards and Corporations Regulation 2001.

(b) At the date of this declaration, there are reasonable grounds to believe that the company and consolidated entity will be able to pay their debts as and when they become due and payable. The belief that the company and consolidated entity will be able to pay their debts as and when they become due is dependent on:

(i) The successful completion of the exploration and evaluation stage of the project prior to the end of 2005 as discussed on page 4 of this Annual Report; and

(ii) The continued financial support of the shareholders as discussed in Note 19(e).

Made in accordance with a resolution of the directors.

Gordon Smith

Gordon Smith
Director
30 September 2004

Independent audit report to the members of Eastern Corporation Limited

Audit opinion
In our opinion, the financial report of Eastern Corporation Limited:

- gives a true and fair view, as required by the Corporations Act 2001 in Australia, of the financial position of Eastern Corporation Limited and the Eastern Corporation Group (defined below) as at 30 June 2004, and of their performance for the year ended on that date, and
- is presented in accordance with the Corporations Act 2001, Accounting Standards and other mandatory financial reporting requirements in Australia, and the Corporations Regulations 2001.

This opinion must be read in conjunction with the rest of our audit report.

Emphasis of matter regarding inherent uncertainty
Without qualification to the opinion expressed above, attention is drawn to the following matters:

As indicated in Note 1 under the heading "basis of preparation", there is significant uncertainty over how loans in a subsidiary are to be extinguished and realisation of the carrying value of the group's exploration and evaluation expenditure included in non-current assets is dependent upon securing substantial financing and on the successful development and commercial exploitation of those assets. The financial statements do not include any adjustments relating to the recoverability and classification of these asset amounts that might be necessary should this not occur.

Scope

The financial report and directors' responsibility
The financial report comprises the statement of financial position, statement of financial performance, statement of cash flows, accompanying notes to the financial statements, and the directors' declaration for both Eastern Corporation Limited (the company) and the Eastern Corporation Group (the consolidated entity), for the year ended 30 June 2004. The consolidated entity comprises both the company and the entities it controlled during that year.

The directors of the company are responsible for the preparation and true and fair presentation of the financial report in accordance with the Corporations Act 2001. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report.

Audit approach
We conducted an independent audit in order to express an opinion to the members of the company. Our audit was conducted in accordance with Australian Auditing Standards, in order to provide reasonable assurance as to whether the financial report is free of material misstatement. The nature of an audit is influenced by factors such as the use of professional judgement, selective testing, the inherent limitations of internal control, and the availability of persuasive rather than conclusive evidence. Therefore, an audit cannot guarantee that all material misstatements have been detected.

We performed procedures to assess whether in all material respects the financial report presents fairly, in accordance with the Corporations Act 2001, Accounting Standards and other mandatory financial reporting requirements in Australia, a view which is consistent with our understanding of the company's and the consolidated entity's financial position, and of their performance as represented by the results of their operations and cash flows.

We formed our audit opinion on the basis of these procedures, which included:

- examining, on a test basis, information to provide evidence supporting the amounts and disclosures in the financial report, and
- assessing the appropriateness of the accounting policies and disclosures used and the reasonableness of significant accounting estimates made by the directors.

When this audit report is included in an Annual Report, our procedures include reading the other information in the Annual Report to determine whether it contains any material inconsistencies with the financial report.

While we considered the effectiveness of management's internal controls over financial reporting when determining the nature and extent of our procedures, our audit was not designed to provide assurance on internal controls.

Our audit did not involve an analysis of the prudence of business decisions made by directors or management.

Independence
In conducting our audit, we followed applicable independence requirements of Australian professional ethical pronouncements and the Corporations Act 2001.

PricewaterhouseCoopers

PricewaterhouseCoopers

SRSnook.

Stephen R Snook
Partner

Brisbane
September 2004

Shareholder information

Shareholder information set out below was applicable as at 24 September 2004.

(a) Distribution of equity securities

Analysis of equity security holders by size of holding:

			Shares	Options
1	-	1,000	11	-
1,101	-	5,000	75	-
5,001	-	10,000	117	-
10,001	-	100,000	759	3
100,001	and over		329	58

There were 128 holders of less than a marketable parcel of ordinary shares.

(b) Equity security holders

(i) The names of the twenty largest holders of quoted equity securities are listed below:

	Ordinary shares	
	Number held	Percentage of Issued shares
Propwood Pty Ltd <The Propwood Unit A/C>	214,445,000	48.78
Auriferous Mining Limited	12,500,000	2.84
Resource Capital Fund III LP	12,500,000	2.84
Jade Securities Pty Ltd <Bek Unit A/C>	9,225,500	2.10
Ujanta Pty Ltd <David Bird Family A/C>	7,441,000	1.69
Becamal Pty Ltd	4,005,864	0.91
Ujanta Pty Ltd <David Bird Super Fund A/C>	2,800,000	0.64
Mr A Furst <A & J Furst Family A/C>	2,500,000	0.57
Danwild Pty Ltd	2,418,790	0.55
Mr W W Brown & Mrs M H Brown	2,313,500	0.53
Mr W W Brown & Mrs M H Brown (WWB Investments S/F A/C>	2,313,500	0.53
Jacaranda Pacific Pty Limited	2,250,000	0.51
Arco Four Investments Pty Ltd <The Ocramid Holdings Fam A/C>	2,000,000	0.45
Mr A Reid	2,000,000	0.45
Mr R F Schollbach & Ms K W Stirling	2,000,000	0.45
Womby Investments Pty Ltd	2,000,000	0.45
Wybelenna Nominees Pty Ltd	1,730,000	0.39
Mr P M Shannon & Mrs R J Shannon <Shannon Super Fund A/C>	1,550,000	0.35
Jambet Downs Pty Ltd <Jambet Downs Super Fund A/C>	1,516,792	0.34
Mr J A Nolan	1,500,000	0.34
Total	289,007,446	65.71

(ii) The names of the twenty largest holders of options expiring 30 June 2005 @ 4 cents are listed below:

	Units	Percentage of issued options
Auriferous Mining Limited	12,500,000	15.99
Resource Capital Fund III LP	12,500,000	15.99
Propwood Pty Ltd <The Propwood Unit A/C>	11,820,000	15.12
Enchance Capital Pty Ltd	5,610,000	7.18
Ujanta Pty Ltd <David Bird Family A/C>	2,679,500	3.43
Mr A Furst <A & J Furst Family A/C>	2,500,000	3.20
Mr W W Brown and Mrs M H Brown	2,375,000	3.04
Jacaranda Pacific Pty Ltd	2,325,000	2.97
Mr W W Brown and Mrs M H Brown	2,312,500	2.96
Mr W W Brown and Mrs M H Brown <WWB Investments S/F A/C>	2,312,500	2.96
Arrow Resources Investments Pty Ltd	1,250,000	1.60
Wybelenna Nominees Pty Ltd	1,250,000	1.60
Sommerville Pty Ltd <Crow Family A/C>	1,035,500	1.32
Danwild Pty Ltd <Danewild Pty Ltd S/F A/C>	1,000,000	1.28
Mr A Reid	1,000,000	1.28
Supercomp No 97 Pty Ltd <THT Topsport Super Fund A/C>	1,000,000	1.28
Ujanta Pty Ltd <The David Bird Family A/C>	1,000,000	1.28
H B K Management Pty Ltd	925,000	1.18
Mr V C Chang <Vincent C Chang Family A/C>	750,000	0.96
Mr W Crumblin & Mrs M Crumblin	687,500	0.88
Total	66,832,500	85.5

(c) Substantial holders

	Number held	Percentage
Propwood Pty Ltd	214,445,000	48.78

(d) Voting rights

The voting rights attaching to each class of equity securities are set out below:

(i) Ordinary shares
On a show of hands every member present at a meeting in person or by proxy shall have one vote and upon a poll each share shall have one vote.

(ii) Options
No voting rights

There is no current on-market share buy-back.

Corporate Directory

Directors

Gordon G Smith	Executive Chairman
Paul R Williams	Chief Executive Officer
John S McIntyre	Non-executive Director

Company Secretary
William G Lyne

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Brisbane QLD 4000
Phone: 1300 552 270

Stock Exchange
Australian Stock Exchange Limited
Home Branch: Brisbane
ASX Code: ECU

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Brisbane QLD 4000

Solicitors
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Bankers
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