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LAGOON

CORPORATION LTD

A.C.N. 006 639 514

ANNUAL REPORT AND FINANCIAL REPORT FOR THE YEAR ENDED 30 JUNE 2002

CONTENTS

CORPORATE DIRECTORY

DIRECTORS

Geof Fethers (executive chairman & managing director)
Hugh Rutter (executive)
Andrew Watson (non-executive)
Adrian Wischer (non- executive)

COMPANY SECRETARY

Dermot Coleman

REGISTERED OFFICE

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Richmond, Victoria 3121

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SHARE REGISTRY

Alexander & Spencer
12A/440 Collins Street
Melbourne, Victoria 3000

Telephone: (03) 9602 2388
Facsimile: (03) 9670 8325

Registers of issued ordinary shares and options held at this address

ANNUAL GENERAL MEETING

The Company's 2002 Annual General Meeting will be held at Suite 2, 337A Lennox Street, Richmond, Victoria.

On Thursday 28 November 2002
Commencing at 9.30 am

SOLICITORS

Mallesons Stephen Jaques
Level 28 Rialto
525 Collins Street
Melbourne, Victoria 3000

TAX AGENTS AND ADVISERS

Alexander and Spencer
Level 12A
440 Collins Street
Melbourne, Victoria 3000

AUDITOR

KPMG
Level
161 Collins Street
Melbourne, Victoria 3000

BANKERS

Bank Of Melbourne Limited
360 Collins Street
Melbourne, Victoria, 3000

ANNUAL REVIEW

During the sixteenth Annual Report period the Company consolidated its exploration activities whilst focussing on preparing the Company for its initial public offering of shares.

Continued processing of data from the Edward Creek diamond project identified high priority drill targets whilst detailed gravity data identified copper-gold drill targets.

A private placement which commenced in May 2001 successfully raised $360,807 by March 2002 which provided sufficient funds for the preparation of a prospectus document which was lodged with ASIC on the 14 June 2002.

The prospectus offered 4,200,000 shares at $0.30 to raise $4.2 m. The principal use of the funds was to be exploration on the Company's advanced exploration projects with $1.6 m planned to fund exploration – mainly drilling costs, in the 12 months following the offer.

Unfortunately, subsequent to the end of the report period, insufficient applications for shares had been received by the closing date and the offer was closed on 6 September 2002 without reaching the minimum subscription.

In October 2002 the Company was seeking private equity to fund continued exploration. Farm-out opportunities for selected projects were also being investigated as a way to enable the planned exploration programmes to proceed.

A summary of exploration developments to date is provided below:

Diamond Exploration

Edward Creek Project– Diamonds (including Edward Creek, Krystal & Balta prospects)
(see also Edward Creek Base Metals)

During the report period reprocessing and re-interpretation of geophysical data identified and confirmed numerous magnetic anomalies and aerial photo anomalies which are potentially caused by kimberlites. 9 high priority targets were selected for drill testing.

Heritage surveys were conducted by anthropologists in conjunction with Aboriginal people who have interests in the area. These surveys covered 17 diamond targets including 7 of the high priority targets. Clearance has been obtained for drilling to proceed at 16 of the targets including all 7 of the high priority targets investigated. The 2 additional priority targets were identified after the site clearance surveys were conducted in March 2002. Additional clearances will need to be obtained if these additional targets are to be included in the next phase of drilling.

Exploration to date has identified abundant Diamond Indicator Minerals ("DIMs") which strongly suggests the presence of kimberlite source rocks within the Project Area. DIMs are minerals which have chemical compositions indicative of potentially diamond bearing rocks. The data base which supports the ongoing activities at this project includes 9 macro diamonds, over 5,000 picroilmenite grains (including abundant grains with chemical compositions diagnostic of kimberlite – a rare type of volcanic rock capable of containing diamonds), over 700 chromian spinel grains, over 200 pyrope garnet grains and over 24 chrome diopside grains. Statistical numbers of these picroilmenite and pyrope grains display surface textures indicative of small travel distances.

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The high priority drill targets include the "Gauntlet" - a shallow crater measuring 1,000 metres in diameter. Drilling conducted in previous periods at the Gauntlet has recovered chrome spinel grains with compositions similar to those of chromites found in diamond bearing rocks. Additional deeper drilling is planned to determine whether kimberlite rocks exist at the Gauntlet – no definitive identification of the material drilled to date has been possible and deep chemical weathering is a feature of the region.

The Edward Creek Diamond Project is located 750 km NNW from Adelaide in South Australia. The Project area is secured by ELs 2622, 2755, 2892 & 2943 and covers an area of 3,016 square kilometres.

The next phase of exploration planned includes deeper drilling at the Gauntlet and at several other kimberlite targets. Kimberlites generally occur in clusters. Once one has been identified, discoveries of additional pipes normally follow.

Reedy Lagoon Project – Diamonds

During the report period reprocessing and re-interpretation of geophysical data identified and confirmed 17 magnetic anomalies which are potentially caused by kimberlites.

A selection of drill targets will be made after the re-interpretation of the geophysical data is completed and the resultant magnetic anomalies are integrated with the Diamond Indicator Mineral distributions. The DIM distribution from EL 2798 includes 213 pyrope garnets, 56 picroilmenite and 15 chrome diopside grains. Two macro diamonds have also been recovered from the licence area supporting the potential for the area to contain a diamond bearing source rock.

The Reedy Lagoon Diamond Project is located 200 kilometres south from Edward Creek, in South Australia. This project has been extensively explored for diamonds by De Beers Australia Exploration Limited from 1980 to 1986 and subsequently by the Company from 1986 to 1993. Until the source to the DIMs and diamonds recovered from the area has been identified the economic potential of the project cannot be assessed. The presence of macro diamonds – and their recovery in small (15 kg) sediment / loamscrape samples, underlies the diamond potential of the project.

Five groups of people have lodged native title claims for the Reedy Lagoon project area. Heritage surveys will be planned with each of these groups of people to ensure that the Company's activities do not interfere with any sites found to be significant.

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Copper – Gold Exploration.
Edward Creek Base Metal Project
(see also Edward Creek Diamonds)

A detailed gravity survey was completed over the Herakleion and Santorini prospects during the report period. The infill data recovered upgraded the anomalies evident in the regional survey data. A number of discrete gravity anomalies interpreted by the Company to represent substantial bodies of dense rocks occurring within the subsurface are evidenced in the more detailed gravity data. Four anomalies have been selected for possible drilling and target depth to the dense rocks interpreted to cause the observed gravity data is 150 to 250 m.

The drill targets have been generated to investigate for "Olympic Dam" style mineralization. Past mining by prospectors from several small scale copper mines in the late 1800's established the presence of copper mineralization in the area. Surface sampling, conducted prior to the current report period, in the areas of the targets, has recovered anomalous geochemistry including copper, gold, uranium and REE (Ce & La).

Heritage surveys were conducted by anthropologists in conjunction with Aboriginal people who have interests in the area. The four copper-gold targets, generated from the detailed gravity survey data, were investigated and clearance for drilling to proceed at each was obtained.

PGM / Copper-Nickel Sulphide Exploration.
Poole River Prospect - Jericho Project - The RLC / Osprey Jericho Joint Venture
(see also Gold Exploration)

A large magnetic anomaly holds the potential to be associated with copper-nickel sulphide mineralization enriched in platinum group elements. The Poole River Prospect is part of the Jericho Project located 160 km east from Melbourne and within the Woods Point - Walhalla Goldfield. The goldfield is renowned for its high-grade structurally controlled gold deposits, but also contains copper-nickel sulphide mineralization rich in precious metals (platinum, palladium and gold).

RLC has the right to earn a 75% interest under the terms of a joint venture agreement dated 1/7/00 with Osprey Gold N.L. Under the terms of this agreement RLC manages and sole funds exploration activities until the completion of a mine feasibility study but is free to withdraw at any time. Whilst RLC continues in the joint venture it is obliged to expend a minimum amount of $23,400 per annum on exploration and pay $10,000 to Osprey at each anniversary of the date of the joint venture agreement.

Drilling and an Induced Polarization survey are planned as the next phase of exploration to investigate the magnetic anomaly.

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Gold Exploration

Chiltern Project Joint ventures: RLC / Osprey Chiltern Joint Venture
RLC / PGM Chiltern Joint Venture

Drill holes are planned to test for gold mineralization associated with sulphide enriched zones interpreted from geophysical survey data. These targets are adjacent to an area where abundant gold bearing sandstone nodules have been found.

The Project covers most of the Chiltern Goldfield located in northern Victoria. The goldfield has produced 27,000 kg (870,000 oz) of gold from alluvial deep lead (buried river channel) systems. The original source of the gold found in the deep leads has never been discovered although early workers identified sediment hosted gold amongst the waste rock initially discarded during the alluvial mining. About a hundred tonnes of this "waste rock" of sandstone and siltstone pebbles and nodules, in which very fine grained gold could be observed, was processed. An average of over 20 g/t gold was produced from this sandstone and siltstone material.

The Project consists of three Exploration Licences (ELs 3032, 3281 and 3376) covering an area of 236.5 square kilometres. RLC has the right to earn a 75% interest in each of the tenements under the terms of joint venture agreements with Osprey Gold N.L. (ELs 3032 and 3281) and Providence Gold and Minerals Pty Ltd (EL 3376). Under the terms of these joint venture agreements RLC manages and sole funds exploration activities but is free to withdraw at any time. Whilst RLC continues in the joint ventures it is obliged to meet minimum exploration expenditure levels as determined by the Department of Natural Resources and Environment for each tenement and pay $10,000 to Osprey and $10,000 to Providence Gold and Minerals at each anniversary of the date of the joint venture agreements.

Work programmes which encompass geophysical survey and drilling have been lodged and regulatory approvals have been sought. The planned exploration is in environmentally sensitive areas which require thorough assessment and a more rigorous consent process than is generally applicable. Whilst this can lead to delays, the Company benefits in the long run by building a track record of first class environmental management.

Victor Gold Prospect - Jericho Project - RLC / Osprey Jericho Joint Venture

(see also PGM, Copper-Nickel Sulphide exploration)

The exploration targets at the Victor Prospect are extensions from previously mined gold mineralization in a quartz reef system. Gold mineralization anticipated is high grade vein style. The gold potential of Victor is demonstrated by the Cohens Reef Mine, located within the same goldfield, which produced more than 1.4 million oz of gold.

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Gold mineralization at Victor occurs in a quartz reef structure. The quartz reef has more than 1 km strike length within the tenement. Past mining (pre 1940) produced 24,909 oz of gold from 42,439 tonnes (@ ave 18 g/t). The quartz vein system that was mined is reported as up to 12 m thick although generally between 0.5 and 5 m.

The Victor Prospect is part of the Jericho Project which is being explored under the terms of a joint venture agreement with Osprey Gold NL. The terms of this agreement together with general location details are provided in the description of the Poole River Prospect under the PGM / Copper-Nickel Sulphide Exploration heading.

Drilling planned at Victor has the potential to identify significant mineralization in a geological setting similar to the Cohen's Reef deposit.

Other Developments

The Company entered an agreement with Phelps Dodge on 31 October 2001 whereby Phelps Dodge could earn a 70% interest in base metals at the Edward Creek Project (the Edward Creek Base Metals Joint Venture - "ECBMJV"). Under the terms of the agreement Phelps Dodge completed a detailed gravity survey in the December 2001 quarter and based on results was entitled to earn a 70% interest in the ECBMJV by sole funding $6m on staged expenditures which included exploration expenses and cash payments to RLC of up to $2m. The joint venture terminated on 8th March 2002 when Phelps Dodge withdrew and all equity in the project reverted back to the Company.

Dermot Coleman, previously the Company Secretary and a director of De Beers Australia Exploration Limited, joined the Company as Company Secretary on 15 March 2002.

The main focus of the Company's activities during the 2002 financial year was the completion and lodgement on 14th June 2002 of a prospectus document for the issue of 14 million shares at $0.30 to raise $4.2 million. This activity, combined with the additional requirement to raise sufficient seed capital to finance the process, absorbed most of the energy of everyone associated with the Company.

Management extends its gratitude – on behalf of all shareholders, to everyone who assisted in this exercise. The completion of prospectus documents by small companies is a substantial undertaking. It could not have been done without the considerable support and assistance provided by: Alexander & Spencer which prepared the accounts and financial reports; Australian Mining Consultants which completed the Independent Geologist's Report and responded to enquiries from analysts seeking more information on our projects; KPMG for its audit; Mallesons Stephen Jaques for editing and scripting the 24 month exercise including not only the prospectus preparation but also protracted joint venture negotiations with Billiton and subsequently Phelps Dodge; and PrintBound – always ready to respond to another request for a printed product "by tomorrow"... Many thanks to all of you and the myriad of people – including many shareholders, who assisted in distributing the prospectus and encouraging their associates and friends to consider investing in Reedy.

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Subsequent to the end of the reporting period.

On the 6 September 2002 insufficient applications for shares had been received to enable the capital raising envisaged by the prospectus to proceed and the offer was closed. All subscription monies received with applications for shares were refunded to the respective applicants in early September.

On 23 September 2002 Mallesons Stephen Jaques agreed to reverse its account for legal work in relation to the prospectus which had amounted to $172,076.30 (including GST). Reedy Lagoon has agreed to request Mallesons Stephen Jaques to render an account for these fees when the Company's financial position permits it.

In concluding this review of Reedy Lagoon's past activities, the Company has established significant exploration projects encompassing a range of commodities.

The resources targeted at these projects are large scale. Should exploration lead to discovery then it is likely that the most efficient resource definition and mine development option would be through joint ventures with suitable mining companies.

The future of Reedy Lagoon lies in developing major resource projects by efficient exploration and by targeting those types of resource projects that will be most attractive to the world's major mining companies.

All shareholders in RLC should be encouraged by the rationalisation currently sweeping the resources industry. The more the major miners merge and the more non-performing mines close down the greater will be the need for new and better mineral deposits. History shows small explorers can be more successful discoverers than major miners – many of the majors recognise this and RLC is staking its future on it.

The only change from last year is that the Company must look to financing its day to day operations by private equity and by joint venture mechanisms with mining companies.

Geof H Fethers

Managing Director.

TENEMENT SCHEDULE

Tenements owned directly by Reedy Lagoon Corporation

Tenement	Area (km²)	Status	Minimum Expenditure $	RLC Equity
EL 2622	588	current	173,000	100%
EL 2755	1,172	current, application for renewal from 8/10/02 lodged	previously 145,000	100%
EL 2892	1,175	current	145,000	100%
EL 2943	81	current	40,000	100%
EL 2798	890	current	206,000	100%

Tenements subject to joint venture with Osprey Gold N.L. – commenced 1/7/00

Tenement	Area (km²)	Status	Minimum Expenditure $	RLC Equity
EL 3208 *Jericho Project, Woods Point, Victoria*	28	current, application for renewal from 11/8/02 lodged	23,400	Earning 75%
EL 3032 *Chiltern Gold project, Chiltern, Victoria*	98.5	pendency – awaiting renewal in term	after renewal 48,600	Earning 75%
EL 3281 *Chiltern Gold project, Chiltern, Victoria*	11	pendency – awaiting renewal in term	after renewal 20,400	Earning 75%

Tenements subject to joint venture with Providence Gold & Minerals Pty Ltd – commenced 1/7/00

Tenement	Area (km²)	Status	Minimum Expenditure $	RLC Equity
EL 3376 *Chiltern Gold project, Chiltern, Victoria*	137	pendency – awaiting renewal in term	after renewal 56,700	Earning 75% of 127km²

The minimum expenditure commitments figures are the exploration expenditure requirements for the term of the licence as described in the Exploration Licence document.

DIRECTORS REPORT

The Directors present their report, together with the financial report of Reedy Lagoon Corporation Limited for the year ended 30 June 2002 and the auditor's report thereon.

1. DIRECTORS

The Directors of the Company at any time during or since the financial year and details of their qualifications are:

Geof H. Fethers, B.Sc. Hons (Geol.), M AusIMM
Executive Chairman and Managing Director

Geof Fethers, aged 45, is a geologist with more than 20 years experience in the minerals industry. His initial involvement in diamond exploration was with De Beers Australia Exploration Limited working in WA, NT, SA, South Africa and Botswana. He is chairman and managing director of Osprey Gold N.L., and is a member of A.M.P.L.A., AusIMM and the Geological Society of Australia. Director of the Company since 1986 - appointed Chairman in 1986.

Hugh Rutter, B.Sc. (Geol.), M.Sc (Geophys), D.I.C. Geophys (Imp.C., London), F AusIMM.
Exploration Director

Hugh Rutter, aged 60, is a consulting geophysicist with more than 30 years experience in the exploration and mining industry. He is a founding director of Osprey Gold NL and is a member of numerous professional organisations, including AusIMM and the Australian Society of Exploration Geophysicists. Hugh was appointed a director of the Company on 24th August 2000.

Andrew C. D. Watson, **Dip. Farm Manag.**
Non-Executive Director

Andrew Watson, aged 46, is involved in the agriculture and forestry industries. He is a director of a private Australian plantation management company and various private earth moving companies which have operations extending from road building to quarrying. Andrew was appointed a Director of RLC on 22 November 2000.

Adrian D. Wischer, **B.Econ., M A.I.M.**

Non-Executive Director

Adrian Wischer, aged 45, is a private equity investor, an experienced manager and company director. He is a director of Osprey Gold N.L. and National Golf Holdings Ltd, a Fellow of A.I.C.D. and an Associate Fellow of A.I.M. Director of the Company since 1986.

DIRECTORS REPORT

2. DIRECTORS MEETINGS

The following table sets out the numbers of meetings of the Company's directors held during the year ended 30 June 2002, and the number of meetings attended by each director.

	A	B
G. H. Fethers	11	11
H. Rutter	9	11
A. C. D. Watson	9	11
A. D. Wischer	9	11

A- number of meetings attended
B - number of meetings held during the time the director held office during the year

3. PRINCIPAL ACTIVITY

The principal activity of the Company during the course of the financial year was exploration for minerals.

There were no significant changes in the nature of the activities of the Company during the year.

4. RESULT OF OPERATIONS

The net loss of the Company after income tax for the year was $305,793 (2001: loss $172,019). Further commentary on the operations of the company during the year is included in the Annual Review on pages 2 to 7 of the Annual Report .

5. DIVIDENDS

No amount has been paid or declared by way of a dividend during the year and the directors do not recommend the payment of any dividend.

6. STATE OF AFFAIRS

Significant changes in the state of affairs of the Company during the financial year were as follows:

- On 23 August 2001 the Company made a cash issue of 100,000 ordinary shares to provide additional working capital. These shares were issued at $0.175 per share.
- On 28 December 2001 the Company made a cash issue of 100,000 ordinary share to provide additional working capital. These shares were issued at $0.175 per share.
- On 21 February 2002 the Company made a cash issue of 1,610,000 fully paid ordinary shares to provide additional working capital. These shares were issued at $0.175 per share.
- On 15 March 2002 the Company made a cash issue of 251,755 fully paid ordinary shares to provide additional working capital. These shares were issued at $0.175 per share.

DIRECTORS REPORT

7. ENVIRONMENTAL REGULATION

The Company's operations are subject to environmental regulations under State legislation in relation to its exploration activities.

In addition, the Company is an associate member of the Victorian Minerals and Energy Council (VMEC) which is a non government association with an objective to foster mineral enterprise as a valuable and responsible industry for Victoria. The VMEC requires its members to conform with a code of conduct which includes environmental management practices. The Company ensures that all its operations conform with the code of practice.

The directors are not aware of any breaches of regulations during the period covered by this report.

8. EVENTS SUBSEQUENT TO BALANCE DATE

There has not arisen, in the interval between the end of the year and the date of this report, any item, transaction or event of a material and unusual nature likely, in the opinion of the directors of the Company to affect significantly the operations of the Company, the results of those operations or the state of affairs of the Company in future financial years, except as follows :-

- During June 2002 the company released a prospectus for the issue of 14,000,000 shares at 30 cents per share, with 1 Option attached to every 2 shares allotted. The public offer sought to raise $4.2 million. The offer opened on 1 July 2002 and closed on 6 September 2002, however the minimum subscription level was not achieved by that date. The offer has since been withdrawn and all costs associated with the preparation of the prospectus have been charged to the statement of financial performance for the year ended 30 June 2002.

9. LIKELY DEVELOPMENTS

At the date of this report, there are no future developments of the Company which warrant disclosure, other than that the Company intends to continue seeking avenues to exploit the Company’s mining tenements and joint ventures.

10. DIRECTORS’ EMOLUMENTS

None of the directors of the Company have received emoluments during the financial year. However 1,200,000 31 December 2004 options to purchase shares were granted to directors on 1st January 2002, in accordance with a resolution passed at the Company’s Annual General meeting in November 2001. The value of these options have not been determined. The exercise price of each option is 50 cents, significantly above the last share issue price and the price of shares under the public offer by the Company.

DIRECTORS REPORT

11. OPTIONS ISSUES

During or since the end of the previous financial year, the Company granted options over unissued ordinary shares to the following:

Director:	Number of Options Granted	Exercise Price	Expiry Date
Mr G .H. Fethers	500,000	$0.50	31 December 2004
Mr H. Rutter	500,000	$0.50	31 December 2004
Mr A. Watson	100,000	$0.50	31 December 2004
Mr A Wischer	100,000	$0.50	31 December 2004

At the date of this report, unissued ordinary shares of the Company under option are:

Expiry date	*Exercise price*	*Number of Shares*
31 December 2003	$0.50	2,150,000
31 December 2004	$0.50	1,200,000

The Company has previously agreed to issue 900,000 options to Agricultural Contracting Australia Pty Ltd at or about the date, if any, that the Company is listed on the ASX. These options will have an exercise price of $0.30 and be exercisable up to 30 September 2003.

12. DIRECTORS' INTERESTS

The relevant interest of each director in the shares and options issued by the Company as notified by the directors at the date of the report is:

Director	Shares held by director	Shares held on behalf of director or by director controlled entities	Options over unissued shares
G.H. Fethers	8,000	9,183,000	1,400,000
A.D. Wischer	415	-	200,000
A.C. D. Watson	-		200,000
H. Rutter	-	-	1,400,000

Since the end of the previous financial year no director of the Company has received or become entitled to receive any benefit because of a contract made by the Company with the director or with a firm of which they are a member, or with an entity in which the director has a substantial interest, other than:-

- in respect of service agreements with Chromite Pty. Ltd., of which G.H. Fethers is a director and shareholder.

DIRECTORS REPORT

- the provision of office space, equipment and secretarial services to the Company at normal commercial rates, by Cropten Pty Ltd. Messrs. Fethers and Rutter are shareholders and directors of Cropten Pty. Ltd.

Details of the service agreements are provided in note 17 to the Financial Statements.

13. INDEMNIFICATION AND INSURANCE OF OFFICERS AND AUDITORS

The Company has not indemnified the directors and auditors of the Company against any liability arising in their capacity as directors or auditors of the Company. Since the end of the previous financial year, the Company has not paid any premiums in respect of the directors' and officers' liability and legal expense's insurance contracts for year ended 30 June 2002 and since the year ended, the Company has not paid or agreed to pay on behalf of the Company, provisions in respect of such insurance contacts for year ended 30 June 2002.

Signed in accordance with a resolution of the directors.

....
G.H. FETHERS
DIRECTOR

Dated at Melbourne this day of October 2002.

STATEMENT OF FINANCIAL PERFORMANCE
FOR THE YEAR ENDED 30 JUNE 2002

	Note	2002	2001
		$	$
Other revenue from ordinary activities	3	4,212	3,240
Total revenue		4,212	3,240
Expenses related to ordinary activities			
Administration expense	4	(59,308)	(82,067)
Exploration expenditure	4	(127,967)	(42,809)
Prospectus preparation costs	4	(90,729)	-
Legal expenses		-	(26,692)
Other expenses from ordinary activities	4	(32,001)	(23,691)
(Loss) from ordinary activities before related income tax expense		(305,793)	(172,019)
Income tax expense relating to ordinary activities	6(a)	-	-
Net (Loss)		(305,793)	(172,019)

The statement of financial performance is to be read in conjunction with the notes to the financial statements set out on pages 17 to 29

STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2002

	Note	2002	2001
		$	$
Current Assets			
Cash assets	7	141,537	89,175
Receivables	8	36,737	1,117
Prepayments		2,313	-
Total Current Assets		180,587	90,292
Total Assets		180,587	90,292
Current Liabilities			
Payables	9	47,995	4,500
Interest-free liabilities	10	142,606	142,606
Total Current Liabilities		190,601	147,106
Total Liabilities		190,601	147,106
Net Deficiency		(10,014)	(56,814)
Equity			
Contributed equity	11	6,253,256	5,900,663
Accumulated (losses)	12	(6,263,270)	(5,957,477)
Total Deficiency	13	(10,014)	(56,814)

The statement of financial position is to be read in conjunction with the notes to the financial statements set out on pages 17 to 29

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2002

	Note	2002 $	2001 $
Cash flows from operating activities			
Payments to suppliers and employees (inc net GST)		(226,164)	(207,516)
Interest received		4,212	3,040
Net cash (used in) operating activities	14(b)	(221,952)	(204,476)
Cash flows from financing activities			
Proceeds from share issues		360,807	293,625
Costs of share issue		(8,214)	-
Payment of June 2002 prospectus costs (inc GST)		(78,279)	-
Net cash provided by financing activities		274,314	293,625
Net increase in cash held		52,362	89,149
Cash at beginning of year		89,175	26
Cash at end of year	14(a)	141,537	89,175

The statement of cash flows is to be read in conjunction with the notes to the financial statements set out on pages 17 to 29

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2002

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Preparation

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

It has been prepared in accordance with the historical cost convention, and except where stated does not take into account changing money values or fair values of non-current assets.

These accounting policies have been consistently applied and, except where there is a change in accounting policy, are consistent with those of the previous year.

(b) Going Concern

The accounts have been prepared on a going concern basis, which contemplates continuity of normal business activities and the realisation of assets and settlement of liabilities in the ordinary course of business. The company incurred an operating loss before income tax of $305,793 during the year ended 30 June 2002 (2001: $172,019), and as at that date the company's total liabilities exceeded total assets by $10,014 (2001: $56,814). The directors believe the going concern basis is appropriate because director related entities have advanced funds to the Company, have subordinated their loans to the benefit of external creditors and these entities have stated that they will continue to financially support the Company.

The directors have prepared the financial statements on a going concern basis since they are of the opinion the Company will receive additional future funding by either securing a joint venture partner or through the issue of new capital. In the event that no future funding is received, there is significant uncertainty whether the company will be able to continue as a going concern. No adjustments have been made to the financial report relating to the recoverability and classification of recoded asset amounts or to the amounts and classification of liabilities that might be necessary should the entity not continue as a going concern.

(c) Taxation

The Company adopts the income statement liability method of tax effect accounting.

Income tax expense is calculated on operating profit adjusted for permanent differences between taxable and accounting income. The tax effect of timing differences, which arise from items being brought to account in different periods for income tax and accounting purposes, is carried forward in the balance sheet as a future income tax benefit or a provision for deferred income tax.

Future income tax benefits are not brought to account unless realisation of the asset is assured beyond reasonable doubt. Future income tax benefits relating to losses are only brought to account when their realisation is virtually certain.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2002

(d) Goods and Services Tax

Revenues, expenses and assets are recognised net of the amount of goods and services tax (GST), except where the amount of GST incurred is not recoverable from the Australian Tax Office (ATO). In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense. Receivables and payables are stated with the amount of GST included. The net amount of GST recoverable from, or payable to, the ATO is included as a current asset or liability in the statement of financial position.

Cash flows are included in the statement of cash flows on a gross basis. The GST components of cash flows arising from investing and financing activities, which are recoverable from, or payable to the ATO, are classified as operating cash flows.

(e) Exploration, Evaluation and Development Expenditure

Exploration, evaluation and development costs are written off where the activities in the areas of interest have not yet reached a stage that permits reasonable assessment of the existence of economically recoverable reserves. Once it is determined that the costs can be recouped through sale or successful development and exploitation of the area of interest then the costs are accumulated and carried forward for each area of interest.

Amortisation is not charged on costs carried forward in respect of areas of interest in the development phase until production commences. When production commences, carried forward exploration, evaluation and development costs are amortised over the life of the area according to the rate of depletion of the economically recoverable reserves.

Accumulated costs in relation to an abandoned area are written off in full against profit in the year in which the decision to abandon the area is made. Each area of interest is also reviewed annually and accumulated costs written off to the extent that they will not be recoverable in the future.

Restoration costs are provided for at the time of the activities that give rise to the need for restoration. If this occurs prior to commencement of production, the costs are included in deferred exploration and development expenditure. If it occurs after commencement of production, restoration costs are provided for and charged to the statement of financial performance as an expense.

(f) Cash assets

Cash assets are carried at face value of the amounts deposited. The carrying value of cash assets approximates net fair value.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2002

(g) Other receivables

Other receivables are stated at cost less allowance for doubtful receivables.

(h) Revenue Recognition

Interest Income
Interest income is recognised as it accrues.

(i) Payables

Liabilities are recognised for amounts to be paid in the future for goods or services received. Trade accounts payable are settled as cash flows allow.

2. CHANGE IN ACCOUNTING POLICY

The company has applied the revised AASB 1005 Segment Reporting (issued in August 2000) for the first time from 1 July 2001.

	Note	2002 $	2001 $
3. REVENUE FROM ORDINARY ACTIVITIES			
Other revenue:			
From Operating activities			
- Interest – other parties		4,212	3,040
- Other income		--	200
Total other revenue		4,212	3,240
Total revenue from ordinary activities		4,212	3,240

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2002

	Note	2002 $	2001 $
4. (LOSS) FROM ORDINARY ACTIVITIES BEFORE INCOME TAX EXPENSE			
(Loss) from ordinary activities before income tax expense has been arrived at after charging the following items:			
• Consulting fees - Administration		12,912	32,675
• Other Administration expenses		46,396	49,392
		59,308	82,067
• Consulting Fees (Geophysical) - Exploration		33,728	4,162
• Other Exploration expenditure		94,239	38,647
		127,967	42,809
• Prospectus preparation costs		90,729	-
• Legal Fees		-	26,692
• Other expenses from ordinary activities		32,001	23,691
Total expenses		310,005	175,259
5. AUDITORS REMUNERATION			
Audit Services			
Auditors of the Company – KPMG		8,500	2,500
6. TAXATION			
(a) Income tax expense			
Prima facie income tax benefit calculated at 30% on the (loss) from ordinary activities (30 June 2001: 34%)		91,738	58,486
Increase/decrease in income tax benefit			
Legal fees		-	(9,075)
Joint venture payments		(9,000)	(3,400)
Non-assessable other income		-	68
Other timing differences		(20,481)	
Tax losses not carried forward as future income tax benefit		(62,257)	(46,080)
Income tax expense attributable to operating (loss)		-	-

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2002

	Note	2002 $	2001 $

6. TAXATION (continued..)

(b) Future Income Tax Benefits not taken to account

The potential future income tax benefit arising from tax losses and timing differences has not been recognised as an asset because recovery of tax losses is not virtually certain and recovery of timing differences is not assured beyond any reasonable doubt:

	2002 $	2001 $
Tax losses carried forward	350,044	287,787
Timing differences	21,831	1,350
	371,875	289,137

The potential future income tax benefit will only be obtained if:

a) The Company derives future assessable income of a nature and amount sufficient to enable the benefit to be realised;
b) The Company continues to comply with the conditions for deductibility imposed by the law; and
c) No changes in tax legislation adversely affect the Company in realising the benefit.

	Note	2002 $	2001 $

7. CASH ASSETS

	2002 $	2001 $
Cash at bank	96,537	44,175
Term deposits	45,000	45,000
	141,537	89,175

The bank short term deposits mature within 60 days and pay interest at a weighted average interest rate of 3.0% at 30 June 2002.

These deposits are held by the bank as a guarantee to Ministry of Energy and Resources.

8 RECEIVABLES

	2002 $	2001 $
GST receivable	11,459	1,117
Other debtors	25,278	-
	36,737	1,117

9. PAYABLES

	2002 $	2001 $
Trade creditors and accruals	47,995	4,500

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2002

	Note	2002 $	2001 $
10. INTEREST-FREE LIABILITIES			
Loan – Chromite Pty Ltd	17	142,606	142,606
11. CONTRIBUTED EQUITY			
Issued and paid up share capital of 17,949,830 (30 June 2001: 15,888,075) ordinary shares fully paid comprising:			
8,307,760 shares issued for cash (30 June 2001: 6,246,005)		1,440,435	1,079,628
9,642,070 shares allotted from Asset Revaluation Reserve in 1987. (Mineral exploration tenements were subsequently revalued downwards with decrement taken to accumulated losses)		4,821,035	4,821,035
Cost of share issue		(8,214)	-
		6,253,256	5,900,663
Movements in Contributed Equity			
Balance at beginning of year		5,900,663	5,607,038
2,061,755 (30 June 2001: 135,000) ordinary issued at 17.5 cents per share		360,807	23,625
(30 June 2001: 1,800,000) ordinary shares issued at 15 cents per share		-	270,000
Cost of share issue		(8,214)	-
Balance at end of year		6,253,256	5,900,663

In the previous financial year the Company granted 2,150,000 options at an exercise price of $0.50 per share with an expiry date of 31 December 2003. At the end of the period 2,150,000 shares remain unissued in respect of these options. These options have not been exercised.

During this financial year a further 1,200,000 options were granted to directors of the Company. The options have an exercise price of $0.50 per share and expire on 31 December 2004.

Holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at shareholders' meetings.

In the event of winding up of the Company ordinary shareholders rank after all other shareholders and creditors and are fully entitled to any proceeds of liquidation.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2002

	Note	2002 $	2001 $
12. ACCUMULATED LOSSES			
Accumulated Losses at beginning of year		5,957,477	5,785,458
Net Loss		305,793	172,019
Accumulated Losses at end of year		6,263,270	5,957,477
13. TOTAL EQUITY/(DEFICIENCY) RECONCILIATION			
Total (deficiency) at beginning of year		(56,814)	(178,420)
Total changes in equity recognised in Statement of Financial Performance		(305,793)	(172,019)
Contributions of Equity		352,593	293,625
Total (deficiency) at end of year		(10,014)	(56,814)

14. NOTES TO THE STATEMENT OF CASH FLOWS
(a) Reconciliation of cash

For the purpose of the Statement of Cash Flows, cash includes Cash on hand and deposits at call with banks or financial institutions. Cash at the end of the financial year as shown in the statement of cash flows is reconciled to the related items in the statement of financial position as follows:

	Note	2002 $	2001 $
Cash assets	7	141,537	89,175

(b) Reconciliation of (Loss) from ordinary activities after Income Tax to net cash (used in) operating activities

	2002 $	2001 $
(Loss) from ordinary activities after Income Tax	(305,793)	(172,019)
Prospectus costs recognised in financing activities	78,279	
Changes in assets and liabilities		
(Increase) in receivables	(35,620)	(1,117)
(Increase) in Prepayments	(2,313)	-
Increase/(decrease) in accounts payable and borrowings from related party	43,495	(31,340)
Net Cash (used in) operating activities	(221,952)	(204,476)

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2002

15. INTERST IN JOINT VENTURE OPERATIONS

On 1st March 2000 the Company entered into a joint venture arrangement with Providence Gold and Minerals Pty Ltd (PGM) for part of the Chiltern project. The principal activity of the joint venture is the exploration for minerals. Under the terms of the agreement Reedy may earn a 75% interest in the property by funding exploration.

At each anniversary of the commencement date Reedy is to pay PGM $10,000 to remain a party to the joint venture. The Company has made payments on the anniversary dates as required under the agreement.

On 1st July 2000 the Company entered into joint venture arrangements with Osprey Gold NL, a director related entity, for each of the Chiltern and Jericho projects. The principal activity of the joint venture is the exploration for minerals. Under the terms of the agreements, Reedy may earn a 75% interest in each property by funding exploration. At each anniversary of the commencement dates Reedy is to pay Osprey Gold NL $10,000 to remain a party to the joint venture. These agreements were approved by the shareholders of both companies. The Company made the payment on the anniversary date as required under the agreement.

The Company's interest in the joint ventures has not been brought to account as the Company is still to determine whether the area of interest holds economically recoverable reserves.

On 31 October 2001 the Company entered into an agreement with Phelps Dodge whereby Phelps Dodge could earn a 70% interest in base metals at the Edwards Creek Project. The joint venture agreement was terminated on 7 March 2002 in accordance with the specific clauses of the agreement by both parties.

16. DIRECTORS' REMUNERATION

None of the directors of the Company have received emoluments during the year ended 30 June 2002 (30 June 2001: Nil). Payments by the Company to companies associated with the directors are detailed in Note 17.

17. RELATED PARTY TRANSACTIONS

The names of each person holding the position of Director of Reedy Lagoon Corporation Limited during the financial year were:

G.H. Fethers	(appointed 24 September 1986)
H. Rutter	(appointed 24 August 2000)
A.C.D. Watson	(appointed 22 November 2000)
A.D. Wischer	(appointed 24 September 1986)

Directors' transactions in shares and share options are detailed in the directors' report.

Other transactions with the Company:

- A joint venture arrangement with Osprey Gold NL. Refer to note 15.

- G.H. Fethers is a director and shareholder of Chromite Pty Ltd, which provides the services of geologists, including Mr. Fethers, to the Company. The services were provided on an 'as required' basis at normal commercial rates following an agreement to defer commencement of the management contract between the Company and Chromite approved on 22 November 2000. Fees invoiced by Chromite Pty Ltd during the year totalled $ 88,167 (2001: $71,041)

- During previous financial years Chromite Pty Ltd, being a director related entity of Reedy Lagoon Corporation Ltd has advanced funds and deferred repayment of fees charged. During the year minor advances were made by Chromite to the company from time to time, which were all repaid as at the balance date. However, Chromite has subordinated its loan to the interests of other creditors. At balance date, an amount payable to Chromite of $142,606 (2001: $142,606) is included in interest-free liabilities. Refer to note 10.

- Mr. Fethers and Mr. Rutter are directors and shareholders of Cropten Pty Ltd, which provides office space and equipment, together with services including secretarial to the Company at normal commercial rates. The total invoiced during the year was $ 19,107 (2001: $15,952).

- Geophysical Exploration Consultants (GEC) Pty Ltd is a company associated with Mr. Rutter. GEC provides exploration services to the Company on an 'as required' basis at normal commercial rates following GEC's agreement to defer commencement of the management contract between the Company and GEC approved on 22 November 2000. Fees invoiced buy GEC during the year totalled $19,055 (: $6,638).

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2002**

18. EXPLORATION EXPENDITURE COMMITMENTS

(a) Exploration Expenditure

Ongoing annual exploration expenditure is required to maintain title to the Company's mineral exploration tenements. No provision has been made in the accounts for these amounts as the amounts are expected to be fulfilled in the normal course of the operations of the Company.

Tenement expenditure is dependent upon exploration results and available cash resources. Expenditure commitments are also impacted upon and may be reduced where access to areas has been restricted by the existence of Native Title claims. At the date of this report claims for Native Title in respect of areas of all RLC's tenements have been made under the Native Title Act.

The Statutory minimum expenditure requirement for the current twelve month tenures in relation to each of the tenements EL 2622, EL 2755, EL 2798, EL 2892 (previously ELA 091/01) and EL 2943 (previously ELA 178/01) is $709,000 (2001:$415,000) as the licences are subject to annual renewal.

Exploration Licences, 2755, 2798 and 2892 include land that is within the Woomera Prohibited Area. All exploration and mining activities within the Woomera Prohibited Area are subject to agreements with the Commonwealth of Australia. Licence agreements for EL's 2755, 2798 and 2892 between the Company and the Commonwealth were obtained on 27 February 2002.

(b) Tenements under joint venture agreements

Expenditure requirements for the joint venture agreements which include EL 3032, EL 3281, EL 3208 and EL 3376 will total $149,100 (2001:$416,200) but may be less if regulatory conditions cause further delays to planned work. The Statutory expenditure requirement is subject to negotiation with the relevant state department, and expenditure commitments may be varied between tenements, or reduced subject to reduction of exploration area and/or relinquishment of non-prospective tenements.

Further, the current terms of exploration licences EL 3032, EL 3281, and EL 3376 expired on 21 June 1999. An application for renewal has been lodged in respect of each of these tenements and whilst these licences remain "pending renewal" there is no minimum expenditure requirement. These tenements cover an area proclaimed as a National Box and Ironbark Park. Exploration and mining activities within this Park may only continue with the consent of the Minister for Environment and Conservation under Section 40 of the of the National Parks Act, 1975.

Exploration Licence 3208 incorporates land that is Reserved Forest set aside under Section 50 of the Forest Act 1958 as part of the Thomson River Forest Reserve (Gaz 1984 P235).

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2002

18. EXPLORATION EXPENDITURE COMMITMENTS (Cont'd…)

The Licence area is within the Thomson Catchment and is subject to a Land Use Determination pursuant to section 23 of the Soil Conservation and Land Utilization Act 1958. The objective of the Land Use Determination is to provide management guidelines to maintain acceptable quality, quantity and perenniality of water harvested from the catchment.

To protect the integrity of the water supply within the Thomson storage, earthworks are required to be kept to a minimum and any effluent and waste disposal will be in accordance with guidelines approved by the Department of Natural Resources and Environment in consultation with Melbourne Water.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2002

19. ADDITIONAL FINANCIAL INSTRUMENTS DISCLOSURE

(a) Interest rate risk exposures

The Company's exposure to interest rate risk and the effective weighted average interest rate for classes of financial assets and financial liabilities is set out below:

	Note	Floating Interest rate	Fixed interest maturing in: 1 year or less	Over 1 to 5 years	More than 5 years	Non Interest Bearing	Total
30 June 2002		$	$	$	$	$	$
Financial assets							
Cash assets	7	141,537	-	-	-	-	141,537
Receivables	8	-	-	-	-	36,737	36,737
		141,537	-	-	-	36,737	178,274
Weighted average Interest rate		3.0%					
Financial liabilities							
Payables	9	-	-	-	-	47,995	47,995
Interest-free liabilities	10	-	-	-	-	142,606	142,606
		-	-	-	-	190,601	190,601
30 June 2001	**Note**						
Financial Assets							
Cash assets	7	89,175	-	-	-	-	89,175
Receivables	8	-	-	-	-	1,117	1,117
		89,175	-	-	-	1,117	90,292
Weighted average Interest rate		3.7%					
Financial liabilities							
Payables	9	-	-	-	-	4,500	4,500
Interest-free liabilities	10	-	-	-	-	142,606	142,606
		-	-	-	-	147,106	147,106

(b) Credit risk exposures

There is no credit risk on financial assets at 30 June 2002.

(c) Net fair values of financial assets and liabilities

Net fair values of financial assets and liabilities approximate their carrying value. No financial assets or financial liabilities are readily traded on organised markets in standardised form. The carrying amounts of cash at bank, term deposits, other debtors, accounts payable and interest free liabilities approximate net fair value. Financial assets where the carrying amount exceeds net fair values have not been written down as the Company intends to hold these assets to maturity.

21. SEGMENT REPORTING

The Company operates within the minerals exploration industry. Its operations are conducted solely within Australia.

22. EVENTS SUBSEQUENT TO BALANCE DATE

There has not arisen, in the interval between the end of the year and the date of this report, any item, transaction or event of a material and unusual nature likely, in the opinion of the directors of the Company to affect significantly the operations of the Company, the results of those operations or the state of affairs of the Company in future financial years, except as follows :-

> During June 2002 the company released a prospectus for the issue of 14,000,000 shares at 30 cents per share, with 1 Option attached to every 2 shares allotted. The public offer sought to raise $4.2 million. The offer opened on 1 July 2002 and closed on 6 September 2002, however the minimum subscription level was not achieved by that date. The offer has since been withdrawn and all costs associated with the preparation of the prospectus have been charged to the statement of financial performance for the year ended 30 June 2002.
>
> On 23 September 2002 Mallesons Stephen Jaques agreed to reverse its account for legal work in relation to the prospectus which had amounted to $172,076.30 (including GST). Reedy Lagoon has agreed to request Mallesons Stephen Jaques to render an account for these fees when the Company's financial position permits it.

DIRECTORS' DECLARATION

1. In the opinion of the directors of Reedy Lagoon Corporation Limited:

(a) the financial statements and notes, set out on pages 14 to 29, are in accordance with the Corporations Act 2001, including:

   a. giving a true and fair view of the financial position of the Company as at 30 June 2002 and of its performance, as represented by the results of its operations and its cash flows, for the year ended on that date; and
   b. complying with Accounting Standards in Australia and the Corporations Regulations 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.

Signed in accordance with a resolution of the directors:

G. H. FETHERS
DIRECTOR

Dated at Melbourne this 30th day of October 2002

INDEPENDENT AUDIT REPORT TO THE MEMBERS OF REEDY LAGOON CORPORATION LIMITED

Scope

We have audited the financial report of Reedy Lagoon Corporation Limited for the financial year ended 30 June 2002, consisting of the statement of financial performance, statement of financial position, statement of cash flows, accompanying notes 1 to 22, and the directors' declaration set out on pages 14 to 30. The Company's directors are responsible for the financial report. We have conducted an independent audit of this financial report in order to express an opinion on it to the members of the Company.

Our audit has been conducted in accordance with Australian Auditing Standards to provide reasonable assurance whether the financial report is free of material misstatement. Our procedures included examination, on a test basis, of evidence supporting the amounts and other disclosures in the financial report, and the evaluation of accounting policies and significant accounting estimates. These procedures have been undertaken to form an opinion whether, in all material respects, the financial report is presented fairly in accordance with Accounting Standards and other mandatory professional reporting requirements in Australia and statutory requirements so as to present a view which is consistent with our understanding of the Company's financial position, and performance as represented by the results of its operations and its cash flows.

The audit opinion expressed in this report has been formed on the above basis.

Audit Opinion

In our opinion, the financial report of Reedy Lagoon Corporation Limited is in accordance with:

a) the Corporations Act 2001, including:

   i. giving a true and fair view of the Company's financial position as at 30 June 2002 and of its performance for the financial year ended on that date; and

   ii. complying with Accounting Standards in Australia and the Corporations Regulations 2001; and

b) other mandatory professional reporting requirements in Australia.

Inherent Uncertainty Regarding Continuation as a Going Concern

Without qualification to the opinion expressed above, attention is drawn to the following matter. As a result of the matters described in Note 1 (b), there is significant uncertainty whether Reedy Lagoon Corporation Limited will be able to continue as a going concern and therefore whether it will realise its assets and extinguish its liabilities in the normal course of business and at the amounts stated in the financial report.

KPMG

Place : Melbourne
Date: 30 October 2002

Kerry McDermott
Partner