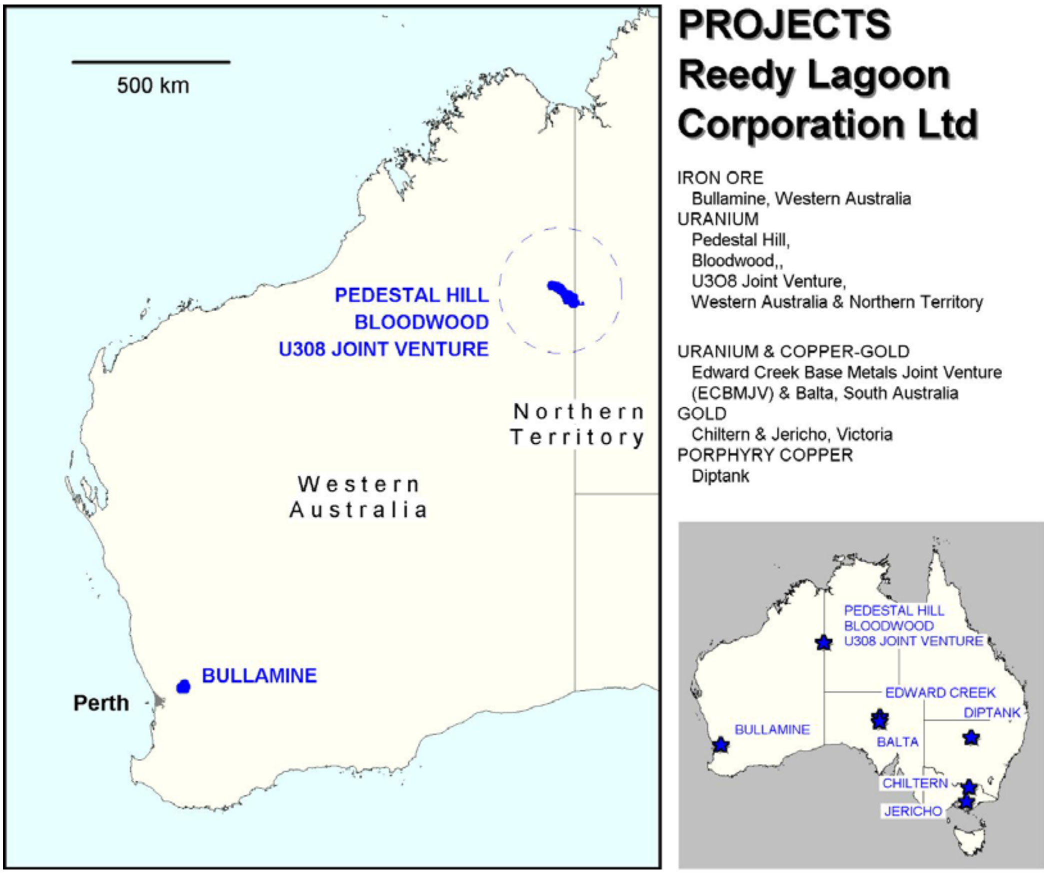
REEDY LAGOON CORPORATION LTD

A.C.N. 006 639 514

ANNUAL REPORT AND FINANCIAL REPORT FOR THE YEAR ENDED 30 JUNE 2006



- Iron – magnetite mineralization (Bullamine project)
- Uranium (Pedestal Hill)
- Copper-uranium-gold (Edward Creek Base Metals Joint Venture)
- Sediment hosted sulfide-gold mineralization (Chiltern gold project)
- Hydrothermal gold mineralization (Jericho gold project)
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Hugh Rutter (executive)
Andrew Watson (non-executive)

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ANNUAL GENERAL MEETING

The Company's 2006 Annual General Meeting will be held at the Company's office
Suite 2, 337A Lennox Street
Richmond, Victoria

On Tuesday 3rd April, 2007
Commencing at 10.00 am

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During the twentieth Annual Report period RLC has:

- Commenced the Bullamine iron ore project in Western Australia through tenement application.
- Entered into the Bulla Joint Venture to expand the Bullamine project.
- Lodged a tenement application for ground to secure the Pedestal Hill uranium project located in the Northern Territory and commenced the process of negotiating consent to the grant of the licence from the Aboriginal owners of the land.
- Completed a share placement in April 2006 which raised $517,000 working capital to fund the costs associated with preparing for an Initial Public Offer (IPO) and to fund ongoing development of the Company's projects.

Drilling campaigns at 5 projects (Chiltern, Diptank, ECBMJV, Edward Creek Diamonds and Jericho) were postponed due to a number of issues including: access and clearance issues, lack of available drill contractors and / or lack of funds.

At 30th June 2006 the Company held majority interests in 6 projects targeting iron, gold, copper, diamonds, and uranium and held a 20% interest in the Edward Creek Base Metals joint venture (ECBMJV) exploring for copper-gold-uranium under RLC's management.

Reedy Lagoon is well advanced in its strategy to discover economic mineralization at its range of projects. Substantial evidence in the form of surface mineralization and remote sensing (geophysical) data support the planned work and the potential for the projects to include significant deposits.

By the end of the report period the Company was well advanced in its preparation for an IPO to seek $4.5m to fund its ongoing exploration. However, the capital markets slumped in the months following the start of the 2006/07 year causing the Company to delay its planned IPO.

Recently the Company has embarked on a strategy to develop and restructure its projects with emphasis on iron and uranium. Proposed developments include transferring its diamond interests into a separate company to be owned by RLC shareholders, consolidating the Company's issued capital and issuing 2.5m shares by private placement at $0.20 per share to raise $500,000. Other planned developments, which are subject to listing on ASX, include issuing 4m RLC shares to Washington Resources Limited in exchange for Washington's iron rights under the Bulla JV, issuing 2m shares to Elsinore Nominees Pty Ltd in exchange for a 90% interest in the U3O8 Joint Venture and issuing 2.6m shares and 2.6m options in exchange for a 42% interest in the ECBMJV.

Iron Exploration

Bullamine Project **IRON (Western Australia)**

The Bullamine project is an investigation into the opportunities for developing iron mining operations in the south west part of Western Australia, 70 kilometres east of Perth. The project remains the project most likely to deliver the earliest opportunity to commence commercial production.

Iron resources identified by WMC in the 1970s are being investigated with a view to identifying economic iron minerals. During the report period preliminary road cutting inspections confirmed the presence of magnetite and hematite and proprietary geophysical survey data were purchased. Planned work includes reviewing available data, including processing and interpreting the recently purchased

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geophysical survey data, negotiating access agreements with land owners and conducting ground investigations.

Most of the project area is owned by private land owners with whom RLC must reach agreement before any exploration or mining can take place. Work is continuing to build the database of land owners.

Iron production from the south west region of Western Australia is currently expanding rapidly with several new projects coming into production. RLC's Bullamine project area is well located with excellent infrastructure including road and rail links to Fremantle Ports' Kwinana facilities - one of Australia's major bulk cargo ports.

The Bullamine project will benefit from its proximity to the Kwinana port facilities and relatively small scale of operations. Should RLC succeed in identifying and gaining the necessary approvals to mine any economic iron mineralization then capital requirements are expected to be low and development time short.

Preliminary investigations indicate the Bullamine project area contains ironstone units with total strike length of over 35 kilometres. Former WMC General Manager Exploration, Jim Lalor, was involved in work conducted by WMC in the 1970s and is advising on the project. RLC's objective is to identify ironstone units which can be mined by open pit methods. RLC aims to establish viability for annual production of 1 mt iron concentrates.

The Bullamine project area includes EL 70/2846 (100% RLC) and a joint venture with Washington Resources Limited in respect of ELA's 70/2719 & 2720 (the "Bulla JV"). The Bulla JV provides RLC with the right to earn 80% interest in any iron resources identified by RLC within ELA's 70/2719 & 2720 for which mining rights are obtained. That agreement has now been upgraded to provide for Reedy Lagoon to acquire 100% of the rights to iron ore resources, on the day Reedy Lagoon's shares are listed on the ASX. Consideration for the acquisition will be the issue of 4m shares by RLC to Washington.

Gold Exploration

Chiltern Project **GOLD (Victoria)**

During the report period IP lines surveyed in 1994 at the Caledonian Prospect were reinstated in preparation for repeat and adjacent IP survey lines and drilling.

Work programmes which encompass geophysical survey and drilling have been approved and registered. The planned exploration is in environmentally sensitive areas which require thorough assessment and a more rigorous consent process than is generally applicable.

A proposal to drill the Caledonian prospect in the May-June 2006 period was precluded by the requirement that the environmental surveys, which must be completed prior to any activities such as drilling, could not be conducted until spring. These surveys were conducted in November 2006, however the results have not yet been received.

The Chiltern Gold project is an advanced stage exploration project. More than $1,200,000 has been invested by the Company and its past joint venture partners in developing the exploration data base for

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this project. Access, which has not been available since 1996, was regained in 2005. The planned drilling at this project has potential to discover a new style of gold mineralization in a gold field which has produced significant alluvial gold and which is controlled by the Company.

Drill holes are planned to test for gold mineralization associated with sulphide enriched zones interpreted from geophysical survey data (Induced Polarisation or "IP" data). These targets are adjacent to an area where abundant gold bearing sandstone nodules have been found. RLC believes these gold bearing nodules, together with most of the alluvial gold mined from the Chiltern Goldfield, are detritus eroded from undetected, probably sulphide enriched, source rocks.

The exploration objective at Chiltern is to discover primary gold mineralization and whether or not gold mineralization at Chiltern can be detected by IP surveys. If such a relationship is proven then RLC will have discovered a method to explore the Chiltern Goldfield for significant buried primary gold deposits.

The Project covers most of the Chiltern Goldfield located in northern Victoria near Albury. The goldfield has produced 31,000 kg (1 million 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 237 square kilometres. RLC holds 100% equity in the three tenements through its wholly owned subsidiary, Osprey Gold Pty Ltd. Providence Gold and Minerals Pty Ltd ("PGM"), the previous holder of EL 3376, is entitled to a 1.75% gross production royalty with respect to any future production from EL 3376.

Poole River Prospect - Jericho Project **GOLD (Victoria)**

An application for approval to conduct drilling at the Poole prospect during the March quarter was not processed by the Department of Primary Industries. Seasonal closure of the project area on 1 May prevented any drilling being conducted during the period.

Drilling is planned to extend diamond hole PD-01 to investigate a fault zone adjacent to and below the steeply dipping lens of pyrrhotite rich siltstones intersected in PD-01. PD-01 is cased to 59.7 m and capped to enable re-entry.

PD-01 did not reach the eastern margin of the magnetic anomaly. The lower side of the pyrrhotite rich interval is interpreted to intersect with and form the hanging wall for, the Enoch's Point Thrust Zone. Such a zone may present an environment in which gold and other minerals may have precipitated from solutions traversing along the thrust zone. The prospectivity of this faulted "footwall" zone remains untested and is the current drill target at this prospect.

The Poole River Prospect is part of the Jericho Project (EL 3208) located 160 km east from Melbourne and within the Woods Point - Walhalla Goldfield. The goldfield is renowned for its high-grade structurally

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controlled gold deposits, but also contains copper-nickel sulphide mineralization rich in precious metals (platinum, palladium and gold).

Victor Gold Prospect **- Jericho Project GOLD (Victoria)**

No work was conducted at the Victor Prospect during the period. Two diamond holes are planned, each to a down hole depth of 375 metres.

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 Cohen's Reef Mine, located within the same goldfield, which produced more than 1.4 million oz of gold and is now being investigated by Goldstar Resources NL.

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 and access for exploration is restricted to the period commencing 1 November and ending 30 April.

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

Copper – Gold Exploration.

Edward Creek Base Metal Joint Venture ("ECBMJV") **COPPER – GOLD - URANIUM**
(South Australia) RLC 20% free carried
(see also Edward Creek Diamonds)

During the report period drill targets at the Herakleion and Santorini Iron-Oxide Copper-Gold ("IOCG") targets were identified and heritage surveys cleared two sites for drilling.

A drill contractor initially scheduled to commence at Herakleion in February 2006 was unable to commence until after the report period in August 2006.

The Herakleion target is defined by a gravity anomaly measuring 6 km x 3 km whilst the Santorini gravity anomaly measures 3 km in the horizontal plane. The exploration objective at Herakleion and Santorini is to determine whether or not the identified gravity anomalies are caused by rocks associated with Iron-oxide copper-gold ("IOCG") mineralization of the Olympic Dam type.

Following the end of the report period two diamond holes were drilled at Herakleion in August / September 2006 as follows:
Target Area 1 – HD-04 diamond cored from surface to 934.1 m;
Target Area 2 – extension to HD-03 from 612.4 m to 771 m (HD-03A).

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Basement rocks intersected from a depth of 669.3 metres in HD-04 were interpreted by petrological examination to probably be either Palaeoproterozoic or Mesoproterozoic in age and therefore potentially prospective for Olympic Dam style mineralization. However, no Olympic Dam style mineralization or alteration was identified in the core and samples assayed are not anomalous in copper nor any of the elements which characterise Olympic Dam style mineralization.

Preparations for drilling at the Santorini gravity anomaly, located 7.5 km south of the HD-04 site, including heritage survey clearance, have been completed and a drill contractor had been booked to commence at Santorini in March/April 2007 in the event the joint venture partners elect to proceed. Further work at this project is subject to review.

Uranium anomalies identified in airborne survey radiometric data were ground inspected during August and September 2006. Further exploration is planned to investigate areas where uranium, mobilized from source rocks, might accumulate. Potential sites of deposition and concentration of mobilized uranium include unconformities and buried river channels.

The Edward Creek Base Metals Project is located 750 km NNW from Adelaide in South Australia. It is approximately 250 km north west from the Olympic Dam mine and 150 km north east from Prominent Hill. The Edward Creek Base Metals Project area is secured by EL 3250 and covers an area of 440 square kilometres.

The Edward Creek Base Metals project is joint ventured with the following parties:

ECBM JV Operator:	Reedy Lagoon Corporation Limited 20% free carried to Bankable Feasibility Study completion
Other participants in ECBM JV:	21% Eromanga Hydrocarbons Limited 17% Redport Limited 21% Jagen Pty Ltd 21% Sked Pty Ltd

The other parties in the joint venture are sole funding exploration and quarterly cash payments to RLC of $30,000. The cash payments are payable to RLC whilst the other parties elect to remain in the joint venture. The quarterly cash payment which would otherwise have been due during the report period were postponed until the commencement of drilling at Nilpinna. The shortage of drill contractors and the requirement for 1,000 metre depth capacity resulted in commencement of the drilling not being possible until 17 August 2006.

During December 2006 agreement was reached with the joint venture partners to facilitate RLC purchasing a 42% interest in the ECBMJV, thus increasing RLC's total interest to 62%. The agreement provides for RLC to issue 2.6m shares and 2.6m options to Jagen and Sked in exchange for their combined 42% interest in the ECBMJV and is subject to RLC shares being listed on ASX.

Diptank Joint Venture **COPPER – GOLD (New South Wales)** **RLC 85 %**

Drilling is planned to test a zone of demagnetized rocks, which includes a large (2.5 kilometre diameter) magnetic anomaly, to determine the potential for copper-gold mineralization. Lack of funding prevented drilling at this project during the report period.

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The Diptank target is supported by elevated lead, copper, arsenic and gold concentrations in rocks located less than 5 kilometres from the central feature. RLC interprets the presence of these features to support the thesis that intruded igneous rocks have contributed to the formation of the magnetic anomaly and provided a framework for subsequent mineralizing events with the potential to form large scale economic accumulations of copper and/or gold. Endeavour, Cadia and Kidston are examples of mines formed by such processes.

Regional exploration for base metals mineralization was conducted in the 1970s by North Broken Hill Limited (”NBH”) in the Bourke area, including the area around Diptank. 4,354 rock samples were collected. The geologist who conducted this sampling subsequently initiated the Diptank project in 2004 when he observed the magnetic feature adjacent to the sites from which rocks he had collected 25 years earlier had reported elevated lead and copper.

The Department of Mineral Resources (“DMR”) re-analysed 934 of the sample pulps retained from the NBH samples. Gold and 17 other elements were assayed. Gold (1.2 g/t) was recovered from one of the samples adjacent to the central Diptank magnetic anomaly.

Several large copper-gold mines located in Eastern Australia have been found in areas which have been altered by hot mineralizing solutions. Pathways for such mineralizing solutions are usually related to faults and often further focussed by large eruption sites where volcanic rocks have been emplaced. Notable mines of these styles include Endeavour (270 kilometres to the south east), Cadia (370 kilometres to the southeast) and Kidston (260 kilometres south west from Cairns, in Queensland).

A feature of these styles of mineralizing systems is the weathering which results from the alteration of the host rocks when they are heated during the mineralizing events. This heating can reduce the magnetic properties of rocks – “demagnetizing” them, and it can make them more prone to erosion than their more distant counterparts which were not heated to the same extent.

The Diptank target is located within a demagnetized zone of faulting. Whilst the area surrounding the target has outcropping basement, the target itself is in a depression which has been buried by alluvium. RLC considers these factors are consistent with a heating event which might have accompanied a large scale mineralizing event.

The Diptank project covers an area of 14.7 square kilometres about 100 kilometres to the south east from the township of Bourke in northern central New South Wales.

Exploration is being funded by RLC. Under the terms of the Diptank Joint Venture (“Diptank JV”) RLC holds an 85% interest in all minerals subject to it funding its joint venture partner’s share of exploration expenditure and paying to the joint venture partner a fee of $10,000 per quarter.

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Diamond Exploration

Edward Creek Project **(including Edward Creek & Balta prospects) RLC 100%**

(see also Edward Creek Base Metals)

A heritage survey was conducted over potential kimberlite target WK-60 and clearance for drilling was obtained. No additional ground exploration was undertaken at any of the potential kimberlite targets identified during previous periods.

Edward Creek Diamonds is an advanced stage exploration project. The modern exploration for diamonds in the region was initiated by Ashton Mining Limited in the late 1970's. Subsequent work in the area by De Beers in the 1980's established an extensive database. In one of its final tenement reports to the South Australian Mines Department De Beers reports that the spread of kimberlitic indicator minerals reflects a significant episode of kimberlite magmatism in the region. De Beers abandoned the area however, without identifying kimberlite leaving the opportunity for a more persistent explorer to build on the database it had established and perhaps succeed in discovering the first kimberlite and thereby a new potential diamond province in Australia.

Exploration to date has identified abundant Diamond Indicator Minerals ("DIMs") which strongly supports the interpreted 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.

High priority drill targets established during prior report periods include WK16, WK57, WK58, WK59, WK60 and the "Gauntlet" (WK20).

The Gauntlet is a shallow crater measuring 1,000 metres in diameter located 3 km from the Diamond Sites. Drilling conducted in previous periods at the Gauntlet has recovered chromian 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 due to the deep chemical weathering which is a feature of the region.

Drilling at WK57 in 2003 intersected a clay, interpreted to be a weathered rock, containing numerous DIMs. These DIMs comprise mainly "possibly kimberlitic chromian spinel" and rare picroilmenite. This clay may be derived from a sill or a tuff related to a kimberlite intrusion and may prove to be a key to identifying the first kimberlite in the area. WK57 is located within 4 km of sites from which diamonds have previously been recovered from bulk samples ("Diamond Sites").

Pyrope garnet and "possibly kimberlitic chromian spinel" have been identified in surface sampling at WK58 and WK59, with picroilmenite noticeable in its absence. These two targets are 300 m apart and each have circular photo features of about 500 m in diameter (20 hectares). Gravity anomalies coincident with the photo-features are evident in data from a single traverse over the anomalies. They are located approximately 6 km from WK57. Importantly, whilst abundant picroilmenite grains are

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known in the vicinity of WK57, none was recovered from the WK58 and WK59 samples. The DIMs recovered from the WK58/59 area and the WK57 area are therefore likely to be sourced from separate kimberlites, one containing picroilmenite and one in which picroilmenite is rare or absent. Such differentiation provides further evidence supporting management's interpretation that kimberlites are in close proximity to the respective sample locations.

RLC's objective at Edward Creek is to discover the first kimberlite and thereby establish a new diamond province.

Factors of importance at Edward Creek include :

- DIM distributions and high numbers of grains establish high probability that a significant episode of kimberlite magmatism exists in the region.
- 9 macro diamonds suggest that at least one of the kimberlites is diamond bearing.
- Distribution of DIMs indicates a post Permian age for the kimberlites.
- Presence of Jurassic aged sediments in the area means that a post Permian aged kimberlite would have been exposed to vertical erosion for a relatively short interval of time (about 80 million years) - which means that such kimberlites can be expected to be relatively well preserved – at least in size, which is a positive attribute for their potential diamond bearing capacity.
- Presence of Jurassic aged and younger sediments in the area means that post Permian aged kimberlites may be covered and concealed by younger sediments – contributing to the difficulty in locating them using DIM trails. Depths of burial are generally shallow - less than 100 metres, but sufficient to limit dispersion of DIM grains.
- Extensive and pervasive chemical weathering which is likely to have destroyed DIMs – thereby greatly reducing the number of and types of DIMs recoverable from surface sampling and affecting their distribution.

Factors which are being exploited by RLC which were not available to the previous explorers include:

- Greater computer processing capacity which enables RLC to gain more information from geophysical datasets than was previously possible. Sophisticated data processing can enhance subdued signals associated with un-eroded and extensively chemically weathered kimberlites..
- Gravity survey has become cost effective. The development of the global positioning system ("GPS") has removed the requirement for costly survey work previously required for ground gravity surveys. As a consequence gravity data now provide an additional parameter for target delineation which was not exploited by previous workers and two of the current potential kimberlite targets are associated with gravity lows.
- Effects of chemical weathering on the surface distributions of DIMs are now better understood.
- Chromian spinel ("chromite") has become an important DIM but was poorly understood prior to RLC gaining control of the area.

Airborne EM surveys are planned in the areas of the existing targets to identify additional targets for drilling and to assist in prioritizing the existing drill targets. Two drill rigs are potentially available for this project. If deep diamond drilling proceeds at the ECBMJV in March/April 2007 the rig used will be available to drill the deep mud hole planned at the Gauntlet diamond target.

The Edward Creek Diamond Project is located 750 km NNW from Adelaide in South Australia. The Project area is secured by EL 3250 and EL 3505 and covers an area of 590 square kilometres.

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Uranium Exploration:

Edward Creek Base Metal Joint Venture ("ECBMJV") **COPPER – GOLD - URANIUM**

(South Australia) **RLC 20% free carried**

(see also Edward Creek Gold/Copper and Diamonds)

During the report period and subsequent to June 2006 RLC has undertaken a continuing review of the project area and identified potential for unconformity-related and roll-front styles of uranium mineralization.

Anomalous mineralization (best assay: 45 ppm uranium with associated copper) has been identified in surface rock chip samples recovered in the September quarter from the War Loan South (A1) target area. Further investigation is warranted although high grade copper mineralization, associated with narrow veins, is known at sites located a few kilometres to the north and south (within EL 3250) and the presence of manganese may indicate secondary enrichment processes are responsible for the results.

Subsequent to the end of the report period applications for two additional tenements were made. ELA 355 (84 sq km) and an application in the Weedina area (244 sq km).

New Project

Pedestal Hill **- URANIUM (Northern Territory) RLC 100%**

The Pedestal Hill project will explore for uranium. Anomalous uranium levels have been identified within the project area.

The geological setting of the Pedestal Hill project has similarities with the Ngalia Basin located 300 kilometres to the south east and which contains the Bigrlyi uranium deposit - the main project of ASX listed Energy Metals Limited.

In addition to uranium the area is also prospective for other commodities, including gold.

Application for a tenement covering 272 square kilometres was made during the report period. Subsequent to the end of the report period RLC has :-

- been granted the right to negotiate for consent from the Aboriginal land owners for the grant of an exploration licence (EL 24885). These negotiations are expected to take between 2 and 3 years; and
- applied for an additional tenement on the WA side of the border, covering 644 sq km, and adjacent to the Prospect Hill site; and
- reached agreement to joint venture with Elsinore Nominees Pty Ltd to seek uranium opportunities in some 30,000 sq km surrounding the project. Under the terms of the JV RLC will sole fund exploration and hold a 90% interest in 3 Elsinore tenement applications, covering 678 sq km adjacent to RLC's application and the Prospect Hill site.

Capital Raising Endeavours

A strategy to raise working capital and to list the Company on the Australian Stock Exchange was progressed during the report period. The first stage of the strategy involved raising private seed capital with the aim to prepare the Company for an IPO in March 2006. This was partially successful in that

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$517,000 seed capital was raised by the issue of 4,136,000 shares at an issue price of $0.125 each to subscribers. However, the placement, which was initiated with the lodgement of an Offer Information Statement lodged with ASIC on 1 July 2005, was not completed until the end of April 2006 – some ten months later.

RLC's capacity to raise its seed capital was greatly increased by the contribution and participation of Greg Hancock, a Perth based resources company specialist and former stockbroker. The completion of the seed capital raising coincided with buoyant market conditions for small resource companies which peaked in May 2006.

By the end of the report period a prospectus document was near completion and stockbroker roadshows were commenced in July 2006.

Following the end of the report period, market conditions for an IPO seeking capital to fund exploration, as opposed to mine development, were not conducive. RLC and the several stock broking firms which had completed assessments of the company, its prospects and its draft prospectus, were not able to identify the support necessary to ensure a successful IPO launch and completion in the September 2006 Quarter.

Despite the disappointment and frustration of the months following the end of the report period, and setting aside the achievement of a large number of people who contributed enormously to preparing the Company for its planned 2006 IPO, some significant advances were made during the report period. These include:

- establishing and advancing the Bullamine iron project. The project differs from our other projects in that the commodity sought is visible and, provided access agreements can be reached, likely to be amenable to rapid assessment of economic parameters. In addition, should economic mineralization be identified it is probable that it would be minable at a scale which the Company could expect to get into production very rapidly and in time to benefit from the prevailing high demand and price for iron ore.
- identifying basement rocks at the Herakleion copper-gold-uranium target in the drilling scheduled for the period – but conducted after the end of the period. This discovery establishes the presence of rocks old enough to host the target "Olympic Dam" style mineralization and therefore adds further support for the potential for such prospective rocks to be present at the Santorini gravity target located to the south of Herakleion.

In early 2007 the Company commenced working towards an IPO in April 2007.

Support and concluding remarks

Debt funding was provided to the Company by director related companies. Companies controlled by Directors provided geological, geophysical and office services during the period for which invoices totalling $80,221 were raised of which $70,939 have been converted to director related loans which are non interest bearing and are subordinated to all other creditors. Director related companies also provided cash loans to the Company with net movement over the report period of $17,302 to the Company. These loans are not interest bearing and are subordinated to all other creditors.

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Mallesons has maintained its support for the Company by continuing to provide services and not seeking payment at this stage for its past legal work in relation to the 2002 prospectus ($172,076.30). Payment of this amount will be made out of proceeds of the proposed IPO together with payment for work currently being undertaken for the Company.

On behalf of all shareholders, the Board expresses its appreciation to Mr Adrian Wischer who resigned as a director following the end of the report period in July 2006. Adrian is a founding director of RLC and served the Company since September 1986. His resignation facilitates the planned appointments of two new directors: Jonathan Hamer and Philip Lewis, who will join the Board in the event that the Company is listed.

In concluding this review of Reedy Lagoon's activities, the Company controls significant exploration projects encompassing a range of commodities – which now include gold, diamonds, copper, iron and uranium. Any exploration success may hold potential to deliver substantial rewards to RLC's shareholders and joint venture partners.

Several shareholders, together with our joint venture partners, have provided support to management. Directors are grateful for this support and will continue to do all they can to ensure that efficient exploration is conducted and that any resultant exploration success is harnessed to provide opportunities for shareholders and joint venture partners to be rewarded.

Geof H Fethers
Managing Director

TENEMENT SCHEDULE

Tenements owned directly by Reedy Lagoon Corporation and its wholly owned subsidiary Osprey Gold Pty Ltd

Tenement	Area (km^2)	Status	Minimum Expenditure $	RLC Group Equity
Western Australian Tenements				
ELA 70/2719 Bulla JV *Bullamine project*	137	Application	12,500	50% (4)
ELA 70/2720 Bulla JV *Bullamine project*	149	Application	12,500	50% (4)
EL 70/2846 *Bullamine project*	47	Current	20,000	100%
ELA 80/3860 *Bloodwood*	644	Application	TBD	100%
South Australian Tenements				
EL 3250 *Edward Creek project*	440	Current	150,000	100% (1)
EL 3505 *Edward Creek project*	150	Current	90,000	100%
ELA 355 *Edward Creek project*	84	Application	TBD	100% (1)
ELA Weedima area *Edward Creek project*	244	Application	TBD	100% (1)
Victorian Tenements				
EL 3208 *Jericho Project*	20	Current	21,000	100%
EL 3032 *Chiltern project*	98.5	Current	48,600	100%
EL 3281 *Chiltern project*	10	Current	20,400	100%
EL 3376 *Chiltern project*	138	Current	56,700	100% (2)
New South Wales Tenements				
EL6202 *Diptank project*	15	Current	17,000	nil (3)
Northern Territory				
EL 24885 *Pedestal Hill project*	250	Application	TBD	100%

1. *EL 3250 is subject to a joint venture agreement, the Edward Creek Base Metals Joint Venture ("ECBMJV") which reduces RLC's interest in base metal and gold resources within the tenement to 20%. RLC is the manager of the ECBMJV and RLC's share of exploration expenditure until completion of a bankable feasibility study is paid by the joint venture parties. In addition RLC receives cash payments of $30,000 per quarter.*

2. *EL 3376 is subject to an agreement with Providence Gold & Minerals ("PGM") which entitles PGM to a payment calculated by multiplying the achieved sale price of any minerals produced from EL 3376 by 1.75% (gross production royalty).*

3. *EL 6202 is subject to a joint venture agreement, the Diptank Joint Venture, which provides RLC the opportunity to hold an 85% interest in all mineral resources within the tenement by sole funding exploration expenditure and making cash payments of $10,000 per quarter commencing 1 July 2005.*

4. *ELA 70/2719 & ELA 70/2720 are subject a joint venture agreement, the Bulla Joint Venture, which provides RLC with a 50% interest in iron resources within the two tenements and the opportunity to increase its interest to 80% by funding $250,000 exploration expenditure.*

The minimum expenditure 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 and its wholly owned subsidiary for the year ended 30 June 2006 and the auditor's report thereon.

1. DIRECTORS and SECRETARY

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 49, 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 Pty Ltd., 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 64, is a consulting geophysicist with more than 30 years experience in the exploration and mining industry. He is a founding director of Osprey Gold Pty Ltd and is a past President and Honorary member of the Australian Society of Exploration Geophysicists and a member of the Australian Institute of Geoscience. Director of the Company since August 2000.

Andrew C. D. Watson, Dip. Farm Manag.
Non-Executive Director
Andrew Watson, aged 51 is an agriculturalist with interests in private earth moving businesses. Director of the Company since November 2000.

Adrian D. Wisher, B.Econ..M.A.I.M.
Non-Executive Director
Adrian Wischer, aged 49, is a private equity investor, an experienced manager and company director. He is a director of National Golf Holdings Ltd, a Fellow of A.I.C.D. and an Associate Fellow of A.I.M. A Director of the Company since 1986 , Mr Wisher resigned as a director of the Company on 14 July 2006 for personal reasons.

Dermot G. Coleman, B.A., LLB.,
Company Secretary
Dermot Coleman, aged 63, has been employed in the minerals industry for 25 years and was a director and company secretary of De Beers Australia Exploration Limited for more than 15 years until 2001. He has extensive working experience with Native Title and land rights issues and was a councillor of the Association of Mining and Exploration Companies until 31 March 2005. Company Secretary since March 2002.

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 2006, and the number of meetings attended by each director.

	A	B
G. H. Fethers	5	5
H. Rutter	5	5
A. C. D. Watson	5	5
A. D. Wischer	4	5

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 activities of the consolidated entity during the course of the financial year were the 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 Economic Entity after income tax for the year was $321,031 (2005: loss $ 53,265). Further commentary on the operations of the company during the year is included in the Annual Review on pages 2 to 12 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:

- the issue of 4,136,000 ordinary shares at $0.125 per share during the year for $517,000 cash to provide additional working capital.

7. ENVIRONMENTAL REGULATION

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

DIRECTORS' REPORT

In addition, the Company is a member of the Minerals Council of Australia ("MCA") and a signatory to "Enduring Value". The purpose of "Enduring Value" is to assist companies to contribute to the growth and prosperity of current and future generations.

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

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 proposes to undertake a restructure, raise additional capital and seek listing on the ASX. To that end a general meeting of shareholders has been called to seek approval of:-

- a share consolidation to reduce the number of shares on issue to approximately 17.5 million; and
- the terms associated with several new conditional agreements entered into during January and February 2007, including :
  - ❑ Agreement to issue 2,500,000 shares for $0.20 per share ($500,000), conditional on the completion of the share consolidation;
  - ❑ Agreement with Elsinore Nominees Pty Ltd for the issue of 2,000,000 shares in exchange for a 90% interest in the U3O8 Joint Venture which includes three tenement applications, conditional on RLC's shares being listed on ASX;
  - ❑ Agreement with Washington Resources Limited (WRL) for the issue of 4,000,000 shares in exchange for the Bulla Joint Venture iron interests held by WRL, conditional on RLC's shares being listed on ASX;
  - ❑ Agreement with the EBCM joint venture parties for the issue of 2,600,000 shares and 2,600,000 options in exchange for a 42% interest in the ECBMJV, conditional on RLC's shares being listed on ASX

Subject to shareholder approval of the above RLC intends to then lodge a prospectus during April 2007 for an offer of 20,000,000 shares in RLC at an issue price of $0.20 per share to raise $4 million.

10. DIRECTORS' EMOLUMENTS

None of the directors of the Company have received emoluments during the financial year. However 1,200,000 options to purchase shares with an expiry date of 31 December 2008 were granted to directors on 2 February 2006, in accordance with a resolution passed at the Company's Annual General meeting in November 2005. The exercise price of each option is $0.50, which is significantly above the last share issue price of $0.125. Based on a Cox Ross Rubensterin binomial options pricing model, using 12.5 cents as the current share price and a volatility range 0f 20% - 50%, the options had no value at the time of issue.

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:

	Number of Options Granted	Exercise Price	Expiry Date
Mr G .H. Fethers [1]	500,000	$0.50	31 December 2008
Mr H. Rutter [1]	500,000	$0.50	31 December 2008
Mr A. Watson [1]	100,000	$0.50	31 December 2008
Mr A. Wischer [1]	100,000	$0.50	31 December 2008
Mr D. Coleman [2]	100,000	$0.50	31 December 2008
Mrs N J Lalor	100,000	$0.50	31 December 2008

[1] Director

[2] Secretary

During or since the end of the financial year, the following options over unissued ordinary shares expired unexercised:

Expiry date	*Exercise price*	*Number of Shares*
30 November 2006	$0.30	333,333
31 December 2006	$0.50	1,200,000

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

Expiry date	*Exercise price*	*Number of Shares*
31 December 2007	$0.50	1,300,000
31 December 2008	$0.50	1,400,000

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	8,001	10,543,001	1,000,000
H. Rutter	150,001	1,000,000	1,000,000
A.C.D. Watson	-	3,140,000	200,000

DIRECTORS' REPORT

12. DIRECTORS' INTERESTS (CONTINUED)

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 and Geophysical Exploration Consultants Pty Ltd, of which G.H. Fethers and H. Rutter respectively are directors and shareholders.
- 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 18 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 and insurance contracts for year ended 30 June 2006 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 2007.

Signed in accordance with a resolution of the directors.

G.H. FETHERS
DIRECTOR

Dated at Melbourne this 27th day of February 2007.

AUDITOR'S INDEPENDENCE DECLARATION

UNDER SECTION 307C OF THE CORPORATIONS ACT 2001
TO THE DIRECTORS OF REEDY LAGOON CORPORATION LIMITED

I declare that, to the best of my knowledge and belief, during the year ended 30 June 2006 there have been:

i. no contraventions of the auditor's independence requirements as set out in the *Corporations Act 2001* in relation to the audit; and

ii. no contraventions of any applicable code of professional conduct in relation to the audit.

NEXIA ASR
ABN 16 847 721 257

George S Dakis
Partner

Melbourne
27 February 2007

INCOME STATEMENT
FOR THE YEAR ENDED 30 JUNE 2006

		Economic Entity		Parent Entity	
	Note	**2006**	**2005**	**2006**	**2005**
		$	**$**	**$**	**$**
Other revenue from ordinary activities	3	8,991	62,378	8,991	62,378
Total revenue		8,991	62,378	8,991	62,378
Expenses related to ordinary activities					
Administration expense		(50,742)	(49,085)	(50,742)	(49,085)
Exploration expenditure	4	(92,462)	(51,258)	(92,462)	(51,258)
Other expenses from ordinary activities		(154,722)	(5,300)	(154,722)	(5,300)
Prospectus costs		(28,596)	-	(28,596)	-
Audit and accounting fees	5	(3,500)	(10,500)	(3,500)	(10,500)
Profit/(Loss) from ordinary activities before related income tax expense		(321,031)	(53,265)	(321,031)	(53,265)
Income tax expense relating to ordinary activities	6(a)	-	-	-	-
Profit/(loss) attributable to members of the parent entity		(321,031)	(53,265)	(321,031)	(53,265)

The accompanying notes form part of these financial statements.

BALANCE SHEET
AS AT 30 JUNE 2006

		Economic Entity		Parent Entity	
	Note	2006	2005	2006	2005
		$	$	$	$
ASSETS					
Current Assets					
Cash and cash equivalents	8	457,490	59,344	457,490	59,344
Trade and other receivables	9	6,534	422	6,534	422
Total Current Assets		464,024	59,766	464,024	59,766
Total Assets		464,024	59,766	464,024	59,766
LIABILITIES					
Current Liabilities					
Trade and other payables	10	125,629	5,500	125,629	5,500
Total Current Liabilities		125,629	5,500	125,629	5,500
Non Current Liabilities					
Non-current borrowings	11	648,418	560,258	463,995	375,835
Total Non Current Liabilities		648,418	560,258	463,995	375,873
Total Liabilities		774,047	565,758	589,624	382,373
Net Asset (Deficiency)		**(310,023)**	**(505,992)**	**(125,600)**	**(321,569)**
Equity					
Issued capital	12	7,768,957	7,251,957	7,768,957	7,251,907
Retained earnings	13	(8,078,980)	(7,757,949)	(7,894,557)	(7,573,526)
Total Equity/(deficiency)	14	**(310,023)**	**(505,992)**	**(125,600)**	**(321,569)**

The accompanying notes form part of these financial statements.

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE 2006

	$ Ordinary shares fully paid	$ Retained earnings	$ Total equity
Economic entity			
Balance at 1.07.2004	7,201,957	(7,704,684)	(502,727)
Profit attributable to members of parent entity	-	(53,265)	(53,265)
Shares issued during the year	50,000	-	50,000
Balance at 30.6.2005	7,251,957	(7,757,949)	(505,992)
Profit attributable to members of parent entity		(321,031)	(321,031)
Shares issued during the year	517,000	-	517,000
Balance at 30.6.2006	7,768,957	(8,078,980)	(310,023)
Parent Entity			
Balance at 1.07.2004	7,201,957	(7,520,261)	(502,727)
Profit attributable to members of parent entity	-	(53,265)	(53,265)
Shares issued during the year	50,000	-	50,000
Balance at 30.6.2005	7,251,957	(7,573,526)	(505,992)
Profit attributable to members of parent entity	-	(321,031)	(321,031)
Shares issued during the year	517,000	-	517,000
Balance at 30.6.2006	7,768,957	(7,894,557)	(125,600)

The accompanying notes form part of these financial statements.

CASH FLOW STATEMENT
FOR THE YEAR ENDED 30 JUNE 2006

		Economic Entity		Parent Entity	
	Note	2006	2005	2006	2005
		$	$	$	$
Cash flow from operating activities					
Cash receipts in the course of operations			60,000		60,000
Cash payments to suppliers and employees		(216,007)	(105,751)	(216,007)	(105,751)
Interest received		8,993	2,378	8,993	2,378
Net cash provided by/(used in) operating activities	15(b)	(207,014)	(43,373)	(207,014)	(43,373)
Cash flows from financing activities					
Proceeds from share issues		517,000	50,000	517,000	50,000
Repayment of loans		-	(88,000)	-	(88,000)
Proceeds from loans		88,160	73,341	88,160	73,341
Net cash provided by/(used in) financing activities		605,160	35,341	605,160	35,341
Net (decrease)/increase in cash held		398,146	(8,032)	398,146	(8,032)
Cash at beginning of year		59,344	67,376	59,344	67,376
Cash at end of year	15(a)	457,490	59,344	457,490	59,344

The accompanying notes form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YER ENDED 30 JUNE 2006

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

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.

Basis of Preparation

First-time Adoption of Australian Equivalents to International Financial Reporting Standards

Reedy Lagoon Pty Ltd and the controlled entities, and Reedy Lagoon Pty Ltd as an individual parent entity have prepared financial statements in accordance with the Australian equivalents to International Financial Reporting Standards (AIFRS) from 1 July 2005.

In accordance with the requirements of AASB 1: First-time Adoption of Australian Equivalents to International Financial Reporting Standards, adjustments to the parent entity and consolidated entity accounts resulting from the introduction of IFRS have been applied retrospectively to 2005 comparative figures excluding cases where optional exemptions available under AASB 1 have been applied. These consolidated accounts are the first financial statements of Reedy Lagoon Pty Ltd to be prepared in accordance with AIFRS.

The accounting policies set out below have been consistently applied to all years presented. The parent and consolidated entities have however elected to adopt the exemptions available under AASB 1 relating to AASB 132: Financial Instruments: Disclosure and Presentation, and AASB 139: Financial Instruments: Recognition and Measurement. Refer Note 23 for further details

Reconciliations of the transition from previous Australian GAAP to AIFRS have been included in Note 2 to this report.

Accounting policies

(a) Principles of Consolidation

The consolidated accounts comprise the accounts of Reedy Lagoon Corporation Limited and its controlled entities. A list of controlled entities is contained in Note 22 to the financial statements. All inter-company balances and transactions between entities in the economic entity, including any unrealised profits or losses, have been eliminated on consolidation. Where controlled entities have entered or left the economic entity during the year, their operating results have been included from the date control was obtained or until the date control ceased. Outside interests in the equity and results of the entities that are controlled are shown as a separate item in the consolidated financial report.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YER ENDED 30 JUNE 2006

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

(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 $321,031 during the year ended 30 June 2006 (2005 : $53,265), and as at that date the company's total liabilities exceeded current assets by $309,623 (2005: $321,569). The directors believe that the going concern basis is appropriate because the director related entities which 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. If required, working capital requirements are able to be met by relinquishing exploration tenements and accessing cash placed on term deposit.

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 recorded asset amounts or to the amounts and classification of liabilities that might be necessary should the entity not continue as a going concern.

(c) Income tax

The change for current income tax expenses is based on the profit for the year adjusted for the year adjusted for any non-assessable or disallowed items. It is calculated using tax rates that have been enacted or are substantively enacted by the balance sheet date.

Deferred tax is accounted for using the balance sheet liability method in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. No deferred income tax will be recognised from the initial recognition of an asset or liability, excluding a business combination, where there is no effect on accounting or taxable profit or loss.

Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realised or liability is settled. Deferred tax is credited in the income statement except where it relates to items that may be credited directly to equity, in which case the deferred tax is adjusted directly against equity.

Deferred income tax assets are recognised to the extent that it is probable that future tax profits will be available against which deductible temporary differences can be utilised.

The amount of benefits brought to account or which may be realised in the future is based on the assumption that no adverse change will occur in income taxation legislation and the anticipation that the economic entity will derive sufficient future assessable income to enable the benefit to be realised and comply with the conditions of deductibility imposed by the law.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YER ENDED 30 JUNE 2006

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

(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

Expenditure incurred on the acquisition of exploration properties and exploration, evaluation and development costs are written off as incurred 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 on-going 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.

(g) Other receivables

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YER ENDED 30 JUNE 2006

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

(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.

(k) Investments Controlled Entities

Investments in controlled entities are carried in the Company's financial statements at the lower of cost and recoverable amount.

(l) Comparative figures

When required by Accounting Standards, comparative figures have been adjusted to conform to changes in presentation for the current financial year.

(j) Critical accounting estimates and judgements

The directors evaluate estimates and judgments incorporated into the financial report based on historical knowledge and best available current information. Estimates assume a reasonable expectation of future events and are based on current trends and economic data, obtained both externally and within the group.

(k) Key judgements

The directors of the company do not believe the financial statements include any key judgements that require separate disclosure

2. FIRST TIME ADOPTION OF AUSTRALIAN EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS

On transition to AIFRS, there were no adjustments to equity or profit and loss between previous Australian GAAP and AIFRS.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YER ENDED 30 JUNE 2006

		Note	Economic Entity		Parent Entity	
			2006	**2005**	**2006**	**2005**
			$	**$**	**$**	**$**
3.	**REVENUE**					
	Other income:					
	- Interest – other parties		8,991	2,378	8,991	2,378
	- Joint Venture management fees			60,000		60,000
	Total other revenue		8,991	62,378	8,991	62,378
	Total revenue from ordinary activities		8,991	62,378	8,991	62,378
4.	**PROFIT/(LOSS) BEFORE INCOME TAX EXPENSE**					
	Loss from ordinary activities before income tax expense has been arrived at after charging the following items:					
a.	Expenses					
	Finance costs:					
	- external		-	-	-	-
	- related entities		-	-	-	-
	- other related entities		-	-	-	-
	Total finance costs		-	-	-	-
b.	Significant revenue and expenses					
	The following significant revenue and expense items are relevant in explaining the statement of financial performance					
	-Exploration expenditure		92,462	51,258	92,462	51,258
			92,462	51,258	92,462	51,258
5.	**AUDITORS' REMUNERATION**					
	Remuneration for the auditor of the parent entity for:					
	- auditing or reviewing the financial report		3,500	5,500	3,500	2,500
	- taxation and compliance services		5,000	5,000	5,000	5,000
	- other services		7,980	-	7,980	-

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YER ENDED 30 JUNE 2006

	Economic Entity		Parent Entity	
	2006	2005	2006	2005
	$	$	$	$
6. TAXATION				
(a) Income tax expense				
Prima facie income tax benefit calculated at 30% on the (loss) from ordinary activities	(96,309)	(15,980)	(96,309)	(15,980)
Increase/decrease in income tax expense				
Permanent differences	2,700	-	2,700	-
Other timing differences	27,995	(750)	27,995	(750)
Tax losses not carried forward as future income tax benefit	(59,315)	(16,730)	(59,315)	(16,730)
Income tax expense attributable to operating (loss)	-	-	-	-

(b) Deferred Tax Assets 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 probable:

Tax losses carried forward	847,207	787,992	580,697	521,382
Temporary differences	36,288	6,192	36,288	6,192
	883,495	794,187	616,985	527,576

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.

(c) Tax Consolidation

The directors have not yet resolved if the group entities will form a tax consolidated entity. In the event a tax consolidated entity is formed, with effect 1 July 2005, prior to lodgement of the 2006 income tax returns no changes to the taxation disclosures herein are expected because of the carry forward losses in the group and that these are not recognised a future income tax benefits.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YER ENDED 30 JUNE 2006

7. KEY MANAGEMENT PERSONNEL COMPENSATION

During the financial year none of the key management received any compensation with the exception being the issuing of the following options over the ordinary shares of the company:

	Number of Options Granted	Exercise Price	Expiry Date
Mr G .H. Fethers	500,000	$0.50	31 December 2008
Mr H. Rutter	500,000	$0.50	31 December 2008
Mr A. Watson	100,000	$0.50	31 December 2008
Mr A. Wischer	100,000	$0.50	31 December 2008
Mr D. Coleman	100,000	$0.50	31 December 2008

	Note	Economic Entity 2006 $	Economic Entity 2005 $	Parent Entity 2006 $	Parent Entity 2005 $
8. CASH AND CASH EQUIVALENTS IN HAND					
Cash at bank		13,635	9,344	13,635	9,344
Cash management account		373,855		373,855	
Term deposits		70,000	50,000	70,000	50,000
		457,490	59,344	457,490	59,344

The bank short term deposits mature within 60 days and pay interest at a weighted average interest rate of 4.5% at 30 June 2006. These deposits are held by the bank as a guarantee to Ministry of Energy and Resources.

Reconciliation of cash
Cash at the end of the financial year as shown in the cash flow statement is reconciled to items in the balance sheet as follows:

Cash and cash equivalents	457,490	59,344	457,490	59,344
	457,490	59,344	457,490	59,344

9. TRADE AND OTHER RECEIVABLES

GST receivable	6,534	422	6,534	422
	6,534	422	6,534	422

10. TRADE AND OTHER PAYABLES

Current

Trade creditors and accruals	125,629	5,500	125,629	5,500
	125,629	5,500	125,629	5,500

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YER ENDED 30 JUNE 2006**

	Note	Economic Entity 2006 $	Economic Entity 2005 $	Parent Entity 2006 $	Parent Entity 2005 $
11. NON-CURRENT BORROWINGS					
Loan – Chromite Pty Ltd	11(a)	491,621	414,847	376,122	299,648
Loan – Cropten Pty Ltd	11(b)	115,497	106,461	46,273	37,237
Loan – G Fethers	11(c)	24,300	17,000	24,300	17,000
Loan – Geophysical Exploration Consultants Pty Ltd	11(d)	17,000	21,950	17,000	21,950
		648,418	560,258	463,995	375,835

a. Chromite Pty Ltd is a director related entity of Reedy Lagoon Corporation td. Chromite Pty Ltd has subordinated its loan to the interests of other creditors. Amounts payable to Chromite at balance date are on interest-free terms.

b. Cropten Pty Ltd is a director related entity of Reedy Lagoon Corporation Ltd. Cropten Pty Ltd has subordinated its loan to the interests of other creditors. Amounts payable to Chromite at balance date are on interest-free terms.

c. Geof Fethers is a director of Reedy Lagoon Corporation Ltd. He has subordinated his loan to the interests of other creditors. Amounts payable to him at balance date are on interest-free terms.

d. Geophysical Exploration Consultants (GEC) Pty Ltd is a director related entity of Reedy Lagoon Corporation Ltd. GEC has subordinated its loan to the interests of other creditors. Amounts payable to GEC at balance date are on interest-free terms.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YER ENDED 30 JUNE 2006

	Note	Economic Entity		Parent Entity	
		2006	2005	2006	2005
		$	$	$	$
12. ISSUED CAPITAL					
Issued and paid up share capital of 27,959,833 (2005: 23,823,833) ordinary shares fully paid comprising:					
13,767,758 shares issued for cash (2005: 9,631,758)		2,159,885	1,642,885	2,159,885	1,642,885
4,050,005 shares issued as consideration for acquisition of 100% of capital of Osprey Gold Pty Ltd		708,751	708,751	708,751	708,751
500,000 shares issued as consideration for the acquisition of exploration properties		87,500	87,500	87,500	87,500
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	4,821,035	4,821,035
Cost of share issue		(8,214)	(8,214)	(8,214)	(8,214)
		7,768,257	7,251,957	7,768,257	7,251,957
Movements in Share Capital.					
Balance at beginning of year		7,251,957	7,201,957	7,251,957	7,201,957
4,136,000 (2005:333,332) ordinary shares at 12.5 cents (2005:15 cents) per share		517,000	50,000	517,000	50,000
Balance at end of year		7,768,957	7,251,957	7,768,957	7,251,957

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

Options over Unissued Shares

In the previous periods the Company granted 333,333 options at an exercise price of $0.30 per share and expiry date of 30 November 2006, 1,200,000 options with an exercise price of $0.50 per share and expiry date of 31 December 2006, 1,300,000 options with an exercise price of $0.50 and expiry date of 31 December 2007 and 1,400,000 options with an exercise price of $0.50 and expiry date of 31 December 2007. During the period:

- 1,200,000 options at an exercise price of $0.50 per shares lapsed unexercised on 31 December 2005 expiry date; and

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YER ENDED 30 JUNE 2006

- the company granted 1,400,000 options at an exercise price of $0.50 expiring 31 December 2008.

At the end of the period 4,233,333 shares remained unissued in respect of these options. None of the options granted have been exercised.

The options granted during the year were determined not to have any value. The valuation employed a Cox Ross Rubenstein and also a Black Scholes options pricing model using the following key data inputs.

Exercise Price	50 cents
Underlying Share Price	12.5 cents
Term to Expiry	3 years
Volatility	Range – 20% to 50%
Risk Free Rate	5.6%
Dividend Rate	Nil
Employee exit rate	0
Exercise multiple	1

	Note	Economic Entity 2006 $	Economic Entity 2005 $	Parent Entity 2006 $	Parent Entity 2005 $
13. ACCUMULATED LOSSES					
Accumulated Losses at beginning of year		7,757,949	7,704,684	7,573,526	7,520,261
Net Loss		321,031	53,265	321,031	53,265
Accumulated Losses at end of year		8,078,980	7,757,949	7,894,557	7,573,526
14. TOTAL EQUITY/(DEFICIENCY) RECONCILIATION					
Total (deficiency) at beginning of year		(505,992)	(502,727)	(321,569)	(318,304)
Total changes in equity recognised in Statement of Financial Performance		(321,031)	(53,265)	(321,031)	(53,265)
Contributions of Equity		517,000	50,000	517,000	50,000
Total (deficiency) at end of period		(310,023)	(505,992)	(125,600)	(321,569)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YER ENDED 30 JUNE 2006

	Note	Economic Entity 2006 $	Economic Entity 2005 $	Parent Entity 2006 $	Parent Entity 2005 $
15. CASH FLOW INFORMATION					
(a) Reconciliation of cash flow from operation with profit after tax.					
Cash assets	8	457,490	59,344	457,490	59,344
(b) Reconciliation of (Loss) from ordinary activities after Income Tax to net cash (used in) operating activities					
Profit/(Loss) from ordinary activities after Income Tax		(321,031)	(53,265)	(321,031)	(53,265)
Decrease (Increase) in receivables		(6,112)	10,421	(6,112)	10,421
Decrease (Increase) in prepayments		-	-	-	-
Increase/(decrease) in accounts payable		120,129	(529)	119,329	(529)
Net Cash (used in) operating activities		(207,014)	(43,373)	(207,014)	(43,373)

16. INTEREST IN JOINT VENTURE OPERATIONS

On 30 June 2003 an agreement was executed with Redport Limited, Axburgh Investments Pty Ltd, Jagen Pty Ltd and Sked Pty Ltd ("the joint venture partners") in respect of base metal and gold interests in EL 2622 (Edward Creek Base Metals Joint Venture). RLC is the manager but the joint venture partners may elect to replace RLC at any time. The joint venture partners may earn an 80% interest in base metals and gold resources within the tenement area. Whilst the joint venture partners elect to continue in the venture they sole fund exploration expenditure and will be obliged to pay RLC $30,000 each quarter until the commencement of commercial production.

On 10 January 2005 the Diptank Joint Venture ("Diptank JV") Agreement commenced. The Diptank JV is in respect of all mineral interests in EL 6202 located in NSW. Under the terms of the agreement RLC is entitled to an 85% participating interest in the Diptank JV. Whilst RLC elects to continue in the venture it will sole fund exploration expenditure and be obliged to pay $10,000 to the joint venture partner each quarter until the commencement of commercial production.

17. EVENTS AFTER BALANCE SHEET DATE

There have been no events after balance sheet date which would have a material effect on the financial statements.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YER ENDED 30 JUNE 2006

18. 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, resigned 14 July 2006)

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

Other transactions with the consolidated entity:

(i) G.H. Fethers is a director and shareholder of Chromite Pty Ltd, which provides the services of geologists, including Mr. Fethers, to the consolidated entity. 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. During the current and previous financial years Chromite, being a director related entity of Reedy Lagoon Corporation Ltd has advanced funds and deferred repayment of fees charged.

(ii) 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 consolidated entity at normal commercial rates. During previous financial years and the period ending 31 December 2005 Cropten, being a director related entity of Reedy Lagoon Corporation Ltd, has deferred repayment of fees charged. Fess charged since 1 January 2006 have been paid and for the period 1 January 2005 to 30 June 2006 the sum of these fees paid is $9,281 Cropten has subordinated its loan to the interests of other creditors.

(iii) Geophysical Exploration Consultants (GEC) Pty Ltd is a company associated with Mr. Rutter. GEC provides exploration services to the consolidated entity 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. During the current financial year GEC, being a director related entity of Reedy Lagoon Corporation Ltd, has deferred repayment of fees charged.

Fees invoiced by director related entities during the year were as follows:

Director related entity	Note	Economic Entity		Parent Entity	
		2006	**2005**	**2006**	**2005**
Chromite	17(i)	59,471	50,494	59,471	50,494
Cropten	17(ii)	18,399	18,796	18,399	18,796
GEC	17(iii)	2,350	4,950	2,350	4,950

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YER ENDED 30 JUNE 2006

(iv) Mr Fethers loaned the Company in prior years amounts which at the start of the period totalled $17,000. At the balance date that loan remains payable, however it is not interest bearing and is subordinated to all other creditors.

(v) During prior periods Chromite loaned the Company cash amounts which at the start of the period totalled $17,614. During the report period additional cash loans of $23,302 were advanced by Chromite to RLC and an amount of $6,000 was repaid during the financial year. The balance of cash loans advanced by Chromite at the end of the report period is $34,916 which remains payable, however it is not interest bearing and is subordinated to all other creditors.

20. EXPLORATION EXPENDITURE COMMITMENTS

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 granted tenements except EL's 3032, 3281 and 3376 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 3250, EL 3505, EL 3032, EL 3281, EL 3376 EL 3208, EL 6202 and EL 70/2846 is $304,000, (2005: $363,700) as the licences are subject to annual renewal.

Exploration Licence 3505 includes 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 between the Company and the Commonwealth were obtained on 27 February 2002 for predecessor tenements but expired on 21 January 2004. No new licence has been issued by the Commonwealth of Australia, which has previously advised that it is reviewing the licence documentation.

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). 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.

Expenditure requirements for EL 3032, EL 3281 and EL 3376 were renegotiated in December 2006. The minimum requirement was reduced to total $3,000 (2005 : $125,700) in consideration of the difficulties experienced by the Company in gaining access to explore. The tenements cover or include areas which comprise part of the Chiltern – Mt Pilot National Park. Exploration and mining activities within this Park may only continue with the consent of the Minister for Sustainability and Environment under Section 40 of the National Parks Act, 1975. Where the gaining of such consents prevents or postpones exploration the expenditure requirements may be reduced.

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.

21. CONTINGENT LIABILITIES

Guarantees

The company has provided a letter of support undertaking to provide financial support in the form of working capital to its wholly owned subsidiary Osprey Gold Pty Ltd. At 30 June 2006, total liabilities of Osprey Gold Pty Ltd exceeded total assets by $186,623. Of this deficiency, $184,423 relates to loans from related parties that have been subordinated to the interest of other creditors.

22. CONTROLLED ENTITIES

Interest in controlled entities:

Name	Country of incorporation	Ordinary share consolidated entity interest	
		2006	2005
		%	%
Osprey Gold Pty Ltd.	Australia	100	100

23. FINANCIAL INSTRUMENTS

a. **Financial Risk Management**

The group's financial instruments consist of deposits with banks, accounts receivable and borrowings from director related entities.

The main purpose of non-derivative financial instruments is to raise finance for group operations.

The group does not have any derivative instruments at 30 June 2006.

i. *Financial Risks*

The main risks the group is exposed to through its financial instruments are interest rate risk, liquidity risk and credit risk.

Interest rate risk

Interest rate risk is managed via borrowings being from director related entities on interest-free terms.

Liquidity risk

The group manages liquidity risk by monitoring forecast cash flows and ensuring that adequate unutilised borrowing facilities are maintained.

Credit risk

The maximum exposure to credit risk, excluding the value of any collateral or other security, at balance date to recognised financial assets, is the carrying amount, net of any provisions for impairment of those assets, as disclosed in the balance sheet and notes to the financial statements.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YER ENDED 30 JUNE 2006

b. **Interest Rate Risk**

The economic entity’s exposure to interest rate risk, which is the risk that a financial instrument’s value will fluctuate as a result of changes in market interest rates and the effective weighted average interest rates on those financial assets and financial liabilities, is as follows:

					Fixed Interest Rate Maturing							
	Weighted Average Effective Interest Rate		Floating Interest Rate		Within 1 Year		1 to 5 Years		Non-interest Bearing		Total	
	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005
	%	%	$	$	$	$	$	$	$	$	$	$
Financial Assets:	4.5	4.5										
Cash and cash equivalents			457,490	59,344	-	-	-	-	-	-	457,490	59,344
Receivables			-	-	-	-	-	-	6,534	422	6,534	422
Total Financial Assets			457,490	59,344	-	-	-	-	6,534	422	464,024	59,766
Financial Liabilities												
Borrowings			-	-	-	-	-	-	773,647	565,758	773,647	565,758
Total Financial Liabilities			-	-	-	-	-	-	773,647	565,758	773,647	565,758

24. SEGMENT REPORTING

The Company and its controlled entity operate within the minerals exploration industry. All operations are conducted solely within Australia.

25. CHANGES IN ACCOUNTING POLICY

There have no have been no changes in accounting policy affecting the financial statements for the current or prior periods.

The following Australian Accounting Standards issued or amended which are applicable to the parent entity and the economic entity but are not yet effective and have not been adopted in preparation of the financial statements at reporting date.

AASB Amendment	AASB Standard Affected	Nature of Change in Accounting Policy and Impact	Application Date of the Standard	Application Date for the Group
2005–5	AASB 1: First-time Adoption of AIFRS	No change, no impact	1 January 2006	1 July 2006
	AASB 139: Financial Instruments:	No change, no impact	1 January 2006	1 July 2006

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YER ENDED 30 JUNE 2006

AASB Amendment	AASB Standard Affected	Nature of Change in Accounting Policy and Impact	Application Date of the Standard	Application Date for the Group
	Recognition and Measurement			
2005–06	AASB 3: Business Combinations	No change, no impact	1 January 2006	1 July 2006
2005–9	AASB 132: Financial Instruments: Recognition and Measurement	Relates to financial guarantee contracts which may require Reedy Lagoon Corporation Ltd to recognise a liability in relation to a guarantee provided for Reedy Lagoon Corporation Ltd under its bank facility	1 January 2006	1 July 2006
	AASB 139: Financial Instruments: Disclosure and Presentation	Reedy Lagoon Corporation Ltd is in the process of evaluating the effect of these changes of which the impact is not reasonably estimable at the date of this financial report	1 January 2006	1 July 2006
	AASB 139: Financial Instruments: Disclosure and Presentation	Reedy Lagoon Corporation Ltd is in the process of evaluating the effect of these changes of which the impact is not reasonably estimable at the date of this financial report	1 January 2006	1 July 2006
2005–10	AASB 139: Financial Instruments: Recognition and Measurement	No change, no impact	1 January 2007	1 July 2007
	AASB 101: Presentation of Financial Statements	No change, no impact	1 January 2007	1 July 2007
	AASB 114: Segment Reporting	No change, no impact	1 January 2007	1 July 2007
	AASB 117: Leases	No change, no impact	1 January 2007	1 July 2007

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YER ENDED 30 JUNE 2006

AASB Amendment	AASB Standard Affected	Nature of Change in Accounting Policy and Impact	Application Date of the Standard	Application Date for the Group
	AASB 133: Earnings per Share	No change, no impact	1 January 2007	1 July 2007
	AASB 1: First-time Adoption of AIFRS	No change, no impact	1 January 2007	1 July 2007
	AASB 4: Insurance Contracts	No change, no impact	1 January 2007	1 July 2007
	AASB 1023: General Insurance Contracts	No change, no impact	1 January 2007	1 July 2007
	AASB 1038: Life Insurance Contracts	No change, no impact	1 January 2007	1 July 2007
New Standard	AASB 7: Financial Instruments: Disclosure	No change, no impact	1 January 2007	1 July 2007

All other pending Standards issued between the previous financial report and the current reporting date have no application to either the parent or the economic entity.

AASB Amendment	AASB Standard Affected
2004–3	AASB 1: First-time Adoption of AIFRS
	AASB 101: Presentation of Financial Statements
	AASB 124: Related Party Disclosures
2005–1	AASB 139: Financial Instruments: Recognition and Measurement
2005–2	AASB 1023: General Insurance Contracts
2005–4	AASB 139: Financial Instruments: Recognition and Measurement
	AASB 132: Financial Instruments: Disclosure and Presentation
2005–9	AASB 4: Insurance Contracts
	AASB 1023: General Insurance Contracts
2006–1	AASB 121: The Effects of Changes in Foreign Exchange Rates New Standard
	AASB 119: Employee Benefits: December 2004

26. COMPANY DETAILS

The registered office and principal place of business of the company is:
Reedy Lagoon Corporation Ltd.
Suite 2, 337A Lennox Street
Richmond, Vic, 3121

DIRECTORS' DECLARATION

1. In the opinion of the directors of Reedy Lagoon Corporation Limited (“the Company”):

(a) the financial statements and notes, set out on pages 20 to 40, are in accordance with the Corporations Act 2001, including:

(i) giving a true and fair view of the financial position of the Company and consolidated entity as at 30 June 2006 and of their performance, as represented by the results of their operations and their cash flows, for the year ended on that date; and

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

(b) there are reasonable grounds to believe that the Company and the controlled entities identified in Note 20 will be able to pay their 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 27th day of February 2007

nexia asr
chartered accountants
Incorporating the firms of Alexander & Spencer and Rosenbergs

INDEPENDENT AUDIT REPORT TO THE MEMBERS OF REEDY LAGOON CORPORATION LTD

Scope

The special purpose financial report and directors' responsibility

The special purpose financial report comprises the income statement, balance sheet, statement of changes in equity, statement of cash flows, accompanying notes to the financial statements, and the directors' declaration for Reedy Lagoon Corporation Ltd, for the year ended 30 June 2006.

The directors of the company are responsible for the preparation and true and fair presentation of the financial report and have determined that the accounting policies used and described in Note 1 to the financial statements which form part of the financial report are appropriate to meet the requirements of the *Corporations Act 2001* and are appropriate to meet the needs of the members. 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.

The special purpose financial report has been prepared for distribution to members for the purpose of fulfilling the directors' financial reporting requirements under the *Corporations Act 2001*. We disclaim any assumptions of responsibility for any reliance on this report or on the financial report to which it relates to any person other than the members, or for any purpose other than that for which it was prepared.

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 judgment, 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 is presented fairly in accordance with the accounting policies described in Note 1, so as to present a view which is consistent with our understanding of the company's financial position, and of its performance as represented by the results of its operations and cash flows. These policies do not require the application of all Accounting Standards and other mandatory professional reporting requirements in Australia. No opinion is expressed as to whether the accounting policies used and described in Note 1, are appropriate to the needs of the members.

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.

While we considered the effectiveness of managements 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.

INDEPENDENT AUDIT REPORT
TO THE MEMBERS OF
REEDY LAGOON CORPORATION LTD (Cont'd)

Independence

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

In accordance with ASIC Class Order 05/83, we declare to the best of our knowledge and belief that the auditor's independence declaration, set out on page 18 of the financial report, has not changed as at the date of providing our audit opinion.

Audit Opinion

In our opinion, the financial report of Reedy Lagoon Corporation Ltd 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 2006 and of its performance for the year ended on that date in accordance with the accounting policies described in Note 1; and

   ii. complying with Accounting Standards in Australia to the extent described in Note 1 and complying with the Corporations Regulations 2001; and

b. other mandatory financial reporting requirements in Australia to the extent described in Note 1.

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 realise its assets and extinguish its liabilities in the normal course of business and at the amounts stated in the financial report.

NEXIA ASR
ABN 16 847 721 257

George S Dakis
Partner

Melbourne
27 February 2007

SHAREHOLDER INFORMATION

Twenty largest shareholders as 1 February 2006.

Name	No. of Shares	%
Pyrope Holdings Pty Ltd	9,650,001	34.51
Australian Amalgamated Holdings Pty Ltd	3,140,000	11.23
Envirozel Limited	1,400,000	5.01
Lewis, Philip	1,300,000	4.65
Janavid Pty Ltd	1,000,000	3.58
Clinical Cell Culture Limited	780,000	2.79
Cairnglen Investments Pty Ltd	666,666	2.38
Halliday, Ian & Reeves, Robert	500,000	1.79
Providence Gold & Minerals Pty Ltd	500,000	1.79
Pyrope Holdings Pty Ltd <The Chromite Staff Superannuation Fund>	450,000	1.61
Ranview Pty Ltd	443,000	1.58
Pelican Point Trust	400,000	1.43
Woodall, Roy	300,000	1.07
Hancock, Greg	300,000	1.07
Agricultural Contracting Australia Pty Ltd	260,000	0.93
Mooney, Warwick Huddleston	240,000	0.86
Kerr-Grant, Colin	230,000	0.82
Woodford, Peter	230,000	0.82
Brunner, Nicholas F.M.	200,000	0.72
Collier, John	200,000	0.72
Sub-Total:	22,189,667	79.36
Other shareholders (numbering 110)	5,770,166	20.64
TOTAL:	27,959,833	100.00