BHP BILLITON LTD
Form 6-K
October 25, 2006

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 6-K

REPORT OF FOREIGN PRIVATE ISSUER
PURSUANT TO RULE 13a-16 OR 15d-16
UNDER THE SECURITIES EXCHANGE ACT OF 1934

October 24, 2006

BHP BILLITON LIMITED	BHP BILLITON PLC
(ABN 49 004 028 077)	(REG. NO. 3196209)
(Exact name of Registrant as specified in its charter)	(Exact name of Registrant as specified in its charter)
VICTORIA, AUSTRALIA	ENGLAND AND WALES
(Jurisdiction of incorporation or organisation)	(Jurisdiction of incorporation or organisation)
180 LONSDALE STREET, MELBOURNE, VICTORIA 3000 AUSTRALIA	NEATHOUSE PLACE, VICTORIA, LONDON, UNITED KINGDOM
(Address of principal executive offices)	(Address of principal executive offices)

Indicate by check mark whether the registrant files or will file annual reports under cover of Form 20-F or Form 40-F: [x] Form 20-F [ ] Form 40-F

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(1): [ ]

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(7): [ ]

Indicate by check mark whether the registrant by furnishing the information contained in this Form is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934: [ ] Yes [x] No

If "Yes" is marked, indicate below the file number assigned to the registrant in connection with Rule 12g3-2(b): n/a

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24 October 2006
Number 27/06

BHP BILLITON PRODUCTION REPORT FOR THE QUARTER ENDED 30 SEPTEMBER 2006

BHP Billiton today released its production report for the quarter ended 30 September 2006. Throughout this report, unless otherwise stated, production volumes refer to BHP Billiton share.

- Record quarterly production of aluminium from continuing operations.
- Iron ore production in line with the record production in the June 2006 quarter (excluding the Goldsworthy (Australia) suspension).
- Record quarterly production of manganese ore in response to stronger customer demand.
- Record quarterly production was achieved at Mozal (Mozambique), GEMCO (Australia), Zamzama (Pakistan), Paranam (Suriname) and Bayside (South Africa).
- Copper production negatively impacted by an industrial stoppage at Escondida (Chile).

	SEPT	SEPT Q06	SEPT Q06
	2006	vs	vs
PETROLEUM	QTR	SEPT Q05	JUNE Q06
Crude Oil & Condensate and Natural Gas Liquid ('000 bbl)	15,216	-2%	4%
Natural Gas (bcf)	91.83	-6%	-7%
Total Petroleum Products (million boe)	30.52	-4%	-2%

Total Petroleum Production

- Production was in line with both comparative periods.

Crude Oil, Condensate and Natural Gas Liquid

- Production from continuing operations was higher than the previous quarter. Successful infill drilling at North West Shelf (Australia) and Bass Strait (Australia) and reduced downtime at North West Shelf increased production during the quarter. This was partly offset by planned maintenance at Liverpool Bay (UK) and cessation of production from Typhoon / Boris (USA) in September 2005.

Natural Gas

- Scheduled and unscheduled maintenance in the UK and lower customer demand in Australia contributed to reduced production for the period. Record quarterly production was achieved at Zamzama in response to strong demand. Typhoon / Boris and the Moranbah Coal Bed Methane (Australia) operations have been sold and consequently production will be impacted in future periods.

	SEPT	SEPT Q06	SEPT Q06
	2006	vs	vs
ALUMINIUM	QTR	SEPT Q05	JUNE Q06
Alumina ('000 tonnes)	1,078	5%	1%
Aluminium ('000 tonnes)	337	1%	-2%

Alumina -

Production for the quarter ended September 2006 was higher than the September 2005 quarter. Ramp up of the Worsley Development Capital Project (Australia) and record production at Paranam contributed to the increased result. Stockpiled hydrate from the calciner outages at Alumar (Brazil) and Worsley decreased the current quarter's production.

Aluminium

- Quarterly production from continuing operations (excluding Valesul (Brazil)) was an all time record. Mozal, Bayside and Hillside (South Africa) continued to deliver strong production. Mozal and Bayside achieved quarterly production records and Hillside production equalled the previous record results in the December 2005 and June 2006 quarters.

	SEPT	SEPT Q06	SEPT Q06
	2006	vs	vs
BASE METALS	QTR	SEPT Q05	JUNE Q06
Copper ('000 tonnes)	249.9	-19%	-20%
Silver ('000 ounces)	7,349	-35%	-23%
Lead (tonnes)	48,977	-25%	-12%
Zinc (tonnes)	24,011	-18%	-13%

Uranium Oxide Concentrate (Uranium) (tonnes)	793	-27%	-8%

Copper

- Production during the quarter was positively impacted by the successful commencement of the Sulphide Leach Project at Escondida (Chile) and strong production at Cerro Colorado (Chile). Production for the quarter was impacted by scheduled maintenance at Olympic Dam (Australia), strike action at Escondida and the sale of Tintaya (Peru) in June 2006.

Silver / Lead

- Production was in line with expectations, as we continue to progress the rehabilitation of ground support at Cannington (Australia).

Zinc

- In addition to the temporary partial closure at Cannington, production for the quarter was impacted by lower head grades at Cannington and Antamina (Peru).

Uranium

- Planned maintenance at the Olympic Dam smelter also impacted uranium production for the quarter.

	SEPT	SEPT Q06	SEPT Q06
	2006	vs	vs
CARBON STEEL MATERIALS	QTR	SEPT Q05	JUNE Q06
Iron ore ('000 tonnes)	25,003	5%	-4%
Metallurgical Coal ('000 tonnes)	9,247	3%	0%
Manganese Ore ('000 tonnes)	1,509	9%	9%
Manganese Alloy ('000 tonnes)	153	10%	-13%

Iron Ore

- September 2006 quarterly production was in line with the record June 2006 quarter (excluding Goldsworthy). The ramp up of the Rapid Growth Project 2 (Australia), completed in June 2006, contributed to this strong result. Tie-in activity for Rapid Growth Project 3 (Australia), including the Goldsworthy suspension, contributed to lower overall production. Tie-in activity is expected to continue for the remainder of the year.

Metallurgical Coal

- Metallurgical coal production was in line with previous periods reflecting increased product differentiation in the market.

Manganese Ore

- Record quarterly production was achieved at GEMCO in response to stronger customer demand.

Manganese Alloy

- Production for the quarter was impacted by scheduled maintenance.

	SEPT	SEPT Q06	SEPT Q06
	2006	vs	vs
DIAMONDS & SPECIALTY PRODUCTS	QTR	SEPT Q05	JUNE Q06
Diamonds ('000 carats)	487	-43%	-16%
Fertiliser ('000 tonnes)	84.3	-66%	-40%

Diamonds

- The volume of ore processed at Ekati (Canada) was four percent higher than the September 2005 quarter. As Ekati transitions from open pit mining to predominantly underground mining the mix of ore processed will change from time to time. This has led to a reduced number of higher value carats recovered during the quarter.

Fertiliser -

The fertiliser business was sold effective 1 August 2006.

	SEPT	SEPT Q06	SEPT Q06
	2006	vs	vs
ENERGY COAL	QTR	SEPT Q05	JUNE Q06
Energy Coal ('000 tonnes)	21,782	-9%	0%

Energy Coal

- Production for the September 2006 quarter was in line with the June 2006 quarter. Production at Ingwe (South Africa) was two percent higher than the previous quarter despite unfavourable geological conditions and higher strip ratios. The Australian operations had their highest quarterly production since the record quarter in June 2005. Scheduled maintenance and challenging geological conditions at New Mexico Coal (USA) had a negative impact on production.

	SEPT	SEPT Q06	SEPT Q06
	2006	vs	vs
STAINLESS STEEL MATERIALS	QTR	SEPT Q05	JUNE Q06
Nickel ('000 tonnes)	44.5	1%	7%

Nickel

- Production for the September 2006 quarter was higher than the June 2006 quarter. The previous quarter was impacted by tie-in activity related to the expansion at Yabulu (Australia).

Further information on BHP Billiton can be found on our Internet site: www.bhpbilliton.com

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BHP BILLITON PRODUCTION SUMMARY								
		QUARTER ENDED			QUARTER ENDED		% CHANGE	
							SEPT Q06	SEPT Q06
		SEPT	JUNE	**SEPT**	**SEPT**	SEPT	vs	vs
		2005	2006	**2006**	**2006**	2005	SEPT Q05	JUNE Q06
PETROLEUM								
Crude oil & condensate	('000 bbl)	12,234	11,551	**12,091**	**12,091**	12,234	-1%	5%
Natural gas	(bcf)	97.65	98.59	**91.83**	**91.83**	97.65	-6%	-7%
Natural gas liquid	('000 bbl)	3,245	3,063	**3,125**	**3,125**	3,245	-4%	2%
Total Petroleum Products	(million boe)	31.75	31.04	**30.52**	**30.52**	31.75	-4%	-2%
ALUMINIUM								
Alumina	('000 tonnes)	1,028	1,072	**1,078**	**1,078**	1,028	5%	1%
Aluminium	('000 tonnes)	334	344	**337**	**337**	334	1%	-2%
BASE METALS								

Copper	('000 tonnes)	308.9	311.7	**249.9**		**249.9**	308.9		-19%	-20%
Lead	(tonnes)	64,873	55,507	**48,977**		**48,977**	64,873		-25%	-12%
Zinc	(tonnes)	29,147	27,564	**24,011**		**24,011**	29,147		-18%	-13%
Gold	(ounces)	53,666	56,161	**41,160**		**41,160**	53,666		-23%	-27%
Silver	('000 ounces)	11,362	9,593	**7,349**		**7,349**	11,362		-35%	-23%
Uranium oxide concentrate	(tonnes)	1,088	865	**793**		**793**	1,088		-27%	-8%
Molybdenum	(tonnes)	573	538	**719**		**719**	573		25%	34%
CARBON STEEL MATERIALS										
Iron ore	('000 tonnes)	23,848	26,115	**25,003**		**25,003**	23,848		5%	-4%
Metallurgical coal	('000 tonnes)	8,986	9,224	**9,247**		**9,247**	8,986		3%	0%
Manganese ore	('000 tonnes)	1,387	1,389	**1,509**		**1,509**	1,387		9%	9%
Manganese alloy	('000 tonnes)	139	175	**153**		**153**	139		10%	-13%
DIAMONDS AND SPECIALTY PRODUCTS										
Diamonds	('000 carats)	852	583	**487**		**487**	852		-43%	-16%
Fertiliser	('000 tonnes)	244.9	141.3	**84.3**		**84.3**	244.9		-66%	-40%
ENERGY COAL										
Energy coal	('000 tonnes)	24,010	21,787	**21,782**		**21,782**	24,010		-9%	0%
STAINLESS STEEL MATERIALS										
Nickel	('000 tonnes)	44.1	41.6	**44.5**		**44.5**	44.1		1%	7%
Throughout this report figures in italics indicate that this figure has been adjusted since it was previously reported.										

BHP BILLITON ATTRIBUTABLE PRODUCTION											
										QUARTER ENDED	
			BHP Billiton	SEPT	DEC	MARCH	JUNE	**SEPT**		**SEPT**	SEPT
			Interest	2005	2005	2006	2006	**2006**		**2006**	2005
PETROLEUM											

Production										
	Crude oil & condensate	('000 bbl)	12,234	11,202	10,886	11,551	**12,091**		**12,091**	12,234
	Natural gas	(bcf)	97.65	86.35	77.85	98.59	**91.83**		**91.83**	97.65
	NGL (a)	('000 bbl)	3,245	2,672	2,448	3,063	**3,125**		**3,125**	3,245
	Total Petroleum Products	(million boe)	31.75	28.26	26.31	31.04	**30.52**		**30.52**	31.75
ALUMINIUM										
ALUMINA										
Production ('000 tonnes)										
	Worsley	86%	689	663	717	694	**704**		**704**	689
	Suriname	45%	227	219	228	247	**253**		**253**	227
	Alumar	36%	112	130	130	131	**121**		**121**	112
	Total		1,028	1,012	1,075	1,072	**1,078**		**1,078**	1,028
ALUMINIUM										
Production ('000 tonnes)										
	Hillside	100%	172	177	174	177	**177**		**177**	172
	Bayside	100%	41	46	46	46	**49**		**49**	41
	Alumar	46.3%	45	45	44	44	**44**		**44**	45
	Valesul (b)	45.5%	11	10	11	11	**-**		**-**	11
	Mozal	47%	65	66	65	66	**67**		**67**	65
	Total		334	344	340	344	**337**		**337**	334
BASE METALS (c)										
COPPER										
Payable metal in concentrate ('000 tonnes)										
	Escondida	57.5%	168.6	169.0	168.2	165.2	**129.7**		**129.7**	168.6
	Antamina	33.8%	27.9	34.3	32.9	29.1	**29.0**		**29.0**	27.9
	Tintaya (d)	100%	17.3	18.1	16.2	12.9	**-**		**-**	17.3
	Total		213.8	221.4	217.3	207.2	**158.7**		**158.7**	213.8
Cathode ('000 tonnes)										
	Escondida	57.5%	19.6	20.0	15.4	11.7	**17.5**		**17.5**	19.6
	Cerro Colorado	100%	14.5	21.5	28.1	30.0	**30.0**		**30.0**	14.5
	Tintaya (d)	100%	9.7	9.9	9.1	6.1	**-**		**-**	9.7
	Pinto Valley	100%	2.2	2.1	2.1	2.1	**2.1**		**2.1**	2.2
	Olympic Dam	100%	49.1	53.5	47.1	54.6	**41.6**		**41.6**	49.1
	Total		95.1	107.0	101.8	104.5	**91.2**		**91.2**	95.1

LEAD										
Payable metal in concentrate (tonnes)										
	Cannington	100%	64,873	77,187	68,754	55,507	**48,977**		**48,977**	64,873
	Total		64,873	77,187	68,754	55,507	**48,977**		**48,977**	64,873
ZINC										
Payable metal in concentrate (tonnes)										
	Cannington	100%	14,188	18,780	20,885	14,926	**10,426**		**10,426**	14,188
	Antamina	33.8%	14,959	5,148	7,534	12,638	**13,585**		**13,585**	14,959
	Total		29,147	23,928	28,419	27,564	**24,011**		**24,011**	29,147
	Refer footnotes on page 4.									
BASE METALS (continued)										
GOLD										
Payable metal in concentrate (ounces)										
	Escondida	57.5%	19,194	19,200	17,877	23,567	**17,049**		**17,049**	19,194
	Tintaya (d)	100%	8,048	8,200	8,032	4,958	**-**		**-**	8,048
	Olympic Dam (refined gold)	100%	26,424	27,300	26,186	27,636	**24,111**		**24,111**	26,424
	Total		53,666	54,700	52,095	56,161	**41,160**		**41,160**	53,666
SILVER										
Payable metal in concentrate ('000 ounces)										
	Escondida	57.5%	795	945	714	925	**724**		**724**	795
	Antamina	33.8%	642	859	865	808	**713**		**713**	642
	Tintaya (d)	100%	167	168	138	119	**-**		**-**	167
	Cannington	100%	9,579	11,672	9,693	7,503	**5,714**		**5,714**	9,579
	Olympic Dam (refined silver)	100%	179	222	245	238	**198**		**198**	179
	Total		11,362	13,866	11,655	9,593	**7,349**		**7,349**	11,362
URANIUM OXIDE CONCENTRATE										
Payable metal in concentrate (tonnes)										
	Olympic Dam	100%	1,088	1,070	913	865	**793**		**793**	1,088

Total		1,088	1,070	913	865	**793**		**793**	1,088
MOLYBDENUM									
Payable metal in concentrate (tonnes)									
Antamina	33.8%	573	772	632	538	**719**		**719**	573
Total		573	772	632	538	**719**		**719**	573
CARBON STEEL MATERIALS									
IRON ORE (e)									
Production ('000 tonnes)									
Mt Newman Joint Venture	85%	6,234	6,166	5,884	6,490	**7,394**		**7,394**	6,234
Goldsworthy Joint Venture	85%	1,393	1,669	1,371	1,808	**806**		**806**	1,393
Area C Joint Venture	85%	4,286	4,969	3,332	5,401	**4,821**		**4,821**	4,286
Yandi Joint Venture	85%	8,409	8,372	8,561	8,854	**8,504**		**8,504**	8,409
Jimblebar (f)	85%	1,645	1,569	1,549	1,607	**1,490**		**1,490**	1,645
Samarco	50%	1,881	1,865	1,802	1,955	**1,988**		**1,988**	1,881
Total		23,848	24,610	22,499	26,115	**25,003**		**25,003**	23,848
METALLURGICAL COAL (g)									
Production ('000 tonnes)									
BMA	50%	6,693	6,441	5,972	6,474	**6,657**		**6,657**	6,693
BHP Mitsui Coal (h)	80%	726	710	763	850	**873**		**873**	726
Illawarra	100%	1,567	1,822	1,725	1,900	**1,717**		**1,717**	1,567
Total		8,986	8,973	8,460	9,224	**9,247**		**9,247**	8,986
MANGANESE ORES									
Saleable production ('000 tonnes)									
South Africa (i)	60%	566	529	532	673	**644**		**644**	566
Australia (i)	60%	821	749	694	716	**865**		**865**	821
Total		1,387	1,278	1,226	1,389	**1,509**		**1,509**	1,387
Refer footnotes on page 4.									
CARBON STEEL MATERIALS (cont'd)									
MANGANESE ALLOYS									
Saleable production ('000 tonnes)									

South Africa (i)	60%	79	105	119	131	**93**		**93**	79
Australia (i)	60%	60	60	54	44	**60**		**60**	60
Total		139	165	173	175	**153**		**153**	139
DIAMONDS AND SPECIALTY PRODUCTS									
DIAMONDS									
Production ('000 carats)									
Ekati™	80%	852	614	512	583	**487**		**487**	852
FERTILISER									
Production ('000 tonnes)									
Southern Cross Fertiliser Operations (j)	100%	244.9	252.6	222.5	141.3	**84.3**		**84.3**	244.9
ENERGY COAL									
Production ('000 tonnes)									
South Africa	100%	14,549	12,940	11,605	12,854	**13,151**		**13,151**	14,549
USA	100%	4,561	4,065	2,829	3,891	**3,467**		**3,467**	4,561
Australia	100%	2,568	2,045	1,897	2,636	**2,766**		**2,766**	2,568
Colombia	33%	2,332	2,237	2,341	2,406	**2,398**		**2,398**	2,332
Total		24,010	21,287	18,672	21,787	**21,782**		**21,782**	24,010
STAINLESS STEEL MATERIALS									
NICKEL									
Production ('000 tonnes)									
CMSA	99.8%	12.8	13.0	12.9	12.8	**12.7**		**12.7**	12.8
Yabulu	100%	6.1	5.9	7.0	4.3	**7.3**		**7.3**	6.1
Nickel West	100%	25.2	30.1	20.3	24.5	**24.5**		**24.5**	25.2
Total		44.1	49.0	40.2	41.6	**44.5**		**44.5**	44.1

(a) LPG and Ethane are now reported as Natural Gas Liquids (NGL), consistent with petroleum industry practice. Product-specific conversions will be made and NGL will be reported in barrels of oil equivalent (boe). Comparative period information has been restated.

(b) BHP Billiton completed the sale of Valesul on 1 July 2006.

(c) Metal production is reported on the basis of payable metal.

(d) BHP Billiton sold Tintaya effective from June 1, 2006.

(e) Iron ore production is reported on a wet tonnes basis.

(f) From October 1, 2005 Jimblebar production is disclosed on an 85% saleable production basis, prior production is disclosed at 100%.

(g) Metallurgical coal production is reported on the basis of saleable product. Production figures include some thermal coal.

(h) Shown on 100% basis. BHP Billiton interest in saleable production is 80%.

(i) Shown on 100% basis. BHP Billiton interest in saleable production is 60%.

(j) BHP Billiton completed the sale of Southern Cross Fertiliser operations on 1 August 2006.

PRODUCTION AND SHIPMENT REPORT

							QUARTER ENDED	
	SEPT	DEC	MAR	JUNE	**SEPT**		**SEPT**	SEPT
	2005	2005	2006	2006	**2006**		**2006**	2005
PETROLEUM								
BHP Billiton attributable production unless otherwise stated.								
CRUDE OIL & CONDENSATE ('000 barrels)								
Bass Strait	3,720	3,584	3,414	3,964	**3,847**		**3,847**	3,720
Minerva	34	26	18	20	**23**		**23**	34
North West Shelf - condensate	1,370	1,405	1,263	1,091	**1,350**		**1,350**	1,370
North West Shelf - Wanaea/Cossack	1,149	979	751	1,111	**1,634**		**1,634**	1,149
Griffin	436	344	204	296	**323**		**323**	436
Pakistan	49	54	59	60	**61**		**61**	49
Typhoon/Boris (a)	306	23	-	-	**-**		**-**	306
Mad Dog	440	604	549	698	**528**		**528**	440
Other Americas (b)	123	161	68	68	**78**		**78**	123
Angostura	998	1,018	1,080	1,191	**1,174**		**1,174**	998
Liverpool Bay	1,160	1,161	1,278	1,199	**931**		**931**	1,160
Bruce/Keith	254	256	209	182	**178**		**178**	254
Ohanet	483	353	389	426	**357**		**357**	483
ROD	1,712	1,234	1,604	1,245	**1,607**		**1,607**	1,712
Total	12,234	11,202	10,886	11,551	**12,091**		**12,091**	12,234
NATURAL GAS (billion cubic feet)								
Bass Strait	35.93	21.12	18.26	34.43	**33.54**		**33.54**	35.93
Minerva	10.30	8.14	5.78	6.36	**7.73**		**7.73**	10.30
North West Shelf - Domestic	3.97	3.81	3.55	4.63	**3.54**		**3.54**	3.97
North West Shelf - LNG	21.19	23.16	21.15	22.70	**21.68**		**21.68**	21.19
Griffin	0.56	0.41	0.12	0.19	**0.49**		**0.49**	0.56
Moranbah Coal Bed Methane (c)	1.65	1.73	1.75	1.86	**1.12**		**1.12**	1.65
Illawarra Coal Bed Methane	1.12	1.60	1.50	1.35	**1.50**		**1.50**	1.12
Pakistan	7.32	8.40	8.52	9.02	**9.14**		**9.14**	7.32
Typhoon/Boris (a)	0.46	0.01	-	-	**-**		**-**	0.46
Mad Dog	0.08	0.12	0.11	0.25	**0.17**		**0.17**	0.08
Other Americas (b)	1.89	1.00	1.78	2.34	**2.55**		**2.55**	1.89
Bruce/Keith	5.81	6.28	6.52	5.40	**4.21**		**4.21**	5.81

Liverpool Bay	7.37	10.57	8.81	10.06	**6.16**		**6.16**	7.37
Total	97.65	86.35	77.85	98.59	**91.83**		**91.83**	97.65
NGL ('000 barrels) (d)								
Bass Strait	2,193	1,719	1,574	2,254	**2,224**		**2,224**	2,193
North West Shelf	460	465	410	349	**444**		**444**	460
Bruce/Keith	159	176	94	59	**138**		**138**	159
Ohanet	433	312	370	401	**319**		**319**	433
Total	3,245	2,672	2,448	3,063	**3,125**		**3,125**	3,245
TOTAL PETROLEUM PRODUCTS	31.75	28.26	26.31	31.04	**30.52**		**30.52**	31.75
(million barrels of oil equivalent) (e)								

(a) Typhoon/ Boris production was suspended in September 2005 following severe hurricane damage sustained to the Typhoon platform. The sale of Typhoon/ Boris, including the Littleburn field, is pending US Minerals Management Service approval.

(b) BHP Billiton sold its interests in the Green Canyon 18 and 60 fields with effect from January 16, 2006.

(c) BHP Billiton completed the sale of its interest in Moranbah Coal Bed Methane in September 2006 quarter.

(d) LPG and Ethane are now reported as Natural Gas Liquids (NGL), consistent with petroleum industry practice. Product-specific conversions will be made and NGL will be reported in barrels of oil equivalent (boe). Comparative period information has been restated.

(e) Total barrels of oil equivalent (boe) conversions are based on 6000 cf of natural gas equals 1 boe.

PRODUCTION AND SHIPMENT REPORT

							QUARTER ENDED	
	SEPT	DEC	MAR	JUNE	**SEPT**		**SEPT**	SEPT
	2005	2005	2006	2006	**2006**		**2006**	2005
ALUMINIUM								
BHP Billiton attributable production and sales unless otherwise stated.								
('000 tonnes)								
ALUMINA								
Production								
Worsley, Australia	689	663	717	694	**704**		**704**	689
Paranam, Suriname	227	219	228	247	**253**		**253**	227
Alumar, Brazil	112	130	130	131	**121**		**121**	112
Total	1,028	1,012	1,075	1,072	**1,078**		**1,078**	1,028
Sales								
Worsley, Australia	584	710	709	672	**666**		**666**	584
Paranam, Suriname	203	249	213	244	**236**		**236**	203
Alumar, Brazil	107	121	130	147	**108**		**108**	107

Total (a)		894	1,080	1,052	1,063	**1,010**		**1,010**	894
ALUMINIUM									
Production									
Hillside, South Africa		172	177	174	177	**177**		**177**	172
Bayside, South Africa		41	46	46	46	**49**		**49**	41
Alumar, Brazil		45	45	44	44	**44**		**44**	45
Valesul, Brazil (b)		11	10	11	11	**-**		**-**	11
Mozal, Mozambique		65	66	65	66	**67**		**67**	65
Total		334	344	340	344	**337**		**337**	334
Sales									
Hillside, South Africa		168	175	162	186	**170**		**170**	168
Bayside, South Africa		34	43	40	48	**44**		**44**	34
Alumar, Brazil		42	44	48	44	**44**		**44**	42
Valesul, Brazil (b)		11	12	10	11	**-**		**-**	11
Mozal, Mozambique		54	79	58	68	**60**		**60**	54
Total		309	353	318	357	**318**		**318**	309
Tolling Agreement (a)		23	22	22	38	**24**		**24**	23
		332	375	340	395	**342**		**342**	332

(a) Equity Alumina is converted into Aluminium under a third party tolling agreement. These tonnages are allocated to equity sales.

(b) BHP Billiton completed the sale of Valesul on 1 July 2006.

PRODUCTION AND SHIPMENT REPORT									
								QUARTER ENDED	
		SEPT	DEC	MAR	JUNE	**SEPT**		**SEPT**	SEPT
		2005	2005	2006	2006	**2006**		**2006**	2005
BASE METALS									
BHP Billiton attributable production and sales unless otherwise stated. Metals production is payable metal unless otherwise stated.									
<u>Escondida, Chile</u>									
Material mined (100%)	('000 tonnes)	90,919	92,155	90,781	94,429	**59,601**		**59,601**	90,919
Sulphide ore milled (100%)	('000 tonnes)	22,255	22,161	21,843	21,473	**18,257**		**18,257**	22,255
Average copper grade	(%)	1.60%	1.58%	1.62%	1.63%	**1.55%**		**1.55%**	1.60%
Production ex Mill (100%)	('000 tonnes)	304.4	304.0	302.8	295.9	**234.0**		**234.0**	304.4
Production									

	Payable copper	('000 tonnes)	168.6	169.0	168.2	165.2	**129.7**		**129.7**	168.6
	Payable gold concentrate	(fine ounces)	19,194	19,200	17,877	23,567	**17,049**		**17,049**	19,194
	Copper cathode (EW)	('000 tonnes)	19.6	20.0	15.4	11.7	**17.5**		**17.5**	19.6
	Payable silver concentrate	('000 ounces)	795	945	714	925	**724**		**724**	795
	Sales									
	Payable copper	('000 tonnes)	169.4	160.7	184.4	158.6	**133.8**		**133.8**	169.4
	Payable gold concentrate	(fine ounces)	19,294	18,145	20,159	22,627	**17,778**		**17,778**	19,294
	Copper cathode (EW)	('000 tonnes)	19.3	19.4	16.7	11.5	**14.2**		**14.2**	19.3
	Payable silver concentrate	('000 ounces)	803	892	802	891	**752**		**752**	803
Tintaya, Peru (a)										
	Material mined	('000 tonnes)	17,228	17,107	15,960	11,539	**-**		**-**	17,228
	Sulphide Ore milled	('000 tonnes)	1,546	1,734	1,523	1,123	**-**		**-**	1,546
	Average copper grade	(%)	1.33%	1.26%	1.26%	1.33%	**-**		**-**	1.33%
	Production									
	Payable copper	('000 tonnes)	17.3	18.1	16.2	12.9	**-**		**-**	17.3
	Payable gold concentrate	(fine ounces)	8,048	8,200	8,032	4,958	**-**		**-**	8,048
	Copper cathode (EW)	('000 tonnes)	9.7	9.9	9.1	6.1	**-**		**-**	9.7
	Payable silver concentrate	('000 ounces)	167	168	138	119	**-**		**-**	167
	Sales									
	Payable copper	('000 tonnes)	17.0	19.4	15.1	12.0	**-**		**-**	17.0
	Payable gold concentrate	(fine ounces)	6,783	8,376	8,016	5,079	**-**		**-**	6,783
	Copper cathode (EW)	('000 tonnes)	10.3	9.8	8.3	7.1	**-**		**-**	10.3
	Payable silver concentrate	('000 ounces)	161	207	127	109	**-**		**-**	161
	(a) BHP Billiton sold Tintaya effective from June 1, 2006.									
Cerro Colorado, Chile										

	Material mined	('000 tonnes)	16,696	17,107	17,926	18,258	**16,334**		**16,334**	16,696
	Ore milled	('000 tonnes)	3,344	4,348	4,266	4,490	**4,508**		**4,508**	3,344
	Average copper grade	(%)	0.79%	0.90%	0.94%	0.83%	**0.80%**		**0.80%**	0.79%
	Production									
	Copper cathode (EW)	('000 tonnes)	14.5	21.5	28.1	30.0	**30.0**		**30.0**	14.5
	Sales									
	Copper cathode (EW)	('000 tonnes)	15.0	19.7	24.4	34.5	**27.9**		**27.9**	15.0
Antamina, Peru										
	Material mined (100%)	('000 tonnes)	32,839	32,598	28,982	29,740	**29,917**		**29,917**	32,839
	Sulphide ore milled (100%)	('000 tonnes)	7,367	8,349	7,549	7,196	**7,581**		**7,581**	7,367
	Average head grades									
	- Copper	(%)	1.30%	1.36%	1.48%	1.45%	**1.22%**		**1.22%**	1.30%
	- Zinc	(%)	1.04%	0.51%	0.62%	0.88%	**0.87%**		**0.87%**	1.04%
	Production									
	Payable copper	('000 tonnes)	27.9	34.3	32.9	29.1	**29.0**		**29.0**	27.9
	Payable zinc	(tonnes)	14,959	5,148	7,534	12,638	**13,585**		**13,585**	14,959
	Payable silver	('000 ounces)	642	859	865	808	**713**		**713**	642
	Payable molybdenum	(tonnes)	573	772	632	538	**719**		**719**	573
	Sales									
	Payable copper	('000 tonnes)	30.7	35.5	30.5	25.6	**33.9**		**33.9**	30.7
	Payable zinc	(tonnes)	13,203	7,894	9,634	7,638	**14,224**		**14,224**	13,203
	Payable silver	('000 ounces)	669	813	750	505	**713**		**713**	669
	Payable molybdenum	(tonnes)	538	751	697	627	**719**		**719**	538
Cannington, Australia										
	Material mined	('000 tonnes)	910	887	799	496	**428**		**428**	910
	Ore milled	('000 tonnes)	772	850	809	589	**478**		**478**	772
	Average head grades									
	- Silver	(g/t)	453	493	431	469	**385**		**385**	453
	- Lead	(%)	9.9%	10.8%	9.8%	10.9%	**10.7%**		**10.7%**	9.9%

	- Zinc	(%)	3.3%	3.5%	4.0%	4.1%	**3.5%**		**3.5%**	3.3%
	Production									
	Payable silver	('000 ounces)	9,579	11,672	9,693	7,503	**5,714**		**5,714**	9,579
	Payable lead	(tonnes)	64,873	77,187	68,754	55,507	**48,977**		**48,977**	64,873
	Payable zinc	(tonnes)	14,188	18,780	20,885	14,926	**10,426**		**10,426**	14,188
	Sales									
	Payable silver	('000 ounces)	9,078	11,972	9,061	8,516	**5,010**		**5,010**	9,078
	Payable lead	(tonnes)	59,942	79,474	63,112	62,787	**39,694**		**39,694**	59,942
	Payable zinc	(tonnes)	10,676	16,814	17,508	20,121	**6,346**		**6,346**	10,676
Olympic Dam, Australia										
	Material mined (a)	('000 tonnes)	2,007	2,145	2,065	2,002	**2,178**		**2,178**	2,007
	Ore milled	('000 tonnes)	2,345	2,430	2,343	2,517	**2,043**		**2,043**	2,345
	Average copper grade	(%)	2.26%	2.32%	2.10%	2.10%	**2.10%**		**2.10%**	2.26%
	Average uranium grade	kg/t	0.64	0.65	0.59	0.55	**0.57**		**0.57**	0.64
	Production									
	Copper cathode (ER)	('000 tonnes)	44.2	48.6	43.1	50.5	**38.4**		**38.4**	44.2
	Copper cathode (EW)	('000 tonnes)	4.9	4.9	4.0	4.1	**3.2**		**3.2**	4.9
	Uranium oxide concentrate	(tonnes)	1,088	1,070	913	865	**793**		**793**	1,088
	Refined gold	(fine ounces)	26,424	27,300	26,186	27,636	**24,111**		**24,111**	26,424
	Refined silver	('000 ounces)	179	222	245	238	**198**		**198**	179
	Sales									
	Copper cathode (ER)	('000 tonnes)	47.5	44.9	44.1	49.0	**41.6**		**41.6**	47.5
	Copper cathode (EW)	('000 tonnes)	5.2	5.8	4.2	4.1	**3.5**		**3.5**	5.2
	Uranium oxide concentrate	(tonnes)	879	1,287	992	1,183	**620**		**620**	879
	Refined gold	(fine ounces)	21,192	26,369	27,300	27,375	**23,233**		**23,233**	21,192
	Refined silver	('000 ounces)	144	254	178	320	**188**		**188**	144
	(a) Material mined refers to run of mine ore mined and hoisted.									

Pinto Valley, USA									
Production									
Copper cathode (EW)	('000 tonnes)	2.2	2.1	2.1	2.1	**2.1**		**2.1**	2.2
Sales									
Copper cathode (EW)	('000 tonnes)	2.3	2.6	2.6	2.6	**2.6**		**2.6**	2.3

PRODUCTION AND SHIPMENT REPORT								
							QUARTER ENDED	
	SEPT	DEC	MAR	JUNE	**SEPT**		**SEPT**	SEPT
	2005	2005	2006	2006	**2006**		**2006**	2005
CARBON STEEL MATERIALS								
BHP Billiton attributable production and sales unless otherwise stated.								
('000 tonnes)								
IRON ORE (a)								
Pilbara, Australia								
Production								
Mt Newman Joint Venture	6,234	6,166	5,884	6,490	**7,394**		**7,394**	6,234
Goldsworthy Joint Venture	1,393	1,669	1,371	1,808	**806**		**806**	1,393
Area C Joint Venture	4,286	4,969	3,332	5,401	**4,821**		**4,821**	4,286
Yandi Joint Venture	8,409	8,372	8,561	8,854	**8,504**		**8,504**	8,409
Jimblebar (b)	1,645	1,569	1,549	1,607	**1,490**		**1,490**	1,645
Total (BHP Billiton share)	21,967	22,745	20,697	24,160	**23,015**		**23,015**	21,967
Total production (100%)	25,553	26,760	24,350	28,423	**27,076**		**27,076**	25,553
Sales								
Lump	5,991	6,483	5,276	6,092	**6,429**		**6,429**	5,991
Fines	15,837	16,357	15,547	18,481	**16,337**		**16,337**	15,837
Total (BHP Billiton share)	21,828	22,840	20,823	24,573	**22,766**		**22,766**	21,828
Total sales (100%)	25,389	26,871	24,498	28,909	**26,784**		**26,784**	25,389

(a) Iron ore production and shipments are reported on a wet tonnes basis.

(b) From October 1, 2005 Jimblebar production is disclosed on an 85% saleable production basis, prior production is disclosed at 100%.

Samarco, Brazil								
Production	1,881	1,865	1,802	1,955	**1,988**		**1,988**	1,881
Shipments	1,900	2,155	1,532	2,022	**1,872**		**1,872**	1,900

METALLURGICAL COAL (a)									
Queensland, Australia									
Production									
BMA									
Blackwater		1,627	1,409	1,533	1,449	**1,536**		**1,536**	1,627
Goonyella		1,609	1,921	1,751	1,986	**1,892**		**1,892**	1,609
Peak Downs		1,250	1,186	1,095	858	**1,202**		**1,202**	1,250
Saraji		675	602	563	794	**682**		**682**	675
Norwich Park		759	678	550	675	**631**		**631**	759
Gregory Joint Venture		773	645	480	712	**714**		**714**	773
BMA total		6,693	6,441	5,972	6,474	**6,657**		**6,657**	6,693
BHP Mitsui Coal (b)									
South Walker Creek		726	710	763	850	**873**		**873**	726
BHP Mitsui Coal total		726	710	763	850	**873**		**873**	726
Queensland total		7,419	7,151	6,735	7,324	**7,530**		**7,530**	7,419
Shipments									
Coking coal		4,869	4,987	5,032	5,798	**5,190**		**5,190**	4,869
Weak coking coal		1,207	1,366	1,342	1,444	**1,600**		**1,600**	1,207
Thermal coal		579	403	482	581	**344**		**344**	579
Total		6,655	6,756	6,856	7,823	**7,134**		**7,134**	6,655
(a) Metallurgical coal production is reported on the basis of saleable product. Production figures include some thermal coal.									
(b) Shown on 100% basis. BHP Billiton interest in saleable production is 80%.									
Illawarra, Australia									
Production		1,567	1,822	1,725	1,900	**1,717**		**1,717**	1,567
Shipments									
Coking coal		1,190	1,457	1,508	1,292	**1,366**		**1,366**	1,190
Thermal coal		383	103	313	136	**188**		**188**	383
Total		1,573	1,560	1,821	1,428	**1,554**		**1,554**	1,573
MANGANESE ORE									
South Africa									
Saleable production (a)		566	529	532	673	**644**		**644**	566
Australia									
Saleable production (a)		821	749	694	716	**865**		**865**	821

MANGANESE ALLOY									
South Africa									
	Saleable production (a)		79	105	119	131	**93**	**93**	79
Australia									
	Saleable production (a)		60	60	54	44	**60**	**60**	60
(a)	Shown on 100% basis. BHP Billiton interest in saleable production is 60%.								

PRODUCTION AND SHIPMENT REPORT								
							QUARTER ENDED	
		SEPT	DEC	MAR	JUNE	**SEPT**	**SEPT**	SEPT
		2005	2005	2006	2006	**2006**	**2006**	2005
DIAMONDS AND SPECIALTY PRODUCTS								
BHP Billiton attributable production and sales unless otherwise stated.								
DIAMONDS								
Ekati™, Canada								
Ore Processed (100%)	('000 tonnes)	1,158	962	995	1,181	**1,199**	**1,199**	1,158
Production	('000 carats)	852	614	512	583	**487**	**487**	852
FERTILISER								
Southern Cross Fertiliser Operations, Australia (a)								
Production (b)	('000 tonnes)	244.9	252.6	222.5	141.3	**84.3**	**84.3**	244.9
Sales (b)	('000 tonnes)	175.5	221.2	200.4	304.4	**41.6**	**41.6**	175.5
(a)	BHP Billiton completed the sale of Southern Cross Fertiliser operations on 1 August 2006.							
(b)	Includes diammonium phosphate and monoammonium phosphate.							

PRODUCTION AND SHIPMENT REPORT							
						QUARTER ENDED	
	SEPT	DEC	MAR	JUNE	**SEPT**	**SEPT**	SEPT
	2005	2005	2006	2006	**2006**	**2006**	2005
ENERGY COAL							
BHP Billiton attributable production and sales unless otherwise stated.							
('000 tonnes)							

Ingwe, South Africa							
Production	14,549	12,940	11,605	12,854	**13,151**	**13,151**	14,549
Sales							
Export	5,436	6,273	5,658	4,271	**5,168**	**5,168**	5,436
Local utility	8,013	7,250	7,328	7,365	**7,552**	**7,552**	8,013
Inland	309	268	203	253	**255**	**255**	309
Total	13,758	13,791	13,189	11,889	**12,975**	**12,975**	13,758
New Mexico, USA							
Production							
Navajo Coal	2,238	2,252	2,305	1,471	**1,778**	**1,778**	2,238
San Juan Coal	2,323	1,813	524	2,420	**1,689**	**1,689**	2,323
Total	4,561	4,065	2,829	3,891	**3,467**	**3,467**	4,561
Sales - local utility	3,769	3,628	3,553	3,556	**3,822**	**3,822**	3,769
Hunter Valley, Australia							
Production	2,568	2,045	1,897	2,636	**2,766**	**2,766**	2,568
Sales							
Export	1,570	1,312	1,267	1,048	**1,245**	**1,245**	1,570
Inland	983	793	643	1,475	**1,031**	**1,031**	983
Total	2,553	2,105	1,910	2,523	**2,276**	**2,276**	2,553
Cerrejon Coal, Colombia							
Production	2,332	2,237	2,341	2,406	**2,398**	**2,398**	2,332
Sales - export	2,170	2,087	2,116	2,387	**2,336**	**2,336**	2,170

PRODUCTION AND SHIPMENT REPORT							
						QUARTER ENDED	
	SEPT	DEC	MAR	JUNE	**SEPT**	**SEPT**	SEPT
	2005	2005	2006	2006	**2006**	**2006**	2005
STAINLESS STEEL MATERIALS							
BHP Billiton attributable production and sales unless otherwise stated.							
('000 tonnes)							
NICKEL							
CMSA, Colombia							
Production	12.8	13.0	12.9	12.8	**12.7**	**12.7**	12.8
Sales	11.1	14.2	12.4	13.6	**11.7**	**11.7**	11.1

Yabulu, Australia										
	Production									
	Nickel metal		6.1	5.9	7.0	4.3	**7.3**		**7.3**	6.1
	Cobalt		0.3	0.2	0.3	0.2	**0.3**		**0.3**	0.3
	Sales									
	Nickel metal		6.3	6.6	6.9	4.9	**6.0**		**6.0**	6.3
	Cobalt		0.4	0.3	0.4	0.3	**0.4**		**0.4**	0.4

Certification of Chief Executive Officer and Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

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ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

Audit Fees

Lazar Levine and Felix LLP ("LLF") is the Company's independent auditors. Audit and review fees for the years ended June 30, 2006 and 2005 aggregated $59,560 (**Julie - please confirm**) and $51,000, respectively. LLF was hired effective October 27, 2004.

Audit-Related Fees

For the years ended June 30, 2006 and 2005, the Company was billed $1,500 and $1,700, respectively, for fees related to a registration statement.

Tax Fees

For the years ended June 30, 2006 and 2005, the Company did not receive any tax compliance, tax advice, and tax planning services for which we were billed.

All Other Fees

For the years ended June 30, 2006 and 2005, the Company was not billed for products and services other than those described above.

Audit Committee Pre-Approval Policies

The Board of Directors, which is performing the equivalent functions of an audit committee, has pre-approved all audit services provided by the independent auditors, and the compensation, fees and terms for such services. No permitted non-audit services were provided or approved by the Board of Directors.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this Report to be signed on its behalf by the undersigned, hereunto duly authorized.

ELEMENT 21 GOLF COMPANY

Date: October xx, 2006

By: /s/ Nataliya Hearn

Nataliya Hearn
President and Director

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, this Report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated:

Date: October 13, 2006

By: /s/ Nataliya Hearn

Nataliya Hearn, Ph.D.
President, Chief Executive Officer and Director

Date: October 13, 2006

By: /s/ Gerald Enloe

Gerald Enloe
Director

Date: October 13, 2006

By: /s/ John Grippo

John Grippo
Chief Financial Officer

ELEMENT 21 GOLF COMPANY AND SUBSIDIARIES

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REPORT OF REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders and Board of Directors
Element 21 Golf Company
Toronto, Canada

We have audited the accompanying consolidated balance sheet of Element 21 Golf Company and subsidiaries, (the "Company") as of June 30, 2006 and the consolidated statements of operations, shareholders' deficit and cash flows for the two years in the period ended June 30, 2006. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Element 21 Golf Company and subsidiaries as of June 30, 2006 and 2005 and the results of its operations and its cash flows for the years then ended and, in conformity with accounting principles generally accepted in the United States of America.

The accompanying consolidated financial statements have been prepared assuming the Company will continue as a going concern. As discussed in Note 1(b), the Company's recurring losses from operations and its dependency on future financing raise substantial doubt about its ability to continue as a going concern. Management's plans concerning these matters are also discussed in Note 1(b). The consolidated financial statements do not include any adjustments that might result from the outcome of these uncertainties.

LAZAR LEVINE & FELIX LLP

New York, New York
October 13, 2006

ELEMENT 21 GOLF COMPANY
CONSOLIDATED BALANCE SHEETS
JUNE 30, 2006 AND 2005

- ASSETS -

CURRENT ASSETS:		2006		2005
Cash	$	263,219	$	1,148
Accounts receivable - net of allowance for doubtful accounts of $0		11,994		36,451
Inventories		128,382		170,928
Prepaid expenses and other current assets		17,907		6,380
TOTAL CURRENT ASSETS		421,502		214,907
FIXED ASSETS - NET		510,530		12,712
TOTAL ASSETS	$	932,032	$	227,619

- LIABILITIES AND SHAREHOLDERS' DEFICIT -

CURRENT LIABILITIES				
Accounts payable	$	157,191	$	416,446
Accrued expenses		1,054,858		543,000
Accrued interest		31,485		
Convertible notes		348,581		
Derivative liability		1,491,945		
TOTAL CURRENT LIABILITIES		3,084,060		959,446
LONG-TERM LIABILITIES:				
Accounts payable - related parties		104,162		483,764
Loans and advances - officers/shareholders		504,001		484,251
TOTAL LONG-TERM LIABILITIES		608,163		968,015
COMMITMENTS AND CONTINGENCIES				
SHAREHOLDERS' DEFICIT				
Preferred stock, $.10 par value, authorized 5,000,000 shares, no shares issued and outstanding		-		-
Series A Preferred stock, $.001 par value, authorized 5,000,000 shares, 2,113,556 shares issued and outstanding		2,114		
Common stock, $.01 par value; 300,000,000 shares authorized 99,630,554 shares issued and outstanding		996,308		874,872
Additional paid-in capital		13,727,963		10,141,767
Accumulated deficit		(17,486,576)		(12,716,481)
		(2,760,191)		(1,669,842)
TOTAL LIABILITIES AND SHAREHOLDERS' DEFICIT	$	932,032	$	227,619

See notes to consolidated financial statements.

ELEMENT 21 GOLF COMPANY
CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE YEARS ENDED JUNE 30, 2006 AND 2005

	Year Ended June 30,.			
		2006		2005
REVENUES	$	51,569	$	65,635
COSTS AND EXPENSES				
Costs of sales		25,722		39,380
General and administrative		4,232,371		1,379,186
Depreciation expense		171,704		-
Interest expense		382,818		-
TOTAL COSTS AND EXPENSES		4,812,615		1,418,566
LOSS FROM OPERATIONS		(4,761,046)		(1,352,931)
OTHER INCOME (EXPENSE):				
Other expense, net		(9,409)		-
LOSS BEFORE PROVISION FOR INCOME TAXES		(4,770,095)		(1,352,931)
Provision for income taxes		-		-
NET LOSS	$	(4,770,095)	$	(1,352,931)
Basic and diluted weighted average shares		97,764,539		86,089,275
Basic and diluted loss per share	**$**	(0.05)	$	(0.02)

See notes to consolidated financial statements.

ELEMENT 21 GOLF COMPANY
CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' DEFICIT
FOR THE YEARS ENDED JUNE 30, 2006 AND 2005

	Shares	Series A Preferred Stock	Common Stock	Additional Paid-In Capital	Deficit Accumulated During the Development Stage	Accumulated Deficit	Total Shareholders' Equity (Deficit)
Balance, June 30, 2004	82,653,312	$ -	$ 826,533	$ 9,871,868	$ 3,261,401)	$ (8,102,149)	$ (665,149)
Issuance of common stock for services	4,833,929		48,339	269,899	-	-	318,238
Reclass development stage deficit	-		-	-	3,261,401	(3,261,401)	-
Net loss	-	-	-	-	-	(1,352,931)	(1,352,931)
Balance, June 30, 2005	87,487,241	$ -	$ 874,872	$ 10,141,767	$ -	$ (12,716,481)	$ (1,699,842)
Issuance of Series A Preferred Stock		2,114		2,111,442			2,113,556
Beneficial conversion feature of convertible preferred stock					543,512		
Deemed dividend					(543,512)		
Issuance of warrants for services				219,020			219,020
Issuance of convertible notes				63,234			63,234
Compensatory warrants				274,000			274,000
Sale of warrants				80,000			80,000
Issuance of common stock for services	12,143,313		121,436	838,500	-	-	959,936
Net loss	-		-	-	-	(4,770,095)	(4,770,095)
Balance, June 30, 2006	99,630,554	$ 2,114	$ 996,308	$ 13,727,963	$ -	$ (17,486,576)	$ (2,760,191)

See notes to consolidated financial statements.

ELEMENT 21 GOLF COMPANY
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2006 AND 2005

		2006		2005
CASH FLOWS FROM OPERATING ACTIVITIES:				
Net loss	$	(4,770,095)	$	(1,352,931)
Adjustments to reconcile net loss to net cash (used in) operating activities:				
Compensatory common stock and warrants		1,233,936		318,238
Compensatory preferred stock		777,397		
Depreciation		171,704		747
Amortization of discount to convertible notes		348,581		
Excess derivative liability expense		392,179		
Changes in:				
Accounts receivable		24,457		(36,451)
Inventories		42,546		(170,928)
Prepaid expenses and other current assets		(11,527)		(4,193)
Accounts payable		(259,255)		319,701
Accrued interest		31,485		
Derivative liability		1,491.945		
Accrued expenses		511,858		511,063
Net cash provided by (used in) operating activities		(14,789)		(414,754)
CASH FLOW FROM INVESTING ACTIVITIES:				
Purchase of capital assets		(669,522)		(13,459)
Net cash (used in) investing activities		(669,522)		(13,459)
CASH FLOWS FROM FINANCING ACTIVITIES:				
Advances from related parties		(379,602)		(29,866)
Beneficial conversion feature of convertible notes		63,234		
Proceeds from sale of warrants		80,000		
Proceeds from issuance of convertible notes		1,163,000		
Loan proceeds from shareholders		19,750		456,433
Net cash provided from financing activities		946,382		426,567
NET (DECREASE) INCREASE IN CASH		262,071		(1,646)
CASH, BEGINNING OF YEAR		1,148		2,794
CASH, END OF YEAR	$	263,219	$	1,148
SUPPLEMENTAL CASH FLOW INFORMATION:				
Interest paid	**$**	**-**	$	-
Taxes paid		**-**		-

See notes to consolidated financial statements.

ELEMENT 21 GOLF COMPANY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2006 AND 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

(a) Organization and Basis of Presentation:

In September of 2002, BRL Holdings, Inc. (“BRL”) acquired Element 21 Technologies, Inc. (“Technologies”) under an Amended and Restated Agreement (the “Agreement”) wherein BRL issued 42,472,420 shares of its common stock to shareholders of Technologies and assumed Technologies’ obligations under option agreements allowing for the purchase of 6,432,000 additional shares of common stock. Technologies was a development stage company formed to design, develop and market E21 alloy golf clubs. This acquisition was accounted for as a reverse acquisition using the purchase method of accounting, as the shareholders of Technologies assumed control immediately following the acquisition.

Immediately following the closing of the Technologies acquisition BRL declared: 1) a 2 for 1 split of its common stock effected in the form of a dividend and 2) a dividend of 100% of its ownership of TVI (now named AssureTec Holdings, Inc. (“AssureTec”) and Advanced Conductor Technologies, Inc. (“ACT”) which collectively represented substantially all of BRL’s assets prior to its acquisition of Technologies (the “Spin-Off”) and the officers and directors immediately prior to the acquisition resigned. The shareholders who received common stock in connection with the Technologies acquisition have received the stock dividend, but have waived their rights to receive distributions associated with the planned Spin-Off. The Spin-Off has not yet been effected and will only occur after compliance with Securities and Exchange Commission regulations.

In October 2003, BRL Holdings, Inc. changed its name to Element 21 Golf Company (the “Company”).

In May 2001, the Company declared a reverse split of the then outstanding common stock of the Company on a one-for-12.5 basis. In July of 2001 the Company formed Advanced Conductor Technologies, Inc (“ACT”) and I-JAM Entertainment, Inc. (I-JAM) as wholly owned subsidiaries. These entities were formed in anticipation of certain merger and acquisition transactions, which were never consummated. These entities currently have no operating business and no sources of revenue. In November 2001, the Company issued 6,354,000 shares of its common stock under an Acquisition Agreement (the “Acquisition”) with AssureTec wherein the Company received 100% of AssureTec’s common stock. Effective April 1, 2002 the Company repurchased 5,704,000 shares of its common stock issued in connection with the Acquisition from founding shareholders of AssureTec in exchange for a like number of AssureTec common stock held by the Company. As a result of these transactions and the issuance of additional shares of AssureTec to employees on the exercise of stock options, the Company’s ownership fell to 34.2 % of AssureTec as of June 30, 2002. As of June 2005, this investment has been written down to zero as a result of losses incurred by AssureTec.

Upon the closing of the Technologies acquisition, as discussed above, the Company reported as a development stage enterprise effective September 17, 2002. During fiscal year 2005, the Company commenced active operations and began reporting revenues during the last quarter of the year. As such, the Company is no longer reporting as a development stage entity.

ELEMENT 21 GOLF COMPANY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2006 AND 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

(b) Going Concern:

These financial statements have been presented on the basis that the Company is a going concern, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. The Company's subsidiaries are inactive and are not expected to produce significant revenues or generate cash. During the last quarter of fiscal year 2005, the Company commenced sales of its products and has begun generating revenue. However, as of June 30, 2006, the Company continues to have negative working capital of $xx, an accumulated deficit of **$17,471,208** ($3,261,401 of which was realized during the development stage period from September 17, 2002 to June 30, 2004), a total shareholders' deficit of **$OPEN** and for the year ended June 30, 2006 incurred a net loss of **$4,754,727**, all of which raise substantial doubt about the Company's ability to continue as a going concern.

Managements' plans for the Company include more aggressive marketing, raising additional capital and other strategies designed to optimize shareholder value. However, no assurance can be made that management will be successful in fulfilling all components of its plan. The failure to achieve these plans will have a material adverse effect on the Company's financial position, results of operations and ability to continue as a going concern.

(c) Principles of Consolidation:

The accompanying consolidated financial statements include the accounts of the company and its wholly owned, inactive subsidiaries (Element 21 Technologies, Inc. and Advanced Conductor Technologies, Inc.). All significant inter-company accounts and transactions have been eliminated.

(d) Use of Estimates:

The preparation of financial statements in conformity with generally accepted accounting principles in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(e) Fair Value of Financial Instruments:

The Company's financial instruments consist of cash, short-term receivables and payables. The carrying value of all instruments approximates their fair value.

(f) Cash and Cash Equivalents:

For purposes of the statements of cash flows, the Company considers all highly liquid investments purchased with a remaining maturity of three months or less to be cash equivalents.

(g) Inventories:

Inventories, which consist primarily of goods held for resale, are stated at the lower of cost (first-in, first-out method) or market.

ELEMENT 21 GOLF COMPANY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2006 AND 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

(h) Fixed Assets and Depreciation:

Fixed assets are recorded at cost. Expenditures for major additions and improvements are capitalized and minor replacements, maintenance and repairs are expensed as incurred. Depreciation is provided over the estimated useful lives of the related assets using the straight-line method for financial statement purposes. The estimated useful lives are as follows:

Furniture and fixtures	5 years
Computer equipment	3 years
Office equipment	5 years

(i) Revenue Recognition:

The Company recognizes revenue in accordance with the Securities and Exchange Commission Staff Accounting Bulletin No. 104, "Revenue Recognition" ("SAB 104"). Under SAB 104, revenue is recognized when there is persuasive evidence of an arrangement, delivery has occurred or services have been rendered, the sales price is determinable, and collectibility is reasonably assured. Revenues from product sales are recognized when title passes to customers, which is when goods are shipped.

(j) Income Taxes:

Deferred income taxes are recognized for the tax consequences in future years for differences between the tax bases of assets and liabilities and their financial reporting amounts at each year-end based on enacted tax laws and statutory tax rates applicable to the periods in which the differences are expected to affect taxable income. Valuation allowances are established when necessary to reduce deferred tax assets to the amount expected to be realized. Income tax expense is the tax payable for the period and the change during the period of deferred tax assets and liabilities.

(k) Stock-Based Compensation:

The Company accounts for employee stock-based compensation arrangements in accordance with the provisions of Accounting Principles Board ("APB") Opinion No. 25, "Accounting for Stock Issued to Employees," Financial Accounting Standards Board Interpretation ("FASB") No. 44 ("FIN 44"), "Accounting for Certain Transactions Involving Stock Compensation — an Interpretation of APB Opinion No. 25," and complies with the disclosure provisions of Statement of Financial Accounting Standards No. 123 ("SFAS No. 123"), "Accounting for Stock-Based Compensation." The Company accounts for equity instruments issued to non-employees in accordance with the provisions of SFAS No. 123 and Emerging Issues Task Force ("EITF") No. 96-18, "Accounting for Equity Instruments That Are Issued to Other Than Employees for Acquiring, or in Conjunction with Selling, Goods or Services."

The Company does not maintain a formal incentive compensation plan covering its employees, directors and independent contractors. Options to purchase the Company's common stock vest at varying intervals, but in general, typically vest over two to four year periods. An option's maximum term is ten years. See Note 3 for additional information regarding the Company's stock options.

IS THIS STILL ACCURATE?? NEW EQUITY COMPENSATION PLAN APPROVED - SEE ITEM 5 IN 10-KSB

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ELEMENT 21 GOLF COMPANY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2006 AND 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

(k) Stock-Based Compensation (Continued):

If compensation cost for the Company's stock-based compensation plans had been determined in a manner consistent with the fair value approach described in SFAS No. 123, the Company's net loss and net loss per share as reported would have been reduced to the pro forma amounts indicated below:

	Year Ended June 30,			
		2006		2005
Net loss, as reported	**$**	**(4,754,727)**	$	(1,352,931)
Add back: stock-based compensation costs included in the determination of net loss, as reported		**-**		-
Less: Stock-based compensation had all options been recorded at fair at fair value		-		-
Adjusted net loss	**$**	()	$	(1,352,931)
Weighted average shares outstanding, basic and diluted				86,089,275
Net loss per share, basic and diluted, as reported	**$**	**(0.xx)**	$	(0.02)
Adjusted net loss per share, basic and diluted	**$**	**(0.xx)**	$	(0.02)

Basic and diluted losses per share of common stock are the same for 2006 and 2005 since there are no potentially dilutive stock options at June 30, 2006 or June 30, 2005.

(l) Net Loss Per Common Share:

Basic net loss per common share is computed by dividing the net loss applicable to common shareholders by the weighted average number of common shares outstanding during the period. Diluted net loss per common share reflects, in addition to the weighted average number of common shares, the potential dilution if common stock options were exercised into common stock, unless the effects of such exercises would have been antidilutive.

(m) New Accounting Pronouncements Affecting the Company:

In December 2004, the FASB issued SFAS No. 123 (revised 2004), or SFAS 123R, "Share-Based Payment." This statement replaces SFAS 123, "Accounting for Stock-Based Compensation" and supersedes Accounting Principles Board's Opinion No. 25 (ABP 25), "Accounting for Stock Issued to Employees." SFAS 123R will require us to measure the cost of our employee stock-based compensation awards granted after the effective date based on the grant date fair value of those awards and to record that cost as compensation expense over the period during which the employee is required to perform services in exchange for the award (generally over the vesting period of the award). SFAS 123R addresses all forms of share-based payments awards, including shares issued under employee stock purchase plans, stock options, restricted stock and stock appreciation rights. In addition, we will be required to record compensation expense (as previous awards continue to vest) for the unvested portion of previously granted awards that remain outstanding at the date of adoption. SFAS 123R is effective for us (a small business issuer) beginning with the first interim or annual reporting period that begins after December 15, 2005. Therefore, we are required to implement the standard no later than the fiscal quarter which begins on January 1, 2006. SFAS 123R permits public companies to adopt its requirements using the following methods: (1) a "modified prospective" method in which compensation cost is recognized beginning with the effective date (a) based on the requirements of SFAS 123R for all share-based payments granted after the effective date and (b) based on the requirements of SFAS 123 for all awards granted to employees prior to the effective date of SFAS 123R that remain unvested on the effective date; or (2) a "modified retrospective" method which includes the requirements of the modified prospective method described above, but also permits entities to restate their financial statements based on the amounts previously recognized under SFAS 123 for purposes of pro forma disclosures for either (a) all prior periods presented or (b) prior interim periods of the year of adoption.

ELEMENT 21 GOLF COMPANY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2006 AND 2005

(m) New Accounting Pronouncements Affecting the Company (Continued):

We are currently evaluating the alternative methods of adoption as described above. As permitted by SFAS 123, we currently account for share-based payments to employees using APB 25's intrinsic value method and, as such, generally recognize no compensation cost for employee stock options. Accordingly, the adoption of SFAS 123R's fair value method will have a significant impact on our results of operations, although it will have no negative impact on our cash flow. The impact of adoption of SFAS 123R cannot be predicted at this time because it will depend on levels of share-based payments granted in the future. See "Note 2k above for information related to the pro forma effects on our reported net loss and net loss per share of applying the fair value recognition provisions of the previous SFAS 123 to stock-based employee compensation.

In June 2005, the FASB issued Statement of Financial Accounting Standard No. 154, *Accounting Changes and Error Corrections*, ("SFAS 154"). SFAS 154 replaces Accounting Principle Bulletin No. 20 ("APB 20"), and Statement of Financial Accounting Standard No. 3, *Reporting Accounting Changes in Interim Financial Statements* ("SFAS 3"), and applies to all voluntary changes in accounting principle, and changes the requirements for accounting for and reporting of a change in accounting principle. APB 20 previously required that most voluntary changes in accounting principle be recognized by including in net income of the period of change a cumulative effect of changing to the new accounting principle, whereas SFAS 154 requires retrospective application to prior periods' financial statements of a voluntary change in accounting principle unless it is impracticable. SFAS 154 enhances the consistency of financial information between periods. SFAS 154 is effective for fiscal years beginning after December 15, 2005. Our adoption of SFAS 154 is not expected to have a material impact on our results of operations or financial position.

In July 2006, the FASB issued FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* (FIN 48), which, among other things, requires applying a "more likely than not" threshold to the recognition and derecognition of tax positions. The provisions of FIN 48 will be effective for us on July 1, 2007. We are currently evaluating the impact of adopting FIN 48 on the financial statements, but we do not expect its adoption to have a significant transition effect.

ELEMENT 21 GOLF COMPANY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2006 AND 2005

NOTE 2 - FIXED ASSETS:

Fixed assets consists of the following:

Furniture and fixtures	$		$	
Computer equipment				
Office equipment				
Less: accumulated depreciation				
	$	**510,530**	**$**	

Depreciation expense for the fiscal 2006 year aggregated $171,704.

NOTE 3 - RELATED PARTY TRANSACTIONS:

(a) Accounts Payable - Non-Current:

Since April of 1996 and until June 30, 2005, the Company had engaged R T Robertson Consultants, Inc. (“Robertson”) and Robertson Advisors, LLC (‘Advisors”), consulting firms controlled by family members of Dr. R. Bruce Reeves, to perform the executive duties of the Company without specific compensation. Mr. Reeves was a member of the Board of Directors, President, and Chief Executive Officer of the Company until October 4, 2002. In this capacity and as an employee of the consulting firm, Dr. Reeves managed ongoing business activities of the Company until the transaction in September 2002. During the fiscal year ended June 30, 2005, Robertson and/or Advisors charged $135,000 in administrative management oversight plus $9,049 in billable expenses to the Company and its subsidiaries. At June 30, 2006, **$117,468** was owed to Robertson, **$132,329** was owed to Advisors, **$1,876** was owed to Dr. Reeves and the balance of **$OPEN** was owed to other related parties. All parties have indicated that payment of these balances is not expected during the next fiscal year.

(b) Loans and Advances - Officers/Shareholders:

During the current fiscal year, the CEO and President of the Company advanced monies to and paid expenses on behalf of the Company, aggregating $yy. Such payments were made on a non-interest bearing basis and the officer has agreed to not demand payment during the next fiscal year.

Included in Accrued Expenses is approximately $500,000 of compensation accrued for our officers and directors. Depending on the financial condition of the Company, this liability may be converted into Company common stock at a future date.

ELEMENT 21 GOLF COMPANY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2006 AND 2005

NOTE 4 CONVERTIBLE NOTES:

Bridge I Financing:

Between January 17 and March 6, 2006, the Company issued 10% Convertible Promissory Notes in the aggregate principal face amount of $540,000 to 15 individual investors. In respect of notes totaling $340,000 ("$340,000 Notes"), each such investor also received three separate warrants (a warrant exercisable for one year, a warrant exercisable for two years, and a warrant exercisable for three years) to purchase shares of the Company's common stock up to an amount equal to the initial investment in the Notes at an exercise price to be determined based on a twenty day trading average of shares of the Company's Common Stock prior to the date of exercise or from and after the date of an equity financing of at least $5.0 million ("Equity Financing"), if that at all occurs, the price per share paid by participants in the equity financing. In respect of one note for $200,000 ("200,000 Note"), the investor received 3,243,243 warrants (1/3 warrants exercisable for one year, 1/3 warrants exercisable for two years, and remaining 1/3 warrants exercisable for three years) with similar terms, except that the warrants are exercisable at an exercise price which is fixed at $0.17 per share. All these warrants are subject to certain anti-dilution price adjustments. The Notes mature one year after issuance and accrue interest at an annual interest rate equal to 10% per annum, payable at maturity. The notes are convertible, at the option of the investor, into shares of Company's Common Stock, upon the consummation by the Company of an Equity Financing, at a price equal to the price per share paid by participants in the equity financing in respect of the $340,000 Notes and at $0.17 per share in respect of the $200,000 Note.

Bridge II Financing:

Between May 5 and June 29th, 2006, the Company issued additional 10% Convertible Promissory Notes in the aggregate principal face amount of $638,000 to 16 individual investors. Each such investor also received warrants, exercisable for one year, to purchase shares of the Company's common stock up to 150% of the investor's initial investment in the Notes at an exercise price equal to lesser of (i) $0.175, or (ii) the ten day trading average of shares of the Company's Common Stock prior to the date of exercise. All these warrants are subject to certain anti-dilution price adjustments. The Notes mature one year after issuance and accrue interest at an annual interest rate equal to 10% per annum, payable at maturity. The notes are convertible, at the option of the investor, into shares of Company's Common Stock at a conversion price equal to the lesser of (i) $0.175, or (ii) the ten day trading average of shares of the Company's Common Stock prior to the date of conversion.

The Company has accounted for the above convertible notes and warrants as follows: Under provisions of Statement of Financial Accounting Standards No. 133, Accounting for Derivative Instruments and Hedging Activities, an embedded conversion option should be bifurcated and accounted for separately as a derivative instrument, unless the specific requirements for equity classification of the embedded conversion option, as stated in EITF 00-19: Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company's Own Stock ("EITF 00-19") are met. EITF 00-19 provides that an equity classification is appropriate if the settlement criteria set forth therein for such classification are met and that the additional conditions necessary for equity classification, set forth therein, are also met.

The Company has analyzed the convertible notes and warrants under the two Bridge financings and has made the following determination:

The conversion option in respect of Bridge I Financing -$340,000 Notes was not valued as management determined that the probability of a Equity Financing of $5.0 million was remote. Even if the option had some value, in absence of a conversion price it was not possible to value the conversion option, if any. The corresponding warrants were determined to be a liability due to a theoretical exercise price that could be very small to cause the number of shares to be issued to be indeterminate and hence outside the control of the Company. This is as per paragraph 20 of EITF 00-19. These warrants were initially valued at $560,610 and have been recorded as discount to the convertible notes with a corresponding credit to warrant liability. The excess of the discount recorded over the face value of the note of $220,610______ has been charged to other expense and the remaining discount of $340,000 is accreted on a straight-line basis over the maturity period of the note. As a result of the Company losing control over the number of shares to be issued (tainting feature"), all embedded derivatives and warrants related to convertible notes issued subsequently defaulted to being a derivative liability.

The conversion option in respect of Bridge I Financing -$200,000 Notes was not valued as management determined that the probability of a Equity Financing of $5.0 million was remote. The corresponding warrants were determined to be a liability due to the tainting feature stated above. These warrants were initially valued at $269,690 and have been recorded as discount to the convertible notes with a corresponding credit to warrant liability. The excess of the discount recorded over the face value of the note of $69,690 has been charged to other expense and the remaining discount of $200,000 is accreted on a straight-line basis over the maturity period of the note.

The conversion option and the warrants in respect of Bridge II Financing were determined to be a liability due to due to the tainting feature stated above. The conversion option and warrants were initially valued at $_____and $_______, respectively and have been recorded as discount to the convertible notes with a corresponding credit to conversion liability and warrant liability, respectively. The excess of the discount recorded over the face value of the note of $_______ has been charged to other expense and the remaining discount of $________ is accreted on a straight-line basis over the maturity period of the note.

The company values the conversion option and the warrants under the Black Scholes option-pricing model with the following assumptions: an expected life equal to the contractual term of the conversion option or warrants, as the case may be; no dividends; a risk free rate of return of ranging from ___ to ____, and volatility of between ______ and _____.

EITF 00-19 requires that the Company revalue the derivative instruments periodically to compute the value in connection with changes in the underlying stock price and other assumptions, with the change in value recorded as interest expense or interest income. Upon the earlier of the warrant exercise or their expiration date, the warrant liability will be reclassified into shareholders' equity. Until that time, the warrant liability will record at fair value based on the methodology described above. Changes in the fair value during each period will be recorded as other income or other expense. The Company similarly revalues the conversion option each reporting period with the change in value recorded as interest expense or interest income.

As of June 30 2006, all warrants issued were revalued and the change in fair value of these warrants from $________ to $_______ or $_______ has been recorded as other **expense/income**. Similarly, the conversion option was revalued as of June 30, 2006 and the change in fair value of the conversion option from $________ to $_______ or $_______ has been recorded as other **expense/income**.

NOTE 5 PREFERRED SHARES:

In February 2006, the Company issued a total of 2,113,556 shares of newly designated Series A Convertible Preferred Stock in order to settle outstanding debts owed to officers and consultants of the Company (a portion of which were for unpaid consulting fees) in the aggregate amount of $2,113,556. The shares of Series A Convertible Preferred Stock are convertible at the option of the holder, at any time after issuance. Each share of Series A Convertible Preferred Stock is convertible into that number of shares of common stock of the Company as is equal to the Original Issue Price of shares of Series A Convertible Preferred Stock, or $1.00, by the Conversion Price which is initially equal to $0.255 and is subject to adjustment in certain cases. Each share of Series A Convertible Preferred Stock carries with it the right to fifty votes.

Also, in February 2006, the Company issued a warrant to purchase 1,000,000 shares of the Company's common stock at a price of $0.01 as part of the Company's repayment of outstanding indebtedness to a creditor of the company. The warrants vested immediately and are exercisable for a three year period from the date of issuance.

All of the foregoing securities were issued upon reliance on the exemption from the Securities Act registration requirements contained in Section 4(2) of the Securities Act.

NOTE 6 - SHAREHOLDERS' EQUITY/STOCK OPTION PLANS:

During fiscal 2006, the Company issued 12,143,313 shares of its common stock to various consultants for marketing and investor relations services provided. Such shares were valued at the market price as of the date of issuance, aggregating $1,296,242.

During fiscal 2005, the Company issued 4,833,929 shares of common stock for consulting and legal services and in settlement of liabilities. The value recorded was based on the market price at the time of issuance and aggregated $318,238.

As of June 30, 2006 there are two stock option plans in effect; the 1992 Directors' Stock Option Plan (Directors' Plan) and the 1992 Stock Option Plan (Option Plan). The Directors' Plan allows for the grant of options to purchase up to 250,000 shares of the Company's common stock at an exercise price no less than the stock market price at the date of grant. Options granted under this Plan vest immediately and expire 10 years from the date of grant. The Option Plan allows for the grant of options to employees to purchase up to 10% of the issued and outstanding shares of the Company, not to exceed 1,000,000 shares, at an exercise price equal to the stock's market price at the date of grant. The Board sets vesting and expiration dates.

The following table summarizes information about stock options outstanding, all of which were granted under the Directors' Plan and are exercisable: (needs to be updated through June 30, 2006)

Outstanding as of June 30, 2003	**57,200**
Granted/exercised/expired	-
Outstanding as of June 30, 2004	**57,200**
Expired	**(4,400)**
Outstanding as of June 30, 2005	**52,800**
Granted/exercised/expired	**(40,000)-**
Outstanding as of June 30, 2006	**12,800**

Exercise prices of the outstanding options are as follows:

Exercise Prices		Number of Options
$	1.06	6,400
$	0.32	**3,200**
$	0.63	3,200
		12,800

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YEARS ENDED JUNE 30, 2006 AND 2005

NOTE 7 - INCOME TAXES:

The Company has not filed federal or state tax returns for any of the tax years subsequent to December 31, 1993. Management intends to cure this deficiency as soon as possible and expects there will be no federal tax liability (based on continued losses) for these delinquent years. Deferred tax assets and liabilities consist of the following as of June 30:

		2006		2005
Deferred tax assets:				
Net operating loss carry forwards	**$**		$	1,429,990
Less valuation allowance		()		(1,429,990)
	$	-	$	-

A valuation allowance equivalent to 100% of the deferred tax asset has been established since, at the current time, it is not more probable than not, that the Company will be able to recognize a tax benefit for the asset. The net operating losses expire at various dates through 2024.

NOTE 8 - COMMITMENTS:

In April 2006, the Company entered into a three-year lease for office space in Toronto, Canada, for a monthly payment of $1,927 plus GST. The Company also terminated negotiated a final settlement on it’s lease in Irvine, California for $1,992. Rent expense for the years ended June 30, 2006 and 2005 aggregated $35,474 and $22,906, respectively.

NOTE 9 - SUBSEQUENT EVENT:

On July 31, 2006 (the “Initial Closing Date”), the Company agreed to a $4 million equity financing by entering into two Series B Convertible Preferred Stock Subscription Agreements (each a “Subscription Agreement” and collectively the “Subscription Agreements”) with each of Clearline Capital, LLC and Vladimir Goryunov (each a “Purchaser” and collectively, the “Purchasers”). Each Subscription Agreement provides for the sale by the Company to the applicable Purchaser of 117,648 shares of the Company’s Series B Convertible Preferred Stock, par value $0.10 per share (the “Series B Preferred Stock”), and warrants to purchase an aggregate of 17,647,059 shares of the Company’s common stock, in exchange for and in consideration of an aggregate investment by each Purchaser of $2 million in cash (each Purchaser’s “Investment Amount”), which amount is to be invested by each Purchaser in two equal $1 million installments, the first of which occurred on the Initial Closing Date and the second of which will occur at a subsequent closing to occur on or before November 30, 2006 (the “Subsequent Closing”, and the date of such Subsequent Closing, the “Subsequent Closing Date”); provided that the Company satisfies the necessary condition precedent to the Subsequent Closing as described below.

On the Initial Closing Date, each Purchaser invested $1 million in the Company in return for 58,824 shares of Series B Preferred Stock and two warrants (the terms of which are more fully described below) to purchase an aggregate of 8,823,530 shares of common stock. The Subscription Agreements obligate each Purchaser to invest the remaining $1 million of its Investment Amount (each Purchaser's "Additional Investment Amount") in the Company no later than November 30, 2006, subject only to the Company converting at least 80% of the aggregate outstanding principal amount evidenced by those certain convertible promissory notes issued by the Company between February 2006 and July 31, 2006 (collectively, the "Promissory Notes") into shares of common stock prior to the Subsequent Closing Date. In exchange for each Purchaser's Additional Investment Amount, the Company will issue to each Purchaser an additional 58,824 shares of Series B Preferred Stock and two additional warrants (the terms of which are more fully described below) to purchase an aggregate of an additional 8,823,529 shares of common stock.

On the Initial Closing Date the Company granted each Purchaser (i) one warrant to purchase 3,750,000 shares of common stock at an exercise price of $0.22 per share in the event the warrant is exercised on or prior to July 31, 2007, and $0.28 per share in the event the warrant is exercised on or after August 1, 2007, and (ii) one warrant to purchase 5,073,530 shares of common stock at an exercise price of $0.28 per share (each an "Initial Warrant", and collectively, the "Initial Warrants"). Assuming that the conditions precedent to the Subsequent Closing are satisfied, on the Subsequent Closing Date, the Company will grant each Purchaser (i) one additional warrant to purchase 3,750,000 shares of common stock at an exercise price of $0.22 per share in the event the warrant is exercised on or prior to July 31, 2007, which increases to $0.28 per share in the event the warrant is exercised on or after August 1, 2007, and (ii) one additional warrant to purchase 5,073,530 shares of common stock at an exercise price of $0.28 per share (each a "Subsequent Warrant", collectively, the "Subsequent Warrants" and collectively with the Initial Warrants, the "Warrants"). The Warrants expire on January 31, 2009. The exercise prices of the Warrants are subject to adjustment in the event of certain dilutive issuances, stock dividends, stock splits, share combinations or other similar recapitalization events. The Warrants may only be exercised by the payment of the applicable exercise price to the Company in cash, no cashless exercise is permitted. The terms of the Initial Warrants and the Subsequent Warrants are identical.