



REPORT TO SHAREHOLDERS JUNE 2006 QUARTER

HIGHLIGHTS

- **Sourcing a drill contractor for the planned diamond target drilling at the Edward Creek and Balta diamond project in South Australia.**
- **Establishing the flora survey parameters required to enable the planned works at the Chiltern gold project to proceed.**
- **Completing a placement of 4,136,000 shares at an issue price of 12.5 cents each raising \$517,000 working capital to fund the costs of preparing a prospectus for a planned IPO. The placement attracted investment by some high profile resource industry people and their presence on RLC's share register is encouraging.**
- **Prospectus documentation well advanced by the end of the period.**
- **Drilling at Herakleion scheduled to commence in early August 2006.**

Exploration Activities

Edward Creek (incl. Balta) Project (SA) ELs 3250, 3505 (590 sq km) RLC: 100%

Diamonds: No field work was conducted during the period. Work planned includes:

- Geophysical surveys covering targets: WK16; the Gauntlet (WK20); WK57, WK58; and WK59.
- Drilling at potential kimberlite targets as modified by the planned geophysical surveys.

A drill rig was booked to commence air-core drilling at WK57, WK58, WK59 and WK60 in September.

Exploration expenditure: \$ 200

Edward Creek Base Metal Joint Venture ("ECBMJV") (SA) EL 3250 (440 sq km) RLC: 20%

Copper/Uranium//Gold:

No field work was conducted during the period. Exploration expenditure on this project is funded by our joint venture partners. The Winter 2006 Drill Program, previously booked to commence in July was rescheduled to commence in August. The drilling was planned to :

- Drill (diamond) from surface to 850 metres to test Target Area 1 ("TA1") of the Herakleion target
- Subject to results of the first hole, extend HD-03 from 612.4 metres to 1,000 metres (TA2).

Uranium: 8 anomalies previously identified in radiometric data and recommended for ground follow-up remained to be investigated.

Expenditure by Joint Venture Partners: \$ 8,634

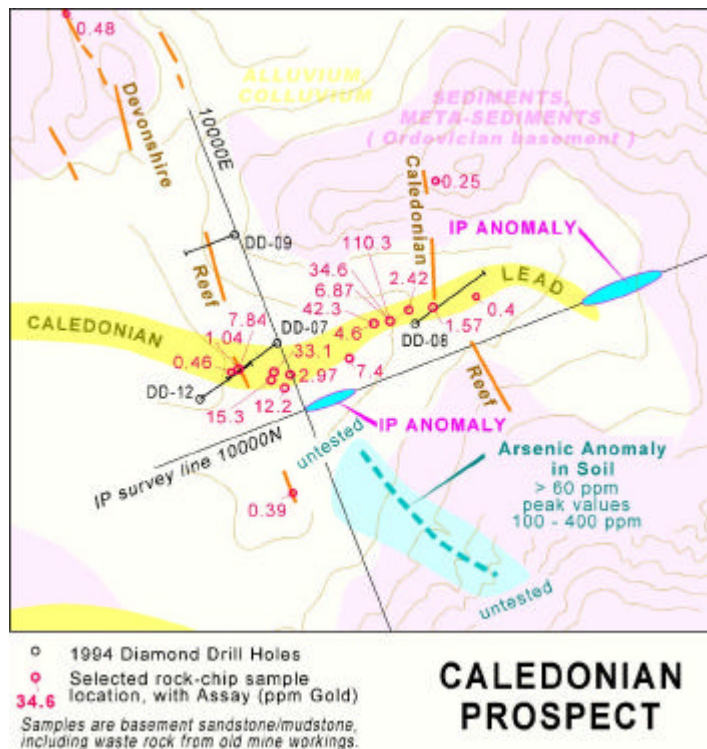
Chiltern Project (VIC) ELs 3032, 3281, 3376 (237 sq km) RLC 100%

Gold: Lines surveyed in 1994 at the Caledonian Prospect were re-instated in preparation for repeat and adjacent IP survey lines and drilling. A site meeting scoped the environmental surveys required by land managers and these surveys were booked for completion in spring. Work planned includes:

- infill IP survey lines at the Caledonian Prospect to assist in siting drill holes, and
- drilling at 2 IP targets and a soil geochemical anomaly (elevated arsenic).

The drilling seeks to identify the source of gold bearing sandstone & siltstone samples which have been recovered from the prospect and reported previously, these include assays up to 110 g/t gold.

Exploration expenditure: \$ 6,020



Jericho Project (VIC) - Poole River Prospect **EL 3208** **(20 sq km)** **RLC 100%**

Gold: Seasonal closure of the area precludes any drilling on the project until next summer.
No field work was undertaken. Work planned includes re-entry of diamond drill hole PD-01 and extension to 630 metres down hole. The drilling will investigate the zone of intersection between pyrrhotite rich siltstone/mudstone identified in PD-01 and the underlying Enoch's Point Thrust Zone.
Exploration expenditure: \$ 1,375

Diptank Joint Venture (NSW) **EL 6202** **(14.7 sq km)** **RLC 85%**

Copper/Gold: No field work was undertaken. Work planned includes drill testing a magnetic anomaly to investigate its potential to be associated with a porphyry copper-gold prospect.
Exploration expenditure: \$ 284
Joint Venture Payment: \$ 10,000

Bullamine (WA) **ELA 2846 (RLC 100%) Bulla JV (ELAs2719 & 2720)** **(RLC 80%)**

Iron : Geophysical data covering ELA 2846 and part of ELA 2719 was purchased.
Work planned includes processing the geophysical data, field mapping and ground geophysical surveying to investigate the potential for economic iron ore in the project area.
Exploration expenditure: \$ 22,475

Pedestal Hill (NT) **ELA 24885** **(272 sq km)** **RLC 100%**

Uranium: No field work was undertaken. Work planned includes: Field mapping, ground geophysical surveying and shallow auger drilling. Our application for grant of the tenement was progressed.
Exploration expenditure: \$ 863

New Project Development

Exploration expenditure: \$ 50

	RLC	JV Partners
TOTAL Expenditures on exploration for the quarter :	\$ 31,689	\$ 8,634
Joint venture payments:	\$ 10,000	

Issued Securities

at 30/06/06:

Shares	27,959,833	
Options	333,333	30 c exp 30/11/06
Options	1,200,000	50 c exp 31/12/06
Options	1,300,000	50 c exp 31/12/07
Options	1,400,000	50 c exp 31/12/08

Note: 4,136,000 shares were issued for 12.5 cents per share (\$517,000) during the period.

Finance

A summary of the operating results for the June quarter and financial position at 30 June 2006 follows:-

	\$
Operating (Income) Expenditure during the 3 month period:	
Non – exploration expenditure : general (audit, insurance, admin, overheads, promotion, office)	34,645
Joint Venture payments (Diptank)	10,000
Exploration expenditure (by RLC)	31,690
Prospectus related costs	146,825
Interest (Income)	<u>(4,252)</u>
	<u>\$ 218,725</u>

Financial position (see attached financial statements for details)

Assets

Cash at bank (including GST adjustment)	\$ 394,024
Term Deposits (supporting bonds lodged against exploration licences)	<u>\$ 70,000</u>
	<u>\$ 464,024</u>

Outstanding liabilities (excluding GST)

Accounts Payable (excl. amounts owing to director related parties which are included in "Non-current loans")	\$ 125,230
Non-current loans (from director related parties - repayment is deferred by agreement)	\$ 648,418 *

* the related parties have agreed in principle to forgive \$620,715 of amounts due in exchange for options in the event the company completes the planned IPO.

Summary & notes:

Activity during the quarter was directed towards raising seed capital and preparation of a prospectus document for the Company's planned IPO.

The capital raising completed in April provided funding for the required external inputs for the prospectus including preparation of accounts, tenement audit and independent geologists reports.

By the end of the report period the Company was well positioned for its planned IPO with drill programs planned to commence as follows:-

- August 2006 – deep diamond drilling at the Herakleion "Olympic Dam" type (iron-oxide copper-uranium-gold) targets in South Australia (funded by our joint venture partners)
- September 2006 – mud and air-core drilling at potential kimberlite targets at the Edward Creek Diamond project in central northern South Australia - dependent on IPO capital raising
- October 2006 – RC/Aircore drilling at the Diptank copper-gold project in NSW - dependent on IPO capital raising
- December 2006 – diamond drilling at the Jericho gold project in Victoria - dependent on IPO capital raising.

A completed draft of the prospectus was being used to assist in presenting the Company to stock brokers in the September quarter. However, progress was being hampered by market weakness during the September quarter.

G.H. Fethers
Managing Director
September 2006

For further information, please contact:
Geof Fethers. Telephone: (03) 8420 6280
or visit www.reedyagoon.com.au

With respect to references to the planned IPO: RLC will be the offeror and fully paid shares will be offered. A disclosure document for the offer will be made available when the securities are offered. Anyone who wants to acquire the securities will need to complete the application form that will be in or will accompany the disclosure document.

REEDY LAGOON CORPORATION LTD

ACN 006 639 514

CONSOLIDATED BALANCE SHEET

AS AT 30 JUNE 2006

		\$
Current Assets		
Cash	1	457,490
Receivables		6,534
		<hr/>
Total Current Assets		464,024
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Total Assets		464,024
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Current Liabilities		
Accounts Payable		125,229
Borrowings - Related Parties		-
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Total Current Liabilities		125,229
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Non-Current Liabilities		
Borrowings - Related Parties	2	648,418
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Total Non- Current Liabilities		648,418
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Total Liabilities		773,647
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Net Assets		<u><u>(309,623)</u></u>
..		
Equity		
Contributed Capital		7,768,957
Accumulated losses		<u>(8,078,580)</u>
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Total Equity		<u><u>(309,623)</u></u>

Note 1 - Cash

Cheque Account	13,635
RLC CMA	373,855
RLC Bonds (Term Deposits)	<u>70,000</u>
	457,490

Note 2 - Loans from Related Party

Chromite Pty Ltd	491,621
Cropten Pty Ltd	115,497
Geophysical Exploration Consultants Pty Ltd	24,300
Directors	<u>17,000</u>
	648,418

The related parties concerned have agreed in principal to forgive \$620,715 of these amounts due in exchange for options in the event the Company completes the planned IPO.

CONSOLIDATED INCOME STATEMENT

FOR THE YEAR ENDED 30 JUNE 2006

	June 2006 Qtr	2005/06 Year
	\$	\$
Revenue from ordinary activities	4,252	8,991
Expenses related to ordinary activities		
Administration expense	(14,984)	(54,242)
Exploration expenses	(41,690)	(92,462)
Other expenses from ordinary activities	(19,481)	(36,493)
Prospectus costs	(146,825)	(146,825)
Loss from ordinary activities before income tax expense	<u>(218,728)</u>	<u>(321,031)</u>
Income tax expenses relating to ordinary activities	-	-
Net Loss attributable to members of Reedy Lagoon	<u>(218,728)</u>	<u>(321,031)</u>

CONSOLIDATED CASH FLOW STATEMENT

FOR THE YEAR ENDED 30 JUNE 2006

	June 2006 Qtr	2005/06 Year
	\$	\$
Cash flows from operating activities		
Receipts from Customers	-	-
Payments to suppliers and employees	(86,340)	(191,211)
Interest received	4,252	8,893
Net cash provided by operating activities	<u>(82,088)</u>	<u>(182,318)</u>
Cash flows from financing activities		
Proceeds from share issue	517,000	517,000
Payment of Prospectus costs	(25,096)	(25,096)
Proceeds (Repayment) from (of) Loans	(6,203)	88,160
Net cash provided by financing activities	<u>485,701</u>	<u>580,064</u>
Net increase/(decrease) in cash held	403,613	397,746
Cash at the beginning of the period	53,477	59,344
Cash at the end of the period	<u><u>457,090</u></u>	<u><u>457,090</u></u>