

QUARTERLY REPORT FOR THE PERIOD ENDING
31 DECEMBER 2006

COMET VALE PROJECT

**Sand Queen Gold Mine
Production Joint Venture
(Kingsroose Mining Pty Ltd earning 50%)**

During the quarter, underground mining and development continued into the Sand George ore body on the 2 Level, with the establishment of 2 active mining blocks, and development of the 3 Level has continued south from the 3 Level plat towards the Sand George resource. Other developments during the quarter include:

- Completion of the ventilation shaft/secondary means of egress
- Installation of underground locomotive system along with secondary fan.
- Commenced construction of a water settling pond on the 3 Level

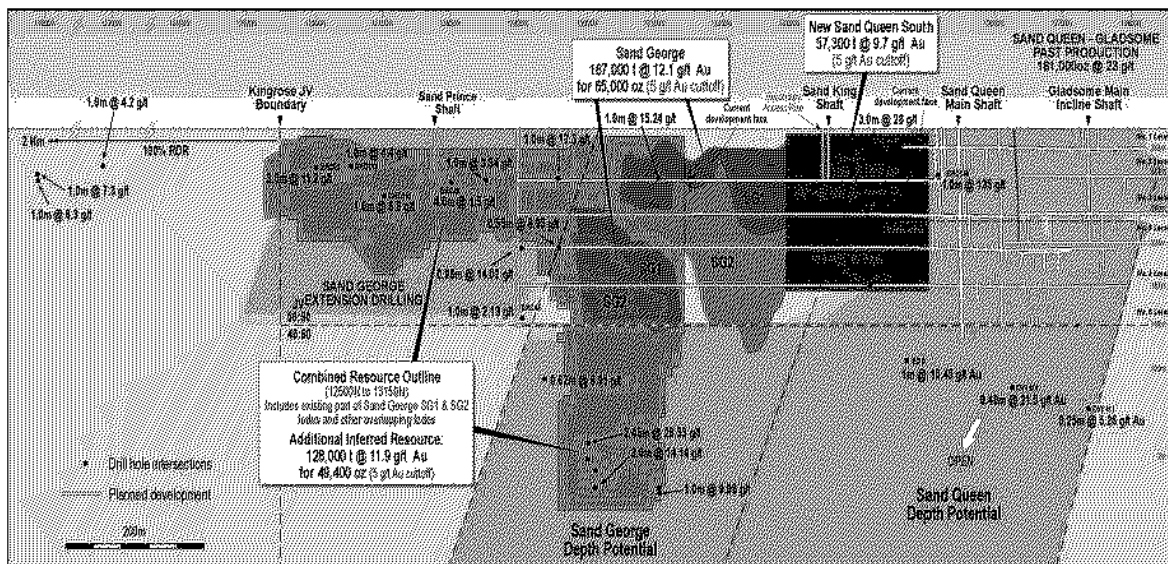


Figure 1 Long section of the Sand Queen Gold Mine (looking west), showing the position of current development of the Sand George lodes on the 2 and 3 Levels (white) and planned future development (yellow).

Summary of mining activity for quarter:

- 2 Level:** 115.3 metres of level development driving
30.9 metres of rising
28 metres of winzing
2,098 tonnes of development ore hoisted to surface (stockpiled)
1,575 tonnes waste
- 3 Level:** 58 m of level development driving



Geological mapping of the 2 Level development drive and within the SG2A stope indicates that the ore body consists of at least three sigmoidal quartz lodes (Figure 2), which plunge at 60-65° to the south. The central lode is up to 4.6m wide and dips at 50-55° towards the west. The ends of the lodes steepen to 70-75° towards the west and narrow sharply to about 0.1m wide where the *en echelon* lodes overlap. A narrow shear zone (0.1- 0.4m wide) follows the footwall contact with cross cutting splays in between individual lodes (Figure 2).

Grades from rock-chip samples of the veins in faces and bulk samples of ore are highly variable with face samples in the range 263 to 0.29 g/t Au (86 samples) and bulk samples in the range 19.2 to 1.0 g/t Au (101 samples).

Fifteen bulk samples from the SG2A stope were submitted for size analysis test-work, which showed a typical bimodal gold distribution with a high nugget effect.

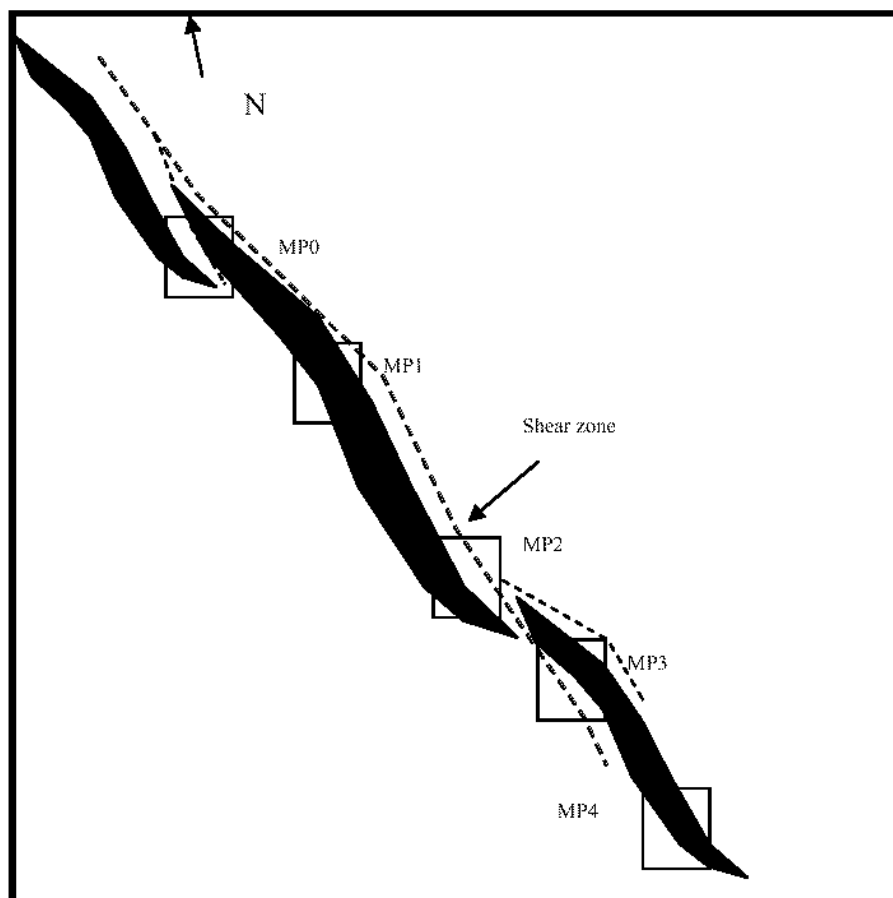


Figure 2 Schematic diagram (not to scale) of the SG2A sublevel showing orebody geometry (in red) and mill point locations (MP0-MP4).

Mining Forecast

Mining of the Sand George resource on 2 Level will continue in the partially mined 2A stope, and commence in the 2B stope which is currently being defined. Development in ore will continue southwards on 2 Level which should define additional stopes.

Development will continue on the 3 Level to provide access to the Sand George lodes and to the Sand Queen South ore resource between the 2 and 3 levels.

The next milling campaign will commence on the 18th February due to scheduling constraints at the Greenfields Mill.

Regional Exploration

Geological mapping (at 1:2,000 scale) continued in the area to the east of the Sand Queen mine, bordering Lake Goongarrie, and along the Lady Mack–Lady Margaret line of workings to the northwest of the Sand Queen mine. Our geophysical consultants have completed an interpretation of a detailed low-level aeromagnetic survey and a gravity survey that were undertaken during the previous quarter. This work has provided better definition of potential gold-bearing structures such as the quartz reefs and extensive shear zones that have been mapped in the eastern area. Previous rock-chip sampling of these structures has returned some outstanding anomalous gold and copper assays (Figure 3).

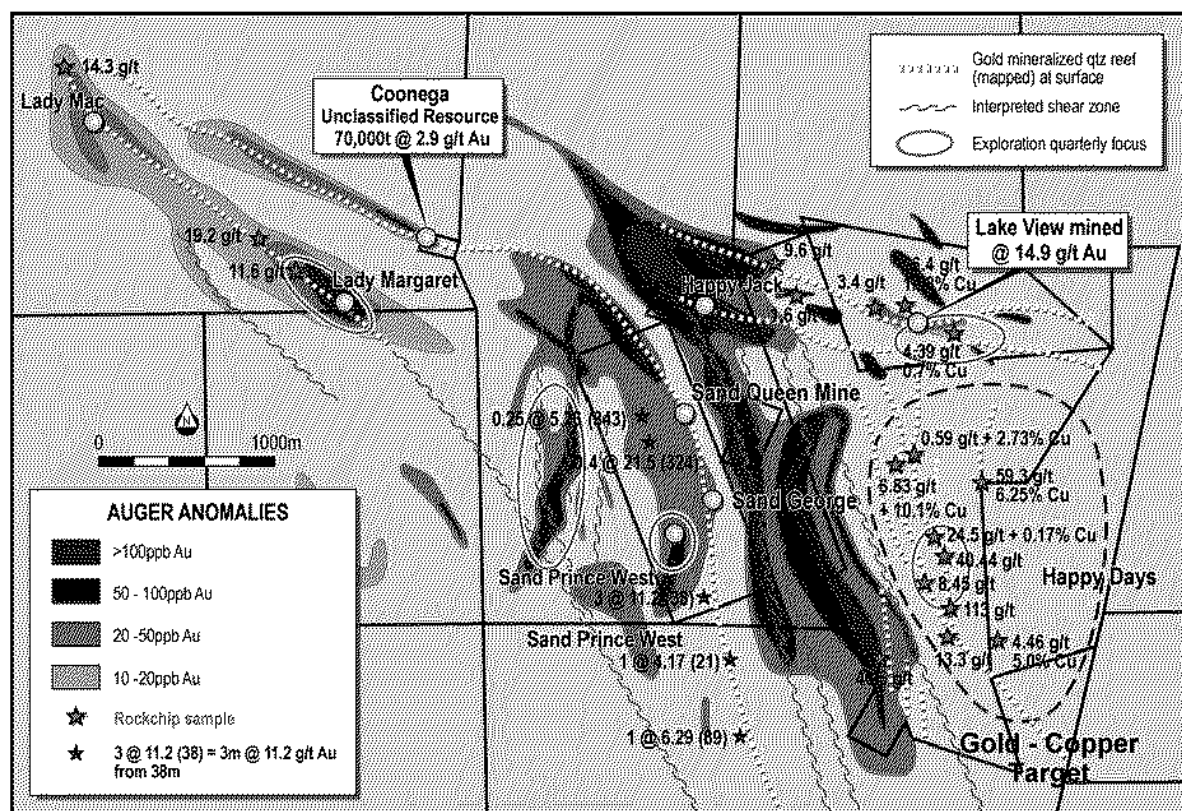


Figure 3 Regional exploration at areas outlined in blue.

Sand Duke prospect (M29/198)

The Sand Duke prospect, located about 800m west of the Sand Queen mine, consists of a 1000m x 130m gold-in-soil auger anomaly that is interpreted to overlie a paleo-drainage feature controlled by a north-northeast trending shear zone.

A total of 31 shallow holes (two RAB holes: WTR001-002; and 29 aircore drill holes: WTA001-029) were drilled to blade refusal to test the potential for gold mineralisation.

Drilling intercepted a sequence of lacustrine and alluvial sediments overlying granite and basalt basement. Gold mineralisation is present within a palaeochannel on the western edge of the drilled area, adjacent to an interpreted basalt/granite contact. The best assay result is 1 m @ 3.29 g/t Au from 50m in hole WTA001. The presence of intensely sheared porphyry and laminated vein quartz towards the bottom of some holes is considered to be encouraging despite the lack of significant assay results. A full interpretation of the data will be completed during the March quarter.

Sand Prince West and Princess Grace prospect (M29/52)

During the quarter, additional RC drilling was completed at the northern end of the Sand Prince West deposit (resource: 121,000 t @ 2.36 g/t Au for 9,300 oz gold). Three shallow holes were drilled to close-off the lode to the north, with the best intercept of 2m @ 1.52 g/t Au from 36.5m (hole SPWGC102).

Drilling was also undertaken at the Princess Grace prospect, which is located adjacent to the Sand Prince West deposit (Figure 4). This RC drilling was designed to follow-up previous shallow RC drill intercepts in pre-collars to deeper diamond holes that targeted the Sand George lodes.

Results from drilling of the Princess Grace lode (Figure 4; Table 1) include 5m @ 10.63 g/t Au from 16m (hole JVC010), 9m @ 6.9 g/t Au from 34m including 3m @ 19.0 g/t Au from 41m (JVC009), and 2m @ 4.03 g/t Au from 33m including 1m @ 7.1 g/t Au from 33m (JVC011). All intercepts are within fresh rock with minimal weathering within the profile.

The gold mineralization is apparently within stacked, north plunging quartz reefs alongside porphyry intrusives (Figure 5). Higher grades are found where the quartz vein(s) is at its widest and is similar to what is seen at Sand Prince West. The Princess Grace lode(s) has been intersected over about 250m of strike and is open to the north and down dip.

Table 1 Significant drill intercepts at the Princess Grace prospect and Sand Prince West deposit.

Hole ID	Collar Northing ⁽¹⁾	Collar Easting ⁽¹⁾	Interval From (m)	Interval To (m)	Intersection Width (m) ⁽²⁾	Grade (g/t Au)
JVC007	13000	7625	26	32	6	0.85
JVC008	13000	7687.5	55	56	1	1.87
JVC009	13000	7612.5	34	43	9	6.90
		including	40	43	3	19.0
JVC010	12888	7645	16	21	5	10.63
JVC011	12888	7620	33	35	2	4.03
		including	33	34	1	7.1
SPWGC102	13125	7646	36.5	38.5	2	1.52

1. Collar coordinates are for a local grid. All holes collared at 60° toward 089° on the local grid.

2. Samples are of RC drill chips analysed by Amdel Laboratory Services using a 50g Fire Assay charge.

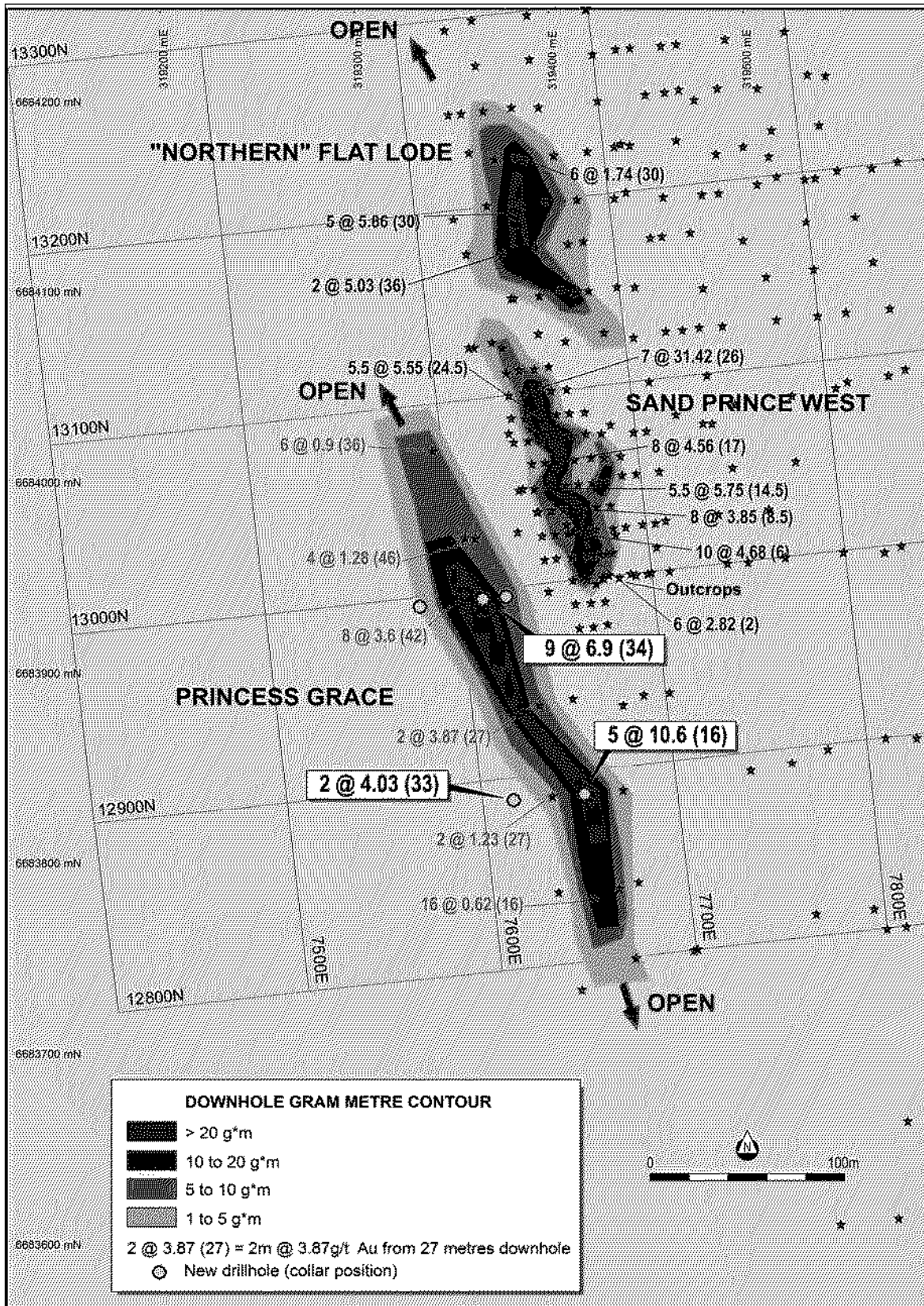


Figure 4 Recent drilling and interpreted position of the Princess Grace lode(s), expressed in gram*metre (g*m) contours of intercepts, adjacent to the Sand Prince West lodes. Latest drill results are in red and previous intercepts in green. Sand Prince West intercepts are in dark blue.

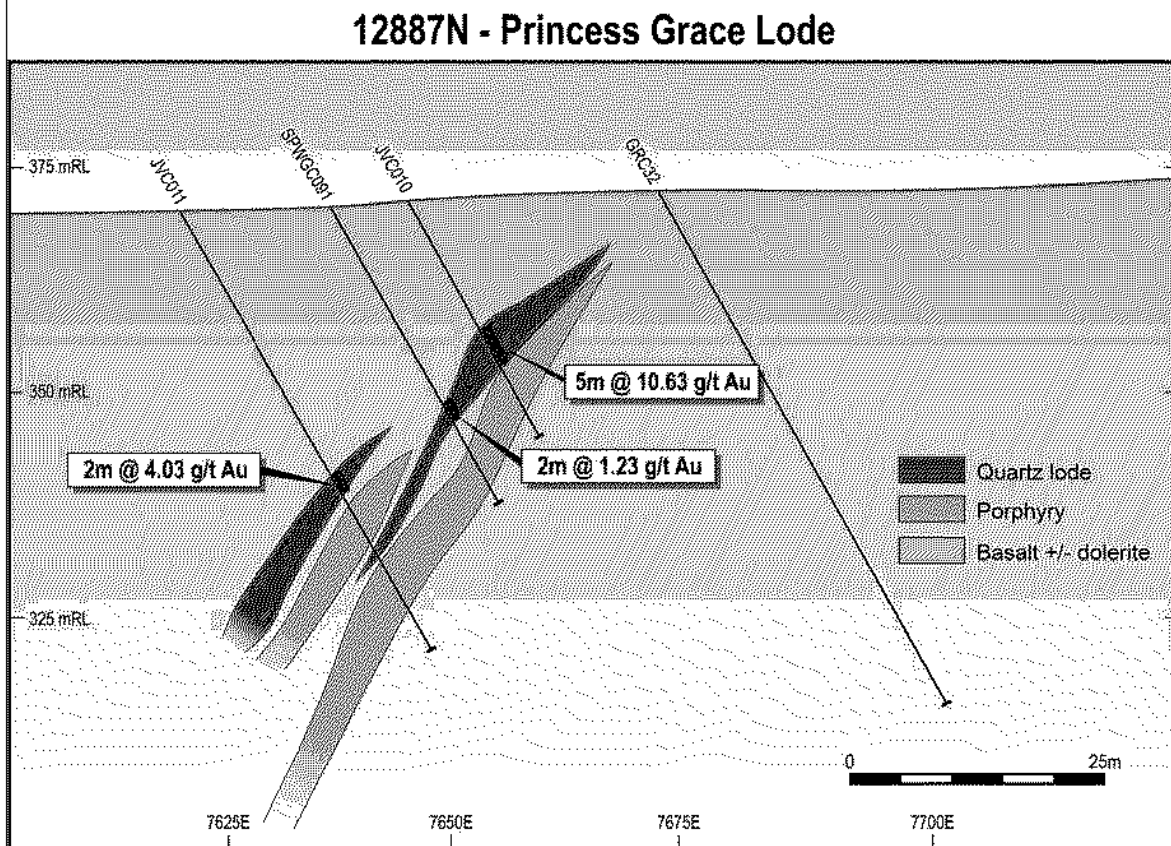
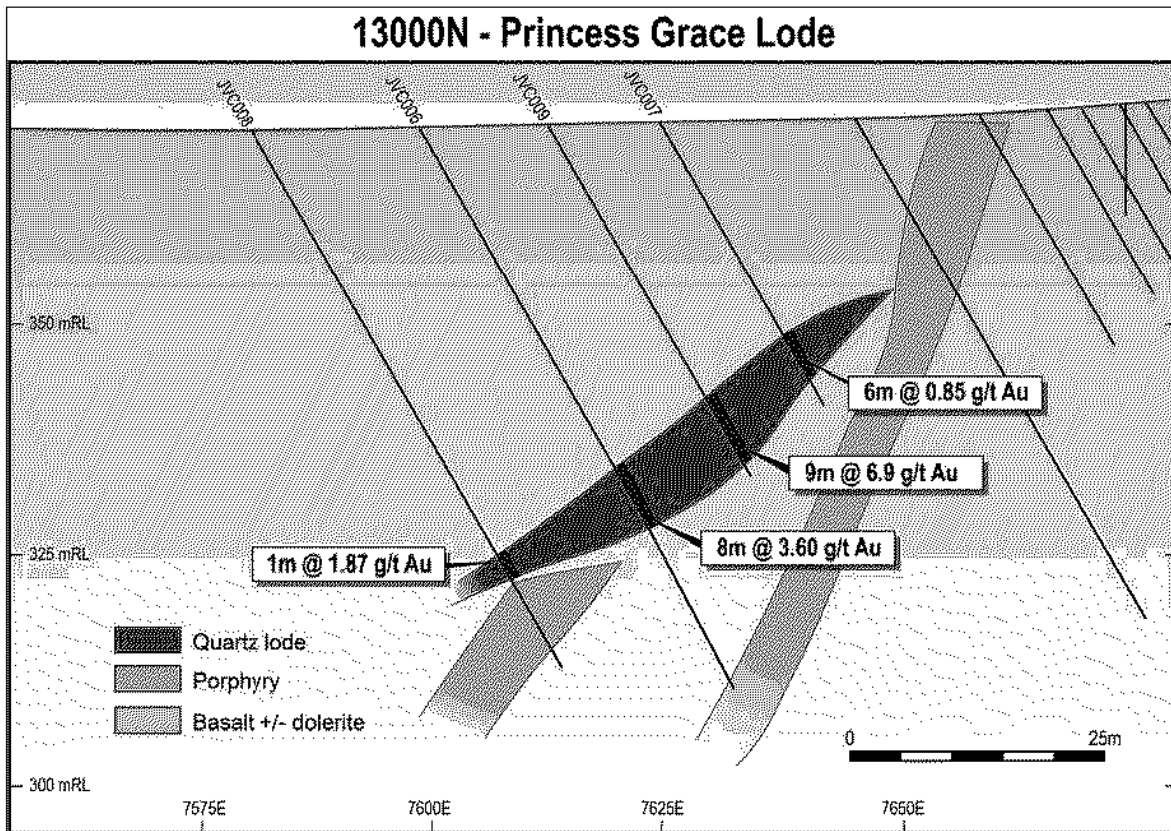


Figure 5 Interpreted cross sections of drill intersections of mineralized quartz lode adjacent to porphyry intrusives at the Princess Grace prospect.

Lady Margaret area (M29/197)

Geological mapping (RF 1:250) and rock-chip sampling (11 samples) of the area around the Lady Margaret shaft, approximately 2km west-northwest of the Sand Queen mine (Figure 3), identified a number of mineralised quartz veins alongside porphyry and pegmatite contacts within a differentiated mafic sequence. The best rock-chip sample assayed at 1.32 g/t Au in vein quartz. Records of previous exploration indicate rock-chip sampling returned assay values up to 19 g/t Au and an old dill hole (LMP001) intersected 1m @ 6.0 g/t Au. Historical production is reputed to average 15-20 g/t Au.

Four RC drill holes were completed during the quarter, to test below the old workings to the northwest of the Lady Margaret shaft for a total of 427m of drilling. Two holes were drilled on each of two lines about 60m apart. All holes were drilled at -60 degrees towards 045 magnetic. Quartz veining was intercepted in the first two holes but did not return significant gold intercepts. Results are awaited for the other two holes.

Other activities

Other exploration activities completed during the quarter included surveying in the Lady Margaret and Lake View-Long Tunnel areas to provide ground control for geological mapping and drilling; an environmental botanical survey of the western tenements; and continuation of regional mapping (RF 1:2000) on the western tenements.

Regional Exploration Forecast:

The following work is planned for the next quarter:

- Detailed mapping of Lake View-Long tunnel workings and RC drilling targeting the down dip/plunge of a ~18m wide historical stope. Rock-chip samples have returned gold values to 36.4g/t and copper to 1.58%. The old workings at Lake View produced at a grade of 14.9 g/t gold and 1% tungsten.
- Completion of the Lady Margaret drilling.
- Drilling of target identified from new technology.
- Infill drilling at Princess Grace to better define higher grade segments and to facilitate an initial resource calculation.
- Pit optimisation study of the Sand Prince West and Princess Grace prospects.

MT FINNERTY PROJECT

Iron Ore Joint Venture (Portman Iron Ore Ltd earning 80% Fe rights)

During the quarter, Portman completed reprocessing of geophysical data for the project area and evaluation of possible future target areas, including planned RC drilling of the FIN7 target (Figure 6).

Drilling of the FIN7 (and FIN3) target was initially delayed pending completion of a botanical survey. FIN7 is a zone of surface enrichment that extends for about 900 metres along strike and up to 50m wide.

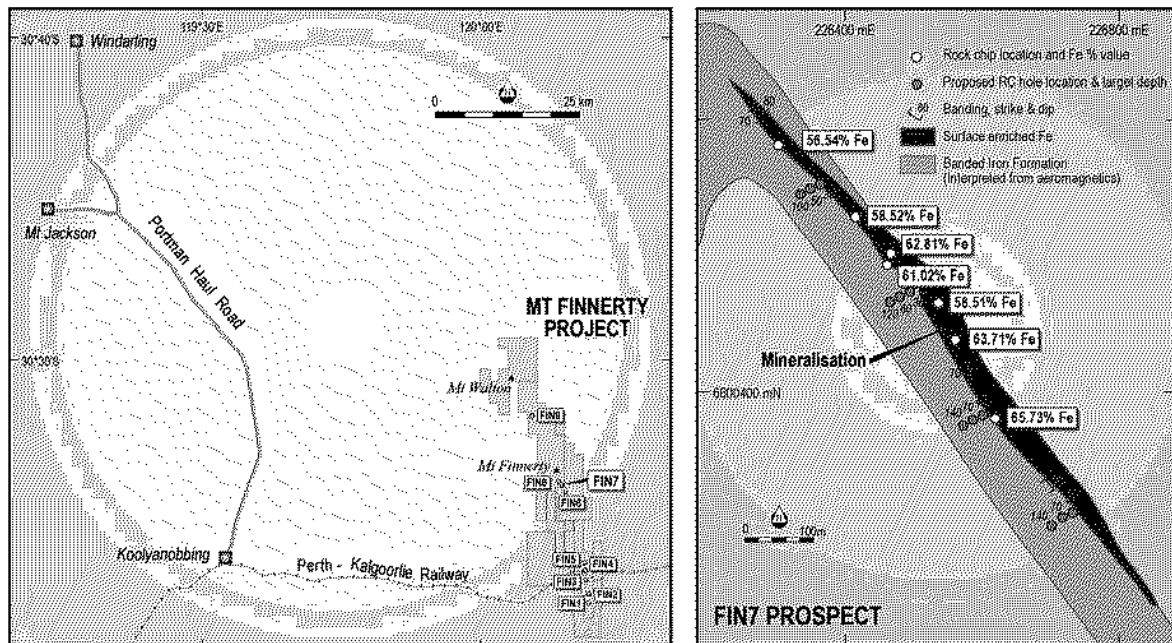


Figure 6 Location of initial iron ore exploration targets at the Mt Fennerty Project within trucking distance of Portman's Koolyanobbing Iron Ore Project (left) and planned drilling of FIN7 prospect (right).

Regional Exploration (RDR 100% all other minerals)

Exploration during the quarter continued to focus on the nickel sulphide potential of the Mt Fennerty Project. A soil geochemical survey was carried out at two locations in the Watt Hills (Hunt Range) greenstone belt on grids of 400 metres x 50 metres.

In the south west section of the Mt Fennerty project, south of the railway line, the basal contact of basalts to high MgO ultramafics is intact and is favourable for nickel sulphide mineralization. A soil geochemical anomaly with greater than 250 ppm nickel was defined over the full strike length (4 km) of the sampled area, with a combined copper anomaly of greater than 170 ppm over two km of strike length.

In the other area that was sampled on the eastern side of the Greenstone Belt, north of the railway line, a gold anomaly of greater than 33 ppb Au with a best value of 67 ppb Au was defined over one km of strike length. Follow up RAB drilling is being planned.

Regional Exploration Forecast

The following work is planned for the next quarter:

- RAB drilling to test the anomalous zone of gold-in-soil on the eastern flank of the greenstone belt.
- A TEM survey to follow-up the Ni-Cu soil geochemical anomaly coincident with the prospective basalt/ultramafic contact.
- Portman will undertake site clearance and drilling of the FIN7 target and complete rehabilitation of drill sites from previous drilling at the FIN1, FIN2, FIN4-FIN6 and FIN8 targets.

BARRAMBIE PROJECT (100%)

During the quarter, the Company continued the evaluation of the Barrambie Vanadium project. In October 2006 the Company announced it had entered into a Memorandum of Understanding with one of the world's leading commodity traders to market and sell the total annual vanadium output of the Barrambie Vanadium Project for the first ten years from practical completion. The financial strength and market penetration of the counterparty ensured the Company can now proceed confidently to the next stage of development of this project.

To this end, the Company was fortunate to secure the services of Mr Ken Hellsten of Hellsten Resource Management Services as Project Manager of the Feasibility Study. Mr Hellsten has over 25 years experience in the resources industry with both large and small companies ranging from exploration through studies to development and operations start-up. He led teams responsible for the completion of feasibility studies and project development of the large Cawse and Ravensthorpe nickel laterite projects.

The Pre-feasibility Study on the Barrambie Vanadium Project completed in 2006 indicated that the production of 20 million pounds of V₂O₅ per annum from 2 million tonnes of ore over an initial mine life of 12 years was both technically feasible and economically viable. The study concluded that the Barrambie ore is amenable to mining via shallow open-pit mining techniques and conventional crushing, grinding and magnetic separation to produce a concentrate followed by the proven process steps of salt roasting of the magnetic concentrate and leaching of the calcined product.

The project lies on a granted mining lease containing 11 kilometres of strike of the host sequence of which approximately 2 kilometres has been adequately drilled to outline the current resources. Reed believe the existing tenements hold potential to extend the operating life to at least 25 years.

Detailed planning of programs is well advanced and resource definition drilling and metallurgical drilling programs are scheduled to commence early in the March quarter. Key elements of the feasibility study program will be the definition of resources and reserves for at least 25 years of operation, process optimization (especially in the beneficiation area) through extensive metallurgical testwork and definition of infrastructure and utilities requirements.

The feasibility study is expected to take 15 months and will be completed in two stages with Phase I focused on resource drilling, metallurgical testwork, environmental studies and other long lead items followed by detailed engineering, definition of mining reserves, capital and operating cost estimates and preparation of the project implementation plan in Phase II. Discussions with potential financiers will be undertaken progressively during the feasibility study.

WEST MUSGRAVE PROJECT (100%)

During the quarter, the Company continued discussions with the Ngaanyatjarra Land Council for an access agreement over an area along the northern contact (~35 km) of the Bell Rock Range intrusion (Figure 7), which is under application for an exploration licence.

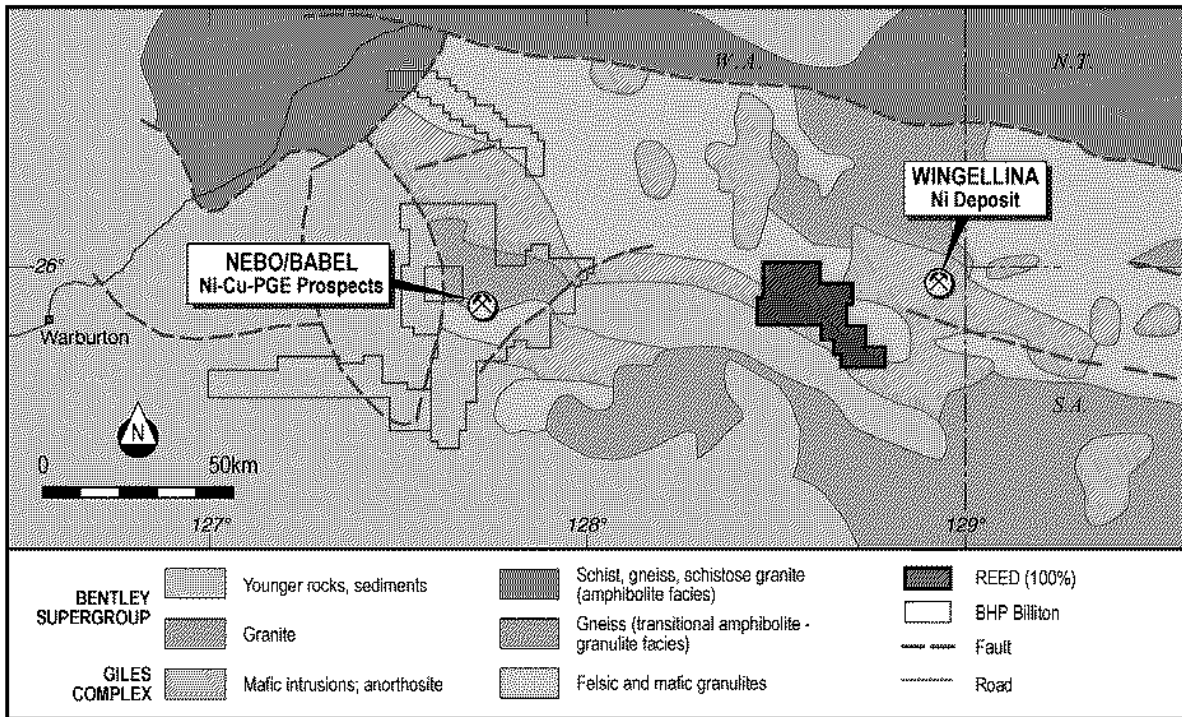


Figure 7 Location of exploration licence application in the Musgrave province.

CORPORATE

During the quarter the Company issued 2,000,000 unlisted options exercisable at 75 cents each, with an expiry date of 30 June 2011, to Directors following approval at the Annual General Meeting.

The company encourages shareholders and interested parties to visit our website (www.reedresources.com) to register to receive announcements electronically.

A handwritten signature in black ink, appearing to read 'D J Reed', with a stylized flourish at the end.

D J Reed
CHAIRMAN

Competent Persons

Information in this report that relates to Exploration Results is based on information compiled by Dr Peter Collins (BSc(Hons), PhD, MAIG). Dr Collins, a Director of Reed Resources Ltd, has sufficient experience relevant to the style of mineralisation and type of deposit under consideration and to the activity which is being undertaken to qualify as a Competent Person as defined in the 2004 Edition of the 'Australasian Code for Reporting of Exploration Results Mineral Resources and Ore Reserves'. Dr Collins consents to the inclusion in this report of the matters based on his information in the form and context in which it appears.

Appendix 5B

Mining exploration entity quarterly report

Introduced 1/7/96. Origin: Appendix 8. Amended 1/7/97, 1/7/98, 30/9/2001.

Name of entity

REED RESOURCES LTD

ABN

89 099 116 631

Quarter ended ("current quarter")

31 December 2006

Consolidated statement of cash flows

	Current quarter \$A	Year to date (12 months) \$A
Cash flows related to operating activities		
1.1 Receipts from product sales and related debtors	0	0
1.2 Payments for (a) exploration and evaluation	(161,792)	(326,509)
(b) development	(0)	(164,440)
(c) production	(2,140)	(20,623)
(d) administration	(330,965)	(749,409)
1.3 Dividends received		
1.4 Interest and other items of a similar nature received	17,496	28,478
1.5 Interest and other costs of finance paid		
1.6 Income taxes paid		
1.7 Other – R and D tax rebate	110,036	110,036
Net Operating Cash Flows	(367,365)	(1,122,467)
Cash flows related to investing activities		
1.8 Payment for purchases of: (a)prospects (b)equity investments		
(c) other fixed assets	(7,519)	(10,632)
1.9 Proceeds from sale of: (a)prospects (b)equity investments		
(c)other fixed assets		
1.10 Loans to other entities		
1.11 Loans repaid by other entities		
1.12 Other		
Net investing cash flows	(7,519)	(10,632)
1.13 Total operating and investing cash flows (carried forward)	(374,884)	(1,133,099)

+ See chapter 19 for defined terms.

Appendix 5B
Mining exploration entity quarterly report

1.13	Total operating and investing cash flows (brought forward)	(374,884)	(1,133,099)
	Cash flows related to financing activities		
1.14	Proceeds from issues of shares, options, etc.	0	87,500
1.15	Proceeds from sale of forfeited shares		
1.16	Proceeds from borrowings		
1.17	Repayment of borrowings		
1.18	Dividends paid		
1.19	Other – Capital raising costs		
	Net financing cash flows	0	87,500
	Net increase (decrease) in cash held	(374,884)	(1,045,599)
1.20	Cash at beginning of quarter/year to date	942,245	1,612,960
1.21	Exchange rate adjustments to item 1.20		
1.22	Cash at end of quarter	567,361	567,361

Payments to directors of the entity and associates of the directors

Payments to related entities of the entity and associates of the related entities

		Current quarter A\$
1.23	Aggregate amount of payments to the parties included in item 1.2	128,304
1.24	Aggregate amount of loans to the parties included in item 1.10	

1.25 Explanation necessary for an understanding of the transactions

Office rent and service fees paid to a company related to a director	\$30,872
Salary and superannuation payable to directors	\$97,432

Non-cash financing and investing activities

2.1 Details of financing and investing transactions which have had a material effect on consolidated assets and liabilities but did not involve cash flows

--

2.2 Details of outlays made by other entities to establish or increase their share in projects in which the reporting entity has an interest

--

+ See chapter 19 for defined terms.

Financing facilities available

Add notes as necessary for an understanding of the position.

	Amount available \$A	Amount used \$A
3.1 Loan facilities	1,000,000	-
3.2 Credit standby arrangements	-	-

Estimated cash outflows for next quarter

	\$A
4.1 Exploration and evaluation	300,000
4.2 Development	
Total	300,000

Reconciliation of cash

Reconciliation of cash at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts is as follows.

	Current quarter \$A	Previous quarter \$A
5.1 Cash on hand and at bank	-14,372	77,541
5.2 Deposits at call	517,027	800,000
5.3 Bank overdraft		
5.4 Other (bonds)	64,706	64,706
Total: cash at end of quarter (item 1.22)	567,362	942,247

Changes in interests in mining tenements

	Tenement reference	Nature of interest (note (2))	Interest at beginning of quarter	Interest at end of quarter
6.1	Interests in mining tenements relinquished, reduced or lapsed			
6.2	Interests in mining tenements acquired or increased			

+ See chapter 19 for defined terms.

Appendix 5B
Mining exploration entity quarterly report

Issued and quoted securities at end of current quarter

Description includes rate of interest and any redemption or conversion rights together with prices and dates.

	Total number	Number quoted	Issue price per security (see note 3) (cents)	Amount paid up per security (see note 3) (cents)
7.1 Preference securities <i>(description)</i>				
7.2 Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs, redemptions				
7.3 +Ordinary securities	80,350,000	80,350,000		
7.4 Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs				
7.5 +Convertible debt securities <i>(description)</i>				
7.6 Changes during quarter (a) Increases through issues (b) Decreases through securities matured, converted				
7.7 Options <i>(description and conversion factor)</i>	2,300,000 1,000,000 2,700,000	Nil Nil Nil	<i>Exercise price</i> 35 cents 50 cents 75 cents	<i>Expiry date</i> 31/12/2008 1/7/2010 30/6/2011
7.8 Issued during quarter	2,000,000	Nil	75 cents	30/6/2011
7.9 Exercised during quarter				
7.10 Expired during quarter				
7.11 Debentures <i>(totals only)</i>				

+ See chapter 19 for defined terms.

7.12	Unsecured notes (totals only)		
------	--------------------------------------	--	--

Compliance statement

- 1 This statement has been prepared under accounting policies which comply with accounting standards as defined in the Corporations Act or other standards acceptable to ASX (see note 4).
- 2 This statement does ~~not~~^{*} (delete one) give a true and fair view of the matters disclosed.

Sign here: 
Director/Company secretary

Date: **31 January 2007**

Print name: **CHRISTOPHER JOHN REED**

Notes

- 1 The quarterly report provides a basis for informing the market how the entity's activities have been financed for the past quarter and the effect on its cash position. An entity wanting to disclose additional information is encouraged to do so, in a note or notes attached to this report.
- 2 The "Nature of interest" (items 6.1 and 6.2) includes options in respect of interests in mining tenements acquired, exercised or lapsed during the reporting period. If the entity is involved in a joint venture agreement and there are conditions precedent which will change its percentage interest in a mining tenement, it should disclose the change of percentage interest and conditions precedent in the list required for items 6.1 and 6.2.
- 3 **Issued and quoted securities** The issue price and amount paid up is not required in items 7.1 and 7.3 for fully paid securities.
- 4 The definitions in, and provisions of, *AASB 1022: Accounting for Extractive Industries* and *AASB 1026: Statement of Cash Flows* apply to this report.
- 5 **Accounting Standards** ASX will accept, for example, the use of International Accounting Standards for foreign entities. If the standards used do not address a topic, the Australian standard on that topic (if any) must be complied with.

====

+ See chapter 19 for defined terms.