

**Reed Resources Ltd**

**ACN: 099 116 631**

**Half-year report for the half-year ended 31 December 2006**

## Directors' report

The directors of Reed Resources Ltd submit herewith the financial report for the half-year ended 31 December 2006. In order to comply with the provisions of the Corporations Act 2001, the directors report as follows:

The names of the directors of the company during or since the end of the half-year are:

### Name

Mr D.J. Reed	Executive Chairman
Mr C. J. Reed	Executive Director and Company Secretary
Dr P. L. F. Collins	Non-Executive Director
Mr I. C. Junk	Non-Executive Director

## Review of operations

### COMET VALE PROJECT

#### Sand Queen Gold Mine

#### Production Joint Venture

#### (Kingsrose Mining Pty Ltd earning 50%)

During the period, 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 rectifier along with secondary fan.
- Completion of a water settling pond on the 3 Level

#### 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 period, 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. 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 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. 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.

### **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, 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.

### **Other activities**

Other exploration activities completed during the period 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.

## **MT FINNERTY PROJECT**

### **Iron Ore Joint Venture**

#### **(Portman Iron Ore Ltd earning 80% Fe rights)**

During the period, iron ore exploration focused on the area north of Mt Finnerty, in the vicinity of the FIN9 prospect and further north toward Mount Walton. This work, conducted by joint venture partner Portman Iron Ore Ltd (Portman), included helicopter reconnaissance of magnetic trends north from the FIN9 target but no additional surface enriched BIF was noted.

During the period, 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

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.

## **BARRAMBIE PROJECT (100%)**

During the period the Company entered into a Memorandum of Understanding ("MOU") with one of the world's leading commodity traders to market and sell the total annual vanadium output of the Barrambie Vanadium Project. The financial strength and market penetration of the counterparty supports this strategy and the project can now proceed confidently to the next stage of development of this project.

During the period, the Company completed a process optimisation study.

## **NEW PROJECTS (100%)**

During the period, the Company applied for one exploration licence in the West Musgrave and two prospecting licences north-west of Kalgoorlie. The exploration licence application in the Musgrave province covers the northwest portion of the mafic-ultramafic Bell Rock Range intrusion which was previously held by Rio/Delta Gold. Rio concluded that the northeastern contact (~35 km) was highly prospective for nickel sulphide mineralization but surrendered the tenements following difficulty in obtaining land access.

## **CORPORATE**

During the half year 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. A further 700,000 unlisted options exercisable at 75 cents each with an expiry date of 30 June 2011 were granted to employees under the company's Employee Share Option Plan.

### **Auditor's independence declaration**

The auditor's independence declaration is included on page 4 of the half-year report.

Signed in accordance with a resolution of directors made pursuant to s.306(3) of the Corporations Act 2001.

On behalf of the Directors



**Christopher Reed**  
Director  
**Perth, 16 March 2007**

The Board of Directors  
Reed Resources Limited  
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16 March 2007

Dear Board Members

**Reed Resources Limited**

In accordance with section 307C of the Corporations Act 2001, I am pleased to provide the following declaration of independence to the directors of Reed Resources Limited.

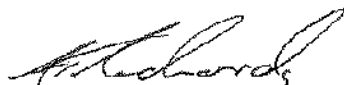
As lead audit partner for the review of the financial statements of Reed Resources Limited for the financial half-year ended 31 December 2007, I declare that to the best of my knowledge and belief, there have been no contraventions of:

- (i) the auditor independence requirements of the Corporations Act 2001 in relation to the review; and
- (ii) any applicable code of professional conduct in relation to the review.

Yours sincerely



**DELOITTE TOUCHE TOHMATSU**



**A T Richards**  
Partner  
Chartered Accountants

## Independent Auditor's Review Report to the members of Reed Resources Limited

### Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Reed Resources Limited (the company), which comprises the balance sheet as at 31 December 2006, and the income statement, cash flow statement, statement of changes in equity for the half-year ended on that date, selected explanatory notes and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the end of the half-year or from time to time during the half-year as set out on pages 7 to 12.

#### *Directors' Responsibility for the Half-Year Financial Report*

The directors of the company are responsible for the preparation and fair presentation of the half-year financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the half-year financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

#### *Auditor's Responsibility*

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of an Interim Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 31 December 2006 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Reed Resources Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

# Deloitte.

## *Auditor's Independence Declaration*

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*

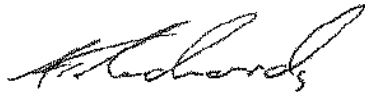
## *Conclusion*

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Reed Resources Limited is not in accordance with the *Corporations Act 2001*, including:

- (a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2006 and of its performance for the half-year ended on that date; and
- (b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.



**DELOITTE TOUCHE TOHMATSU**



**A T Richards**

Partner

Chartered Accountants

Perth, 16 March 2007

## Directors' declaration

The directors declare that:

- (a) in the directors' opinion, there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable; and
- (b) in the directors' opinion, the attached financial statements and notes thereto are in accordance with the Corporations Act 2001, including compliance with accounting standards and giving a true and fair view of the financial position and performance of the consolidated entity.

Signed in accordance with a resolution of the directors made pursuant to s.303(5) of the Corporations Act 2001.

On behalf of the Directors



**Christopher Reed**  
Director  
**Perth, 16 March 2007**

**Condensed consolidated income statement  
 for the half-year ended 31 December 2006**

	Consolidated	
	Half-year ended 31 Dec 2006 \$	Half-year ended 31 Dec 2005 \$
Other income	30,096	30,352
Employment expenses	(874,860)	(366,741)
Occupancy expenses	(37,802)	(45,509)
Administration expenses	(395,004)	(429,050)
Impairment of non-current assets	(76,915)	(118,563)
	<hr/>	<hr/>
Loss before tax	(1,354,485)	(929,511)
Income tax benefit	170,096	277,699
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<b>Loss for the period</b>	<b>(1,184,389)</b>	<b>(651,812)</b>
	<hr/>	<hr/>
<b>Earnings per share</b>		
Basic (cents per share)	(1.48)	(0.93)
Diluted (cents per share)	(1.48)	(0.93)

Notes to the financial statements are included on page 12.

**Condensed consolidated balance sheet  
as at 31 December 2006**

	Consolidated	
	31 December 2006 \$	30 June 2006 \$
<b>Current assets</b>		
Cash and cash equivalents	570,891	1,612,963
Trade and other receivables	154,030	142,800
<b>Total current assets</b>	<b>724,921</b>	<b>1,755,763</b>
<b>Non-current assets</b>		
Exploration & development expenditure	10,745,300	10,406,794
Property, plant and equipment	253,644	271,057
Deferred tax assets	1,523,026	1,462,966
<b>Total non-current assets</b>	<b>12,521,970</b>	<b>12,140,817</b>
<b>Total assets</b>	<b>13,246,891</b>	<b>13,896,580</b>
<b>Current liabilities</b>		
Trade and other payables	152,067	217,867
<b>Total current liabilities</b>	<b>152,067</b>	<b>217,867</b>
<b>Total liabilities</b>	<b>152,067</b>	<b>217,867</b>
<b>Net assets</b>	<b>13,094,824</b>	<b>13,678,713</b>
<b>Equity</b>		
Issued capital	16,291,179	16,203,679
Employee equity-settled benefits reserve	611,147	98,147
Accumulated losses	(3,807,502)	(2,623,113)
<b>Total equity</b>	<b>13,094,824</b>	<b>13,678,713</b>

Notes to the financial statements are included on page 12.

**Condensed consolidated statement of changes in equity  
for the half-year ended 31 December 2006**

	Share capital \$	Equity-settled employee benefits reserve \$	Accumulated losses \$	Total \$
Balance at 1 Jul 2005	13,981,179	18,147	(1,836,931)	12,362,395
Loss for the period	-	-	(651,812)	(651,812)
<b>Total recognised income and expense</b>	-	-	(651,812)	(651,812)
Recognition of share-based payments	-	80,000	-	80,000
Issue of share capital	1,000,000	-	-	1,000,000
<b>Balance at 31 Dec 2005</b>	<b>14,981,179</b>	<b>98,147</b>	<b>(2,288,743)</b>	<b>12,790,583</b>
Balance at 1 Jul 2006	16,203,879	98,147	(2,823,113)	13,678,713
Loss for the period	-	-	(1,184,389)	(1,184,389)
<b>Total recognised income and expense</b>	-	-	(1,184,389)	(1,184,389)
Recognition of share-based payments	-	513,000	-	513,000
Issue of share capital	87,500	-	-	87,500
<b>Balance at 31 Dec 2006</b>	<b>16,291,379</b>	<b>611,147</b>	<b>(3,807,502)</b>	<b>13,094,824</b>

Notes to the financial statements are included on page 12.

**Condensed consolidated cash flow statement  
for the half-year ended 31 December 2006**

	Consolidated	
	Half-year ended 31 Dec 2006 \$	Half-year ended 31 Dec 2005 \$
<b>Cash flows from operating activities</b>		
Payments to suppliers and employees	(659,993)	(795,622)
<b>Net cash provided by operating activities</b>	(659,993)	(795,622)
<b>Cash flows from investing activities</b>		
Interest received	32,004	35,667
Payment for property, plant and equipment	(10,632)	(10,527)
Development costs paid	(490,951)	(928,111)
<b>Net cash used in investing activities</b>	(469,579)	(902,971)
<b>Cash flows from financing activities</b>		
Proceeds from issues of equity securities	87,500	1,000,000
<b>Net cash used in financing activities</b>	87,500	1,000,000
Net decrease in cash and cash equivalents	(1,042,072)	(698,593)
Cash and cash equivalents at the beginning of the period	1,612,963	2,353,605
<b>Cash and cash equivalents at the end of the period</b>	<b>570,891</b>	<b>1,655,012</b>

Notes to the financial statements are included on page 12.

## Notes to the condensed consolidated financial statements

### 1. Significant accounting policies

#### Statement of compliance

The half-year financial report is a general purpose financial report prepared in accordance with the Corporations Act 2001 and AASB 134 'Interim Financial Reporting'. Compliance with AASB 134 ensures compliance with International Financial Reporting Standard IAS 34 'Interim Financial Reporting'. The half-year financial report does not include notes of the type normally included in an annual financial report and shall be read in conjunction with the most recent annual financial report.

#### Basis of preparation

The condensed financial statements have been prepared on the basis of historical cost, except for the revaluation of certain non-current assets and financial instruments. Cost is based on the fair values of the consideration given in exchange for assets. All amounts are presented in Australian dollars, unless otherwise noted.

The accounting policies and methods of computation adopted in the preparation of the half-year financial report are consistent with those adopted and disclosed in the company's 2006 annual financial report for the financial year ended 30 June 2006, other than as detailed below.

The Company's ability to meet its planned operating and mineral exploration and evaluation expenditure commitments over the coming year is dependent on the Company obtaining additional funding. The Company has engaged a licensed securities dealer to raise additional equity funds. The directors of the Company believe that the necessary additional funding will be raised. Accordingly, the condensed financial statements have been prepared on the basis that the Company and the entities within the Group are going concerns.

#### Adoption of new and revised Accounting Standards

In the current year, the Group has adopted all of the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board (the AASB) that are relevant to its operations and effective for annual reporting periods beginning on or after 1 July 2006. The adoption of these new and revised Standards and Interpretations has not resulted in any changes to the Group's accounting policies.

### 2. Segment information

The consolidated entity is engaged in mineral resource exploration, development and production carried out in Western Australia.

### 3. Dividends

No dividends were paid, proposed or declared during the half-year to 31 December 2006 or 31 December 2005.

### 4. Issuances, repurchases and repayments of equity securities

During the half-year reporting period, Reed Resources Ltd issued 250,000 ordinary shares for \$87,500 on exercise of 250,000 share options issued under its executive share option plan. There were no other movements in the ordinary share capital or other issued share capital of the company in the current half-year reporting period.

Reed Resources Ltd issued 2,700,000 share options (2005: 1,000,000) over ordinary shares under its executive share option plan during the half-year reporting period. These share options had a fair value at grant date of \$0.19 per share option (2005: \$0.08).

### 5. Subsequent events

In January 2007, the Company commenced the Feasibility Study on the Barrambie Vanadium Project. Mr Ken Hellsten has been appointed Project Manager and had previously lead teams responsible for the completion of feasibility studies and project development of the Cawse and Ravensthorpe nickel laterite projects. The feasibility study is expected to take 15 months.

In March 2007, the Company executed a Heads of Agreement with Western Areas NL (ASX:WSA) ("Western Areas") to explore for nickel sulphides on certain tenements at the Mt.Finnerty Project. The key terms of the Heads of Agreement are:

- Western Areas can earn an initial 51% interest in the nickel rights to the tenements by \$1.5 million expenditure within a 3-year period.
- Western Areas can elect to earn an additional 14% interest by further expenditure of \$1.5 million on the tenements, within 2-years of election.
- Western Areas can withdraw from the agreement at any time after reaching a minimum expenditure of \$200,000 on the tenements.