

15 March 2006

Company Announcements Office
Australian Stock Exchange Limited
Via Electronic Lodgement

Dear Sirs,

FINANCIAL REPORT – HALF YEAR ENDING 31 DECEMBER 2005

Please find attached the Company's Financial Report for the half-year ended 31 December 2005.

Yours faithfully,



Christopher Reed
Executive Director
Company Secretary

Geological aspects of this report and information that relates to Exploration Results have been compiled by Peter Collins (BSc(Hons), PhD). Dr Collins is a member of the Australian Institute of Geoscientists and is a director of Reed Resources Ltd. Dr Collins has sufficient experience which is relevant to the styles of mineralization and types of deposit under consideration and to the activity which he is undertaking 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 the report of the matters based on his information in the form and context in which it appears.



Reed Resources Ltd

ABN 89 099 116 631

Financial report for the half-year ended 31 December 2005

Financial report for the half-year ended 31 December 2005

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Directors' report

The directors of Reed Resources Ltd submit herewith the financial report for the half-year ended 31 December 2005. 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:

Mr D.J.Reed
Mr C.J.Reed
Dr P.L.F.Collins
Mr I.C.Junk

Review of operations

The consolidated loss after income tax for the half-year ended 31 December 2005 attributable to members of Reed Resources Ltd was \$651,812 and \$407,772 for the half year ended 31 December 2004.

Reed Resources Ltd raised \$1,000,000 from the issue of 5,000,000 ordinary fully-paid shares at 20 cents per share on 21 December 2005.

The company has invested \$809,565 in capitalised exploration expenditure and development costs in the half-year to 31 December 2005.

COMET VALE PROJECT

Sand Queen Gold Mine

Production Joint Venture

(Kingsrose Mining Pty Ltd earning 50% of M29/321, M29/52)

During the period, Joint Venture Operator Kingsrose Mining Pty Ltd commenced underground operations in the Sand Queen Mine. All surface infrastructure is in operation, the Sand Queen mine was dewatered to below the 3 Level, and minor works completed on the Sand Queen Main Shaft. During January 2006, the 2 Level plat was enlarged and driving south towards the Sand George lodes commenced.

The 2 Level development drive initially headed toward the southeast, to bypass historical stoping and to intersect a reported lode to the east of the main Sand Queen lode, referred to as the East Lode. The East Lode was intersected approximately 5 metres from the shaft and development is currently driving to the south along this lode. The Sand Queen South Deposit will be accessed from the existing 2 and 3 Levels in the Sand Queen mine. Development of the 2 and 3 Levels will be extended to the south to provide initial access into the Sand George lodes. Toll treatment of the ore is planned for early in the June 06 Quarter, with production ramping up to 3,000 tonnes per month as additional levels are opened up.

The current mine plan will produce 20,000 oz per annum, of which 10,000 ounces is attributable to Reed at a cash cost of A\$230/oz and generating in excess of A\$4.5 million per annum with an initial mine life of 3½ years.

**Sand Prince West
(100% Reed)**

During the period, Hellman & Schofield Pty Ltd completed an estimation of Mineral Resources at the Sand Prince West deposit, which included the results of infill grade control drilling and resource extension drilling undertaken during the September quarter, 2005.

The combined Mineral Resource is now estimated to be 121,150 tonnes at a grade of 2.39 g/t Au, for 9,310 ounces of gold (at a 1 g/t Au cut-off). At a higher cut-off grade, the combined resource is estimated to contain 67,440 tonnes at a grade of 3.15 g/t Au, for an estimated 6,820 ounces of gold (at 2 g/t Au cut-off).

Nickel Laterite Exploration**(100% Reed, Heron Resources right to earn 70% Ni rights on M29/186)**

A program of RC drilling was completed during the period to test the weathered profile above the Walter Williams Formation for lateritic nickel mineralisation. The Walter Williams Formation is the same stratigraphic unit that hosts the Goongarrie, Cawse, and Siberia lateritic nickel deposits.

This drilling has confirmed the presence of two separate horizons of nickel enrichment in the weathered profile, with a near surface 'A zone' and a lower 'B zone'. Grades in both zones are similar. Analytical results indicate substantial thicknesses of nickel enrichment in the weathered profile with best intersections of 12 metres at 0.76 % Ni (NLC007, open at depth), 26 metres at 0.62 % Ni (NLC009) and 35 metres at 0.53 % Ni (NLC017).

The exploration target at Comet Vale is a 20-30 Mt deposit with a grade of the order of 0.5-0.6 % Ni (unscreened) for a potential resource similar in style to that at Heron Resource's nearby Goongarrie and Highway deposits. Drilling to date indicates that the targeted grades are achievable, with possible higher grade zones, but additional closer-spaced drilling is required for adequate testing of a potential resource.

MOUNT FINNERTY PROJECT**(100% Reed, Portman earning 80% Fe rights)**

During the period, reconnaissance mapping and sampling throughout the northern and central parts of the Mt Finnerty Project by Portman Limited has identified hematite/martite enriched lateritised BIF to goethitic cap rock and goethite-cemented scree (canga) at a number of locations spread over a total strike length of about 16 km. This is additional to previously reported surface iron enrichments.

Grab sampling has returned grades of up to 64 % Fe (most samples in excess of 55 % Fe) over sample widths of up to 10 metres across strike.

The latest sampling has confirmed that the surface-enriched BIF tends to have acceptable phosphorous levels with most samples containing less than 0.08 % P, and over half of the samples containing less than 0.05 % P.

Portman plan to test the more prospective zones of surface enrichment with an RC drilling program that is scheduled to commence when a drill rig becomes available.

Exploration Licences containing the northern and central zones of surface iron enrichment (E16/272, E16/308) have been endorsed for iron ore under section 111 of the Mining Act, and Mining Lease applications have been lodged over most of the enriched sections north of Mt Finnerty.

Regional Exploration**(100% Reed)**

Reconnaissance-type exploration for nickel sulphide mineralisation accompanying the ultramafic sequences within the Watt Hills Greenstone Belt continued during the period with the drilling of nine Reverse Circulation Percussion (RC) drill holes for a total of 1,536 metres.

The drilling program was designed to test EM targets that had been modelled by Southern Geoscience Consultants from a surface TEM survey conducted earlier in the period. The TEM survey was restricted to favourable ultramafic flow sequences that had been interpreted from previously acquired aeromagnetic survey data and confirmed, where possible, by geological mapping and rock chip sampling.

Initial results from the RC drilling program indicate that the ground geophysical survey was successful as trace to disseminated sulphides, although mostly barren pyrite, were intersected in most of the drill holes. The drilling program was not intended to be a detailed survey of the basal contacts of MgO-enriched ultramafic flow sequences, which is the favoured position for the accumulation of nickel sulphides. High MgO ultramafic rocks that are favourable for nickel sulphides were intersected in several of the drill holes with thick sequences of these rocks being intersected in two drill holes. An interpreted basal contact of these ultramafics was tested in one of the drill holes but only barren disseminated sulphides were recorded.

The drilling has confirmed the presence of high MgO ultramafics, which are favourable hosts for nickel sulphides. It has also provided essential information on the facings of the ultramafic flow sequences, which will assist in defining the position of prospective basal contacts.

BARRAMBIE PROJECT**(100% Reed)**

During the period, the Company progressed a Pre-Feasibility Study (PFS) to determine the viability of mining and constructing and operating a plant to produce vanadium pentoxide.

Open-pit optimisation, design and scheduling on the oxide resource were completed. Operating and capital costs based on a design by Sinclair Knight Merz have been received and incorporated into the financial modelling. All other work packages are complete.

Key input factors for the Pre-Feasibility Study are:

| | |
|--|--|
| Mill throughput | 2.0 Mt p.a. |
| Magnetite recovery | 36 %, equivalent to about 720,000 t p.a. |
| Grade of magnetite concentrate | 1.37 % V ₂ O ₅ |
| V ₂ O ₅ flake production | 20,000,000 lbs p.a. |

CORPORATE

Titan Resources Limited

The Company announced on 15 September 2005 that it had been granted a call option by Consolidated Nickel Pty Ltd to acquire 60 million shares in ASX listed Titan Resources Limited (*Titan*) and that the call option was exercisable in the event that Reed Resources makes an off-market bid to acquire all of the issued share capital of Titan.

The Company further announced on 11 October 2005 that a Confidentiality Agreement had been entered into between Reed Resources and Titan and that the Board of Titan had indicated that it would provide Reed Resources with access to information and relevant personnel so that Reed Resources could determine whether or not to make a bid for Titan.

The Board of Reed Resources resolved not to make a bid for Titan or exercise the call option and the call option expired.

FURTHER INFORMATION

Further, more detailed information on the Company's activities during the half-year is available in the Company's September 2005 and December 2005 quarterly reports to the Australian Stock Exchange.

Auditor's independence declaration

The auditor's independence declaration is included on page 5 of the half-year financial 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



C.J.Reed

Director

Perth, 15th March 2006

The Board of Directors
Reed Resources Limited
97 Outram Street
PERTH WA 6805

15 March 2006

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.

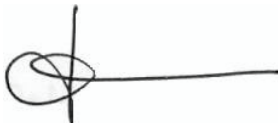
As lead audit partner for the review of the financial statements of Reed Resources Limited for the half-year ended 31 December 2005, I declare that to the best of my knowledge and belief, there have been no contraventions of:

- (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



LEANNE KARAMFILES
Partner
Chartered Accountants

Independent review report to the members of Reed Resources Limited

Scope

The financial report and directors' responsibility

The financial report comprises the balance sheet, income statement, cash flow statement, statement of changes in equity, selected explanatory notes and the directors' declaration for the consolidated entity for the half-year ended 31 December 2005 as set out on pages 8 to 22. The consolidated entity comprises both Reed Resources Limited (the company) and the entities it controlled at the end of the half-year or from time to time during the half-year.

The directors of the company are responsible for the preparation and true and fair presentation of the financial report in accordance with Accounting Standards in Australia and the Corporations Act 2001. This includes responsibility for the maintenance of adequate financial records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report.

Review Approach

We have performed an independent review of the financial report in order to state whether, on the basis of the procedures described, anything has come to our attention that would indicate that the financial report is not presented fairly in accordance with the Corporations Act 2001 and Accounting Standards AASB 134 "Interim Financial Reporting" and AASB 1 "First-time Adoption of Australian Equivalents to International Financial Reporting Standards", so as to present a view which is consistent with our understanding of the consolidated entity's financial position, and performance as represented by the results of its operations, its changes in equity and its cash flows, and in order for the company to lodge the financial report with the Australian Securities and Investments Commission.


Our review was conducted in accordance with Australian Auditing Standards applicable to review engagements. A review is limited primarily to inquiries of the entity's personnel and analytical procedures applied to the financial data. These procedures do not provide all the evidence that would be required in an audit, thus the level of assurance provided is less than given in an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

Statement

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 2005 and of its performance for the half-year ended on that date; and
- (b) complying with Accounting Standards AASB 134 "Interim Financial Reporting" and AASB 1 "First-time Adoption of Australian Equivalents to International Financial Reporting Standards" and the Corporations Regulations 2001.

Deloitte Touche Tohmatsu
DELOITTE TOUCHE TOHMATSU



LEANNE KARAMFILES
Partner
Chartered Accountants
Perth, 15 March 2006

Directors' declaration

The directors declare that:

- (a) the attached financial statements and notes thereto comply with Accounting Standards;
- (b) the attached financial statements and notes thereto give a true and fair view of the financial position and performance of the consolidated entity;
- (c) in the directors' opinion, the attached financial statements and notes thereto are in accordance with the Corporations Act 2001; and
- (d) 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.

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



C.J. Reed
Director
15th of March 2006
Perth

Consolidated income statement for the half-year ended 31 December 2005

| | Consolidated | |
|---------------------------------------|---|---|
| | Half-year ended 31 Dec 2005 \$ | Half-year ended 31 Dec 2004 \$ |
| Revenue | - | - |
| Other income | 30,352 | 60,688 |
| Employment expenses | (366,741) | (209,005) |
| Occupancy expenses | (45,509) | (11,927) |
| Administration expenses | (429,050) | (249,011) |
| Finance costs | - | (1,261) |
| Impairment of non-current assets | (118,563) | - |
| Other expenses | - | (8,100) |
| Loss before income tax expense | (929,511) | (418,616) |
| Income tax benefit | 277,699 | 10,844 |
| Loss for the period | (651,812) | (407,772) |
| Earnings per share: | | |
| Basic (cents per share) | (0.93) | (0.72) |
| Diluted (cents per share) | (0.93) | (0.72) |

Notes to the financial statements are included on pages 13 to 22

Consolidated balance sheet as at 31 December 2005

| | Consolidated | |
|--|---------------------------|--------------------|
| | 31 December 2005 \$ | 30 June 2005 \$ |
| Current assets | | |
| Cash and cash equivalents | 1,655,012 | 2,353,606 |
| Trade and other receivables | 27,888 | 39,331 |
| Other | 22,686 | - |
| Total current assets | 1,705,586 | 2,392,937 |
| Non-current assets | | |
| Exploration & development expenditure | 9,623,555 | 8,813,990 |
| Property, plant and equipment | 310,114 | 332,826 |
| Deferred tax assets | 1,196,718 | 919,019 |
| Total non-current assets | 11,130,387 | 10,065,835 |
| Total assets | 12,835,973 | 12,458,772 |
| Current liabilities | | |
| Trade and other payables | 45,390 | 96,377 |
| Total current liabilities | 45,390 | 96,377 |
| Non-current liabilities | | |
| Total non-current liabilities | - | - |
| Total liabilities | 45,390 | 96,377 |
| Net assets | 12,790,583 | 12,362,395 |
| Equity | | |
| Issued capital | 14,981,179 | 13,981,179 |
| Employee equity-settled benefits reserve | 98,147 | 18,147 |
| Accumulated losses | (2,288,743) | (1,636,931) |
| Total equity | 12,790,583 | 12,362,395 |

Notes to the financial statements are included on pages 13 to 22

Consolidated cash flow statement for the half-year ended 31 December 2005

| | Consolidated | |
|--|---|---|
| | Half-year ended 31 Dec 2005 \$ | Half-year ended 31 Dec 2004 \$ |
| Cash flows from operating activities | | |
| Payments to suppliers and employees | (795,622) | (429,712) |
| Net cash used in operating activities | (795,622) | (429,712) |
| Cash flows from investing activities | | |
| Interest received | 35,667 | 64,103 |
| Payment for property, plant and equipment | (10,527) | (21,831) |
| Development costs paid | (928,111) | (351,601) |
| Net cash used in by investing activities | (902,971) | (309,329) |
| Cash flows from financing activities | | |
| Proceeds from issues of shares | 1,000,000 | - |
| Repayment of borrowings | - | (10,225) |
| Net cash provided by/(used in) financing activities | 1,000,000 | (10,225) |
| Net decrease in cash and cash equivalents | (698,593) | (749,266) |
| Cash and cash equivalents at the beginning of the half-year | 2,353,606 | 2,003,686 |
| Cash and cash equivalents at the end of the half-year | 1,655,012 | 1,254,420 |

Notes to the financial statements are included on pages 13 to 22

Consolidated statement of changes in equity for the half-year ended 31 December 2005

| | Issued capital \$ | Employee equity-settled benefits reserve \$ | Accumulated losses \$ | Total attributable to equity holders of the entity \$ |
|--|----------------------|--|--------------------------|--|
| Balance at 1/7/04 | 12,005,179 | - | (981,033) | 11,024,146 |
| Loss for the period | - | - | (407,772) | (407,772) |
| Total recognised income & expense for the period | - | - | (407,772) | (407,772) |
| Balance at 31/12/04 | 12,005,179 | - | (1,388,805) | 10,616,374 |
| | | | | |
| Balance at 1/7/05 | 13,981,179 | 18,147 | (1,636,931) | 12,362,395 |
| Loss for the period | - | - | (651,812) | (651,812) |
| Total recognised income & expense for the period | - | - | (651,812) | (651,812) |
| Recognition of share based payments | - | 80,000 | - | 80,000 |
| Issue of share capital | 1,000,000 | - | - | 1,000,000 |
| Balance at 31/12/05 | 14,981,179 | 98,147 | (2,288,743) | 12,790,583 |

Notes to the financial statements are included on pages 13 to 22

Notes to the financial statements for the half-year ended 31 December 2005

1. Summary of accounting policies

Basis of preparation

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.

The consolidated entity changed its accounting policies on 1 July 2005 to comply with A-IFRS. The transition to A-IFRS is accounted for in accordance with Accounting Standard AASB 1 'First-time Adoption of Australian Equivalents to International Financial Reporting Standards', with 1 July 2004 as the date of transition. An explanation of how the transition from superseded policies to A-IFRS has affected the consolidated entity's financial position, financial performance and cash flows is discussed in note 3.

The accounting policies set out below have been applied in preparing the financial statements for the half-year ended 31 December 2005, the comparative information presented in these financial statements, and in the preparation of the opening A-IFRS balance sheet at 1 July 2004 (as disclosed in note 3, the consolidated entity's date of transition). The consolidated entity has adopted AASB 132 'Financial Instruments: Disclosure and Presentation' and AASB 139 'Financial Instruments: Recognition and Measurement' effective 1 July 2005, however there was no impact on the financial statements at the date of adoption.

Significant accounting policies

The following significant accounting policies have been adopted in the preparation and presentation of the half-year financial report:

(a) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, cash in banks and investments in money market instruments, net of outstanding bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities in the balance sheet.

(b) Employee benefits

Provision is made for benefits accruing to employees in respect of wages and salaries, annual leave, long service leave, and sick leave when it is probable that settlement will be required and they are capable of being measured reliably.

Provisions made in respect of employee benefits expected to be settled within 12 months, are measured at their nominal values using the remuneration rate expected to apply at the time of settlement.

Provisions made in respect of employee benefits which are not expected to be settled within 12 months are measured as the present value of the estimated future cash outflows to be made by the consolidated entity in respect of services provided by employees up to reporting date.

(c) Financial instruments issued by the company

Debt and equity instruments

Debt and equity instruments are classified as either liabilities or as equity in accordance with the substance of the contractual arrangement.

Transaction costs on the issue of equity instruments

Transaction costs arising on the issue of equity instruments are recognised directly in equity as a reduction of the proceeds of the equity instruments to which the costs relate. Transaction costs are the costs that are incurred directly in connection with the issue of those equity instruments and which would not have been incurred had those instruments not been issued.

1. Summary of accounting policies

(c) Financial instruments issued by the company (Cont)

Interest and dividends

Interest and dividends are classified as expenses or as distributions of profit consistent with the balance sheet classification of the related debt or equity instruments or component parts of compound instruments.

(d) Goods and services tax

Revenues, expenses and assets are recognised net of the amount of goods and services tax (GST), except:

- i. where the amount of GST incurred is not recoverable from the taxation authority, it is recognised as part of the cost of acquisition of an asset or as part of an item of expense; or
- ii. for receivables and payables which are recognised inclusive of GST.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables.

Cash flows are included in the cash flow statement on a gross basis. The GST component of cash flows arising from investing and financing activities which is recoverable from, or payable to, the taxation authority is classified as operating cash flows.

(e) Impairment of assets

At each reporting date, the consolidated entity reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the consolidated entity estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised in profit or loss immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but only to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised in profit or loss immediately.

(f) Income tax

Current tax

Current tax is calculated by reference to the amount of income taxes payable or recoverable in respect of the taxable profit or tax loss for the period. It is calculated using tax rates and tax laws that have been enacted or substantively enacted by reporting date. Current tax for current and prior periods is recognised as a liability (or asset) to the extent that it is unpaid (or refundable).

Deferred tax

Deferred tax is accounted for using the comprehensive balance sheet liability method in respect of temporary differences arising from differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax base of those items.

1. Summary of accounting policies

(f) Income tax

Deferred tax (Cont)

In principle, deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised to the extent that it is probable that sufficient taxable amounts will be available against which deductible temporary differences or unused tax losses and tax offsets can be utilised. However, deferred tax assets and liabilities are not recognised if the temporary differences giving rise to them arise from the initial recognition of assets and liabilities (other than as a result of a business combination) which affects neither taxable income nor accounting profit. Furthermore, a deferred tax liability is not recognised in relation to taxable temporary differences arising from goodwill.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, branches, associates and joint ventures except where the consolidated entity is able to control the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with these investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period(s) when the asset and liability giving rise to them are realised or settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by reporting date. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the consolidated entity expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the company/consolidated entity intends to settle its current tax assets and liabilities on a net basis.

Current and deferred tax for the period

Current and deferred tax is recognised as an expense or income in the income statement, except when it relates to items credited or debited directly to equity, in which case the deferred tax is also recognised directly in equity, or where it arises from the initial accounting for a business combination, in which case it is taken into account in the determination of goodwill or excess.

Tax consolidation

The company and all its wholly-owned Australian resident entities are part of a tax-consolidated group under Australian taxation law. Reed Resources Ltd is the head entity in the tax-consolidated group.

(g) Exploration and evaluation Expenditure

Exploration and evaluation expenditures in relation to separate areas of interest are capitalised in the year in which they are incurred and are carried at cost less accumulated impairment losses where the following conditions are satisfied:

- i) the rights to tenure of the area of interest are current; and
- ii) at least one of the following conditions is also met:
 - the exploration and evaluation expenditures are expected to be recouped through successful development and exploration of the area of interest, or alternatively, by its sale;
 - or
 - exploration and evaluation activities in the area of interest have not at the reporting date reached a stage which permits a reasonable assessment of the existence or otherwise of economically recoverable reserves, and active and significant operations in, or in relation to, the area of interest are continuing.

Capitalised exploration costs are reviewed each reporting date to test whether an indication of impairment exists. If any such indication exists, the recoverable amount of the capitalised exploration costs is estimated to determine the extent of the impairment loss (if any). Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but only to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in previous years.

Where a decision is made to proceed with development, accumulated expenditure is tested for impairment and transferred to capitalised development and then amortised over the life of the reserves associated with the area of interest once mining operations have commenced.

Development expenditure

Development expenditure is recognised at cost less any impairment losses. Where commercial production in an area of interest has commenced, the associated costs are amortised over the life of the reserves associated with the area of interest.

1. Summary of accounting policies

(h) Payables

Trade payables and other accounts payable are recognised when the consolidated entity becomes obliged to make future payments resulting from the purchase of goods and services.

(i) Principles of consolidation

The consolidated financial statements are prepared by combining the financial statements of all the entities that comprise the consolidated entity, being the company (the parent entity) and its subsidiaries as defined in Accounting Standard AASB 127 'Consolidated and Separate Financial Statements'. Consistent accounting policies are employed in the preparation and presentation of the consolidated financial statements.

On acquisition, the assets, liabilities and contingent liabilities of a subsidiary are measured at their fair values at the date of acquisition. Any excess of the cost of acquisition over the fair values of the identifiable net assets acquired is recognised as goodwill. If, after reassessment, the fair values of the identifiable net assets acquired exceeds the cost of acquisition, the deficiency is credited to profit and loss in the period of acquisition.

The interest of minority shareholders is stated at the minority's proportion of the fair values of the assets and liabilities recognised.

The consolidated financial statements include the information and results of each subsidiary from the date on which the company obtains control and until such time as the company ceases to control such entity.

In preparing the consolidated financial statements, all intercompany balances and transactions, and unrealised profits arising within the consolidated entity are eliminated in full.

(j) Property, plant and equipment

Plant and equipment, leasehold improvements and equipment under finance lease are stated at cost less accumulated depreciation and impairment. Cost includes expenditure that is directly attributable to the acquisition of the item. In the event that settlement of all or part of the purchase consideration is deferred, cost is determined by discounting the amounts payable in the future to their present value as at the date of acquisition.

Depreciation is provided on property, plant and equipment. Depreciation is calculated on a straight line basis so as to write off the net cost of each asset over its expected useful life to its estimated residual value. Leasehold improvements are depreciated over the period of the lease or estimated useful life, whichever is the shorter, using the straight line method. The estimated useful lives, residual values and depreciation method is reviewed at the end of each annual reporting period.

The following estimated useful lives are used in the calculation of depreciation:

- Plant and equipment 5 - 10 years

1. Summary of accounting policies

(k) Provisions

Provisions are recognised when the consolidated entity has a present obligation, the future sacrifice of economic benefits is probable, and the amount of the provision can be measured reliably.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at reporting date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cashflows estimated to settle the present obligation, its carrying amount is the present value of those cashflows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognised as an asset if it is virtually certain that recovery will be received and the amount of the receivable can be measured reliably.

(l) Revenue recognition

Dividend and interest income

Dividend income is recognised on a receivable basis. Interest income is recognised on a time proportionate basis that takes into account the effective yield on the financial asset.

(m) Share-based payments

Equity-settled share-based payments granted after 7 November 2002 that were unvested as of 1 January 2005, are measured at fair value at the date of grant. Fair value is measured by use of the Black Scholes model.

The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the consolidated entity's estimate of shares that will eventually vest.

2. Issuances, repurchases and repayments of securities

Reed Resources Ltd issued 1,000,000 share options (2004: 2,250,000) over ordinary shares under its employee share option plan during the half-year reporting period. These share options had a fair value at grant date of \$0.08 per share option (2004: \$0.07).

3. Impacts of the adoption of Australian equivalents to International Financial Reporting Standards

The consolidated entity changed its accounting policies on 1 July 2005 to comply with Australian equivalents to International Financial Reporting Standards ('A-IFRS'). The transition to A-IFRS is accounted for in accordance with Accounting Standard AASB 1 'First-time Adoption of Australian Equivalents to International Financial Reporting Standards', with 1 July 2004 as the date of transition.

An explanation of how the transition from superseded policies to A-IFRS has affected the consolidated entity's financial position, financial performance and cash flows is set out in the following tables and the notes that accompany the tables.

3. Impacts of the adoption of Australian equivalents to International Financial Reporting Standards (cont'd)

Effect of A-IFRS on the balance sheet as at 1 July 2004

| | Note | Consolidated | | |
|--------------------------------------|------|--------------|-----------------------------------|-------------|
| | | 30 June 2004 | Effect of transition to A-IFRS \$ | 1 July 2004 |
| Current assets | | | | |
| Cash and cash equivalents | | 2,003,686 | - | 2,003,686 |
| Trade and other receivables | | 77,441 | - | 77,441 |
| Total current assets | | 2,081,127 | | 2,081,127 |
| Non-current assets | | | | |
| Property, plant and equipment | | 301,778 | - | 301,778 |
| Mining Tenements | | 8,070,950 | - | 8,070,950 |
| Deferred tax assets | b | - | 583,613 | 583,613 |
| Total non-current assets | | 8,372,728 | 583,613 | 8,956,341 |
| Total assets | | 10,453,855 | 583,613 | 11,037,468 |
| Current liabilities | | | | |
| Trade and other payables | | (392) | - | (392) |
| Other financial liabilities | | 13,713 | - | 13,713 |
| Total current liabilities | | 13,321 | - | 13,321 |
| Non-current liabilities | | | | |
| Total non-current liabilities | | - | - | - |
| Total liabilities | | 13,321 | - | 13,321 |
| Net assets | | 10,440,534 | 583,613 | 11,024,147 |
| Equity | | | | |
| Share capital | | 12,005,179 | - | 12,005,179 |
| Retained earnings | c | (1,564,645) | 583,613 | (981,032) |
| Total equity | | 10,440,534 | 583,613 | 11,024,147 |

Impacts of the adoption of Australian equivalents to International Financial Reporting Standards (cont'd)
Effect of A-IFRS on the income statement for the half-year ended 31 December 2004 and the financial year ended 30 June 2005

| | Note | Half-year ended 31 Dec 2004 | | | Financial year ended 30 June 2005 | | |
|---------------------------------------|------|--------------------------------|--------------------------------------|------------------|--------------------------------------|--------------------------------------|------------------|
| | | Super- seded policies* | Effect of transition to A-IFRS | A-IFRS | Super- seded policies* | Effect of transition to A-IFRS | A-IFRS |
| Revenue | | | | | | | |
| Other income | | 60,688 | | 60,688 | 105,441 | | 105,441 |
| Employment expense | a | (209,005) | | (209,005) | (463,227) | (18,147) | (481,374) |
| Occupancy Expenses | | (11,927) | | (11,927) | (73,927) | | (73,927) |
| Administration expenses | | (249,011) | | (249,011) | (369,066) | | (369,066) |
| Finance costs | | (1,261) | | (1,261) | (5,116) | | (5,116) |
| Other expenses | | (8,100) | | (8,100) | (167,263) | | (167,263) |
| Loss before income tax expense | | (418,616) | | (418,616) | (973,158) | | (991,305) |
| Income tax benefit | b | - | 10,844 | 10,844 | - | 335,405 | 335,405 |
| Loss for the period | | (418,616) | 10,844 | (407,772) | (973,158) | 317,258 | (655,900) |

* Reported financial results under previous Australian GAAP.

Effect of A-IFRS on the cash flow statement for the financial year ended 30 June 2005.

There are no material differences between the cash flow statement presented under A-IFRS and the cash flow statement presented under the superseded policies.

Impacts of the adoption of Australian equivalents to International Financial Reporting Standards (cont'd)

Effect of A-IFRS on the balance sheet as at 31 December 2004 and 30 June 2005

| Note | 31 December 2004 | | | 30 June 2005 | | |
|--------------------------------|-----------------------------|--------------------------------------|--------------|-----------------------------|--------------------------------------|--------------|
| | Super-seded policies* \$ | Effect of transition to A-IFRS \$ | A-IFRS \$ | Super-seded policies* \$ | Effect of transition to A-IFRS \$ | A-IFRS \$ |
| Current assets | | | | | | |
| | 1,254,420 | | 1,254,420 | 2,353,606 | | 2,353,606 |
| | 30,022 | | 30,022 | 39,331 | | 39,331 |
| | 1,284,442 | | 1,284,442 | 2,392,937 | | 2,392,937 |
| Non-current assets | | | | | | |
| | 299,788 | | 299,788 | 332,826 | | 332,826 |
| | 8,453,420 | | 8,453,420 | 8,813,990 | | 8,813,990 |
| | | 594,458 | 594,458 | | 919,019 | 919,019 |
| | 8,753,208 | 594,458 | 9,347,666 | 9,146,816 | 919,019 | 10,065,835 |
| | 10,037,650 | 594,458 | 10,632,108 | 11,539,753 | 919,019 | 12,458,772 |
| Current liabilities | | | | | | |
| | 12,244 | | 12,244 | 96,377 | | 96,377 |
| | 12,244 | | 12,244 | 96,377 | | 96,377 |
| Non-current liabilities | | | | | | |
| | 3,488 | | 3,488 | - | | - |
| | 3,488 | - | 3,488 | - | | - |
| | 15,732 | - | 15,732 | 96,377 | | 96,377 |
| | 10,021,918 | 594,458 | 10,616,376 | 11,443,376 | 919,019 | 12,362,395 |
| Equity | | | | | | |
| | 12,005,179 | | 12,005,179 | 13,981,179 | | 13,981,179 |
| | | | | | 18,147 | 18,147 |
| | (1,983,261) | 594,458 | (1,388,804) | (2,537,803) | 900,872 | (1,636,931) |
| | 10,021,918 | 594,458 | 10,616,376 | 11,443,376 | 919,019 | 12,362,395 |

* Reported financial position under previous Australian GAAP.

Notes to the reconciliations of income and equity

(a) Share-based payments

For the half-year ended 31 December 2005 and the financial year ended 30 June 2005, share-based payments of \$80,000 and \$18,147 (included in 'employee benefit expenses') which were not recognised under the superseded policies were recognised under A-IFRS, with a corresponding increase in the employee equity-settled benefits reserve.

(b) Income tax

Under superseded policies, the consolidated entity adopted tax-effect accounting principles whereby income tax expense was calculated on pre-tax accounting profits after adjustment for permanent differences. The tax-effect of timing differences, which occur when items were included or allowed for income tax purposes in a period different to that for accounting were recognised at current taxation rates as deferred tax assets and deferred tax liabilities, as applicable.

Under A-IFRS, deferred tax is determined using the balance sheet liability method in respect of temporary differences arising from differences between the carrying amount of assets and liabilities in the financial statements and their corresponding tax bases. Accordingly a deferred tax asset has been recognised for tax losses carried forward where it is probable that the losses will be utilised.

Impacts of the adoption of Australian equivalents to International Financial Reporting Standards (cont'd)

The effect of the above adjustments on the deferred tax balances are as follows:

| | Consolidated | | |
|---|----------------------|----------------------|-----------------------|
| | 1 July 2004 \$ | 31 Dec 2004 \$ | 30 June 2005 \$ |
| Deferred tax not recognised under previous GAAP | 583,614 | 594,458 | 919,019 |
| Net increase in deferred tax balances | 583,614 | 594,458 | 919,019 |

(c) Retained earnings

The effect of the above adjustments on retained earnings is as follows:

| | Note | Consolidated | | |
|---------------------------------------|------|----------------------|----------------------|-----------------------|
| | | 1 July 2004 \$ | 31 Dec 2004 \$ | 30 June 2005 \$ |
| Expensing share-based payments | a | - | - | (18,147) |
| Adjustments to tax balances | b | 583,613 | 594,458 | 919,019 |
| Total adjustment to retained earnings | | 583,613 | 594,458 | 900,872 |

4. Subsequent events

There has not been any matter or circumstance, other than that referred to in the financial statements or notes thereto, that has arisen since the end of the period, that has significantly affected, or may significantly affect, the operations of the consolidated entity, the results of those operations, or the state of the consolidated entity in future financial years.

5. Dividends

No dividends were paid, proposed or declared during the half-year to 31 December 2005 or 31 December 2004.

6. Segment information

The consolidated entity operates predominantly in one business and geographic segment being exploration and development of mineral resources in Western Australia.