

Reed Resources Ltd

ACN:099 116 631

Half-year Report for the half year ended 31 December 2008

Directors' report

The directors of Reed Resources Ltd submit herewith the financial report for the half-year ended 31 December 2008. 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	Managing Director and Company Secretary
Dr P. L. F. Collins	Non-Executive Director
Mr I. C. Junk	Non-Executive Director
Mr S. Cole	Non-Executive Director

Review of operations

Reed Resources' exploration and development activities during the quarter continued to focus on the Comet Vale gold operations and advancing the Barrambie vanadium project. Portman Iron Ore Ltd and Western Areas NL are continuing with exploration of the Mt Finnerty project for iron ore and nickel sulphide mineralisation, respectively, under joint venture agreements. The Bell Rock Range project in central Australia is progressing steadily.

BARRAMBIE VANADIUM PROJECT (Reed 100%)

Definitive feasibility study (DFS)

The second stage of the Definitive Feasibility Study (DFS) was completed by Sinclair Knight Merz (SKM) on the 15th August 2008. This indicated that, based on the existing mineralisation, the Barrambie vanadium processing plant and associated infrastructure should target a through put of 3.2 million tonnes per annum of vanadium bearing magnetite mineralisation at a grade of 0.7% V₂O₅ and produce either approximately 9,000 tonnes of vanadium pentoxide V₂O₅ or 6,300 tonnes of Ferrovandium per annum.

Mining studies indicated that selective mining of the Central Zone on mineralisation will result in a feed to the plant in excess of 0.8 % V₂O₅, which is the highest grade of any primary vanadium-bearing mineralisation in Australia.

On the basis of the increased grade of the Central Zone mineralisation and the increased tonnages expected from the recently drilled northern mineralisation, the DFS was extended to incorporate the extra output possible from a higher than anticipated head grade.

Northern strike extension and infill drilling

During the half the Company successfully completed a 363 hole reverse circulation percussion (RCP) drilling program (25,900 metres) on the northern half of its wholly owned Mining Lease M57/173. The Company has now completely drilled out the full 11 Kilometres of strike length of the Mining Lease. This additional drilling takes the total RCP holes drilled at Barrambie to 782 holes for a total 55,564 metres drilled over four separate drilling campaigns.

The RC drilling program was designed to drill out the six kilometres of strike length to the north of the existing Mineral Resource of 36.5 million tonnes at a grade of 0.82 % V₂O₅, 17.7 %TiO₂ and 49.9 % Fe₂O₃ at a block cut off grade of 0.5% V₂O₅ (ASX announcement 7th May 2008).

Strategic land acquisition

During the half the Company expanded its landholdings around the Barrambie vanadium deposit through the acquisition of Australian Vanadium Corporation Pty Ltd, a subsidiary of Prime Minerals Limited (ASX:PIM). Australian Vanadium Corporation Pty Ltd held two Exploration Licence applications, E57/742 and E57/743, which encompass the Barrambie Project. The acquisition will now enable the Company to place plant infrastructure and waste dumps in their optimal positions.

**BARRAMBIE VANADIUM PROJECT
(Reed 100%)**

A summary of the agreement is as follows (ASX announcement 1st September 2008):

- \$1.0 million cash.
- 2 million ordinary shares in Reed Resources Ltd.
- 2% net smelter royalty of production from within the relevant tenement areas.
- Original Vendor free carried to 20 % until completion of a Bankable Feasibility Study.

Geological and geophysical data for E57/742 and E57/743 confirms that there is excellent potential for extensions of the same type and grade of mineralisation as that currently being assessed within the Company's Mining Lease (M57/173). There is potential for an additional 14 kilometres of strike length to the north and south of M57/173. The additional ground also includes a zone of poorly exposed magnetic formations about 5 kilometres to the west of and parallel to the Barrambie deposit.

COMET VALE PROJECT (gold, nickel)

Sand Queen Mine Operations

(Reed Resources 100 %, Kingsrose Mining Limited earning 50 %)

Mining & Milling

Underground mining operations at Comet Vale continue to improve, with Kingsrose Mining Limited ("Kingsrose") reporting record production of 7,710 tonnes of ore at an estimated average grade of 9.5 g/t Au for the September 2008 quarter and 5,874 of ore at an estimated grade of 14.1g/t Au for the December 2008 quarter. The Company's attributable gold production was 2,424 ounces at a cash cost of A\$558/oz. Gold production from Sand Queen remains not hedged and therefore fully leveraged to further upward movements in the price of gold.

Most of the ore mined during the September 2008 quarter was from the 3 Level, with small amounts of ore still being generated from stopes on the 2 Level, as labour resources permit. In the December 2008 quarter ore was mined from the 3 Level stopes and a concerted pumping campaign has lowered the water level in the old Sand Queen workings during January so that, at the time of writing, the 4 level was dewatered and work had commenced on establishing rail-mounted access. Shaft timbers are reported to be in good condition, with limited work required to extend skip guides down to the 4 level.

New Joint Venture Terms

In December 2008 the Company and its Joint Venture partner Kingsrose amended the Comet Vale Joint Venture on the Sand Queen Gold Mine. The key terms of the variation are:

- Reed Resources will solely incur the transport and treatment expenditure to earn 40% (previously 50%) of gold ore below a depth of 107 metres from the collar of the Sand Queen Main Shaft (i.e. below the 3 Level), except if the grade is greater than 13 grams per tonne of gold. If the ore grade exceeds 13 g/t Au then Reed will earn a 50% interest.
- The requirement that Kingsrose produce 25,000 ounces of gold by 31 May 2009 has been extended to 31 May 2010. If Kingsrose do not meet this production requirement they will not have earned any interest in the tenements and shall be deemed to have withdrawn from the joint venture agreement.
- Reed is not obliged to treat any gold ore, which is of a grade less than 5.0 grams per tonne of gold.

The change in proportioning of gold below the 3 Level to 40% Reed and 60% Kingsrose is at a higher mine level than in the original agreement. The 40% Reed / 60% Kingsrose proportion was originally intended to be invoked below a depth of 243 metres (equivalent to below the 6 Level).

Although Reed will earn a reduced proportion of the gold produced, this is expected to be offset by a projected increase in production.

COMET VALE PROJECT (gold, nickel)

New Mineral Resource estimate

During the half work focused on a major drilling program that commenced in 15 August and completed on 10 October. The infill and extension drilling program, which consisted of 4,456 metres of reverse circulation percussion (RC) drilling and 2,290.8 metres of diamond core drilling, has confirmed the narrow, high-grade 'nuggety' style of gold mineralisation at Comet Vale.

The combined Mineral Resource for the Sand Queen mine is estimated at 661,000 tonnes at 8.6 g/t Au for 182,600 ounces gold. This includes an estimated 97,000 ounces of gold in the vicinity of the current and planned mine workings.

MOUNT FINNERTY PROJECT (iron, nickel, gold)

Iron Ore Exploration

(Reed Resources 20 %, Portman 80 %)

Iron ore exploration is undertaken by Portman Iron Ore Ltd (Portman) in joint venture with Reed Resources Ltd. The principal aim of this exploration is to locate sufficient iron mineralisation within trucking distance of Portman's Koolyanobbing Iron Ore operation, which is about 65km to the west. The exploration targets is banded iron formation (BIF) hosted iron enrichment (BID) deposits (e.g. FIN1 to FIN11 prospects). Exploration for BIF-hosted iron mineralisation has identified several new areas of outcropping iron mineralisation, sampling has generated drill targets FIN7 West, FIN10 North and FIN10 South, and FIN11 North and FIN11 South. New geophysical BID targets such as 'Red Tulip', a magnetic and gravity anomaly with discontinuous sub-cropping iron mineralisation, and 'Blue Rose', have also been approved by the joint venturers for drill testing in the first half of calendar 2009.

During the half year Portman completed sampling of a systematic RAB drilling program to test the extent of iron-enriched detrital material in a number of palaeochannel deposits. The assays results are awaited.

Nickel Exploration

(Western Areas NL earning 65 %)

Exploration by Western Areas continued during the half year with RAB drilling programs testing the prospective basal contact of the Western Ultramafic unit (WUM) and other potentially favourable lithologies. Logging and sampling were completed during the December 2008 quarter, and selected chips were retained for lithological identification. Four RC holes (total 682m) were drilled on or near the Western Ultramafic Unit (WUM).

A total of 225 RAB holes were drilled (holes WMFRB127 - WMFRB 351) for a total 5,248 metres of which 1,987 metres were drilled at Yalenbarine Creek prospect and 3,261 metres at Johnnies Dam. Assay results defined moderately high Mg ultramafic rocks at Johnnies Dam. Uncalibrated Niton results show nickel values up to 1.4% Ni in WMFR294 in the Johnnies Dam area that are probably related to shallow saprolite concentration.

**BELL ROCK RANGE PROJECT
(Reed 100%)**

The Bell Rock Range project within the western part of the Proterozoic Musgrave Province in central Australia is highly prospective for several commodities, particularly Ni-Cu sulphide and PGE mineralisation in area that is underexplored.

During the half year, the company conducted anthropological research and continued discussions with local aboriginal communities to finalise agreements for access within the exploration licence.

CORPORATE

In July 2008 the Company appointed Steven Cole as Deputy Chairman of the Company and adopted a revitalised Corporate Governance Charter reflective of the revised ASX Corporate Governance Council Recommendations (2008).

As stated above the Barrambie project strategic land acquisition resulted in the issue of 2 million ordinary shares to Prime Minerals Ltd as part purchase consideration and the joint venture partners announced an amendment of their Comet Vale Joint Venture for the Sand Queen Gold Mine in Western Australia.

In addition, 1 million options were issued during the half year to particular employees and consultants of the Company in accordance with the Company's Employee Share Option Plan and a further 1.25 million options were issued to Directors of the Company as approved at the Annual General Meeting on 25 November 2008.

The Company is in the process of dispute resolution in relation to its toll milling contract, the Company is seeking to recover additional gold.

During the December 2008 quarter 2,200,000 options lapsed.

Auditor's independence declaration

The auditor's independence declaration is included on page 6 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, 4 March 2009

Board of Directors
Reed Resources Ltd
97 Outram Street
West Perth WA 6000

4 March 2009

Dear Board Members

Reed Resources Ltd

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 Ltd.

As lead audit partner for the audit of the consolidated financial statements of Reed Resources Ltd for the half year ended 31 December 2008, 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 audit; and
- (ii) any applicable code of professional conduct in relation to the audit.

Yours sincerely



DELOITTE TOUCHE TOHMATSU



Mark Gover
Partner
Chartered Accountants

Independent Auditor's Report to the members of Reed Resources Ltd

We have audited the accompanying financial report of Reed Resources Ltd, which comprises the balance sheet as at 31 December 2008, and the income statement, cash flow statement and statement of changes in equity for the half-year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the half-year's end or from time to time during the half-year as set out on pages 9 to 14.

Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the 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 an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Auditor's Independence Declaration

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

Auditor's Opinion

In our opinion, the financial report of Reed Resources Ltd is in accordance with the *Corporations Act 2001*, including:

- (a) giving a true and fair view of the company's and consolidated entity's financial position as at 31 December 2008 and of their 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



Mark Gover
Partner
Chartered Accountants
Perth, 4 March 2009

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, 4 March 2009

**Condensed consolidated income statement
for the half-year ended 31 December 2008**

	Consolidated	
	Half-year ended 31 Dec 2008 \$	Half-year ended 31 Dec 2007 \$
Revenue from sale of goods	2,496,462	624,605
Cost of sales	(2,388,141)	(624,846)
Gross profit / (loss)	108,321	(241)
Other income	771,903	138,178
Employment expenses	(2,070,804)	(1,129,109)
Occupancy expenses	(99,846)	(79,262)
Administration expenses	(1,268,490)	(674,854)
Finance costs	(64,894)	(516)
Impairment of non-current assets	-	(601,124)
Other Expenses	(34,474)	-
Loss before tax	(2,658,284)	(2,346,928)
Income tax benefit	434,979	722,553
Loss for the period	(2,223,205)	(1,624,375)
Earnings per share		
Basic (cents per share)	(1.62)	(1.61)
Diluted (cents per share)	(1.62)	(1.61)

Notes to the financial statements are included on page 14.

**Condensed consolidated balance sheet
as at 31 December 2008**

	Consolidated	
	31 December 2008 \$	30 June 2008 \$
Current assets		
Cash and cash equivalents	11,487,398	19,973,009
Trade and other receivables	2,625,604	487,504
Current tax assets	-	323,535
Total current assets	14,113,002	20,784,048
Non-current assets		
Exploration, Evaluation & development expenditure	27,467,085	20,445,485
Property, plant and equipment	277,128	323,799
Deferred tax assets	4,453,187	4,018,207
Total non-current assets	32,197,400	24,787,491
Total assets	46,310,402	45,571,539
Current liabilities		
Trade and other payables	2,131,972	1,984,559
Borrowings	-	16,964
Total current liabilities	2,131,972	2,001,523
Non-current liabilities		
Borrowings	-	9,020
Provisions	221,864	-
Total non-current liabilities	221,864	9,020
Total liabilities	2,353,836	2,010,543
Net assets	43,956,566	43,560,996
Equity		
Issued capital	50,277,004	48,881,004
Accumulated losses	(10,448,813)	(8,225,508)
Reserves	4,128,375	2,905,500
Total equity	43,956,566	43,560,996

Notes to the financial statements are included on page 14.

**Condensed consolidated statement of changes in equity
for the half-year ended 31 December 2008**

	Share capital \$	Share based payments reserve \$	Accumulated losses \$	Total \$
Balance at 1 Jul 2007	22,728,236	743,000	(5,046,205)	18,425,031
Loss for the period	-	-	(1,624,375)	(1,624,375)
Total recognised income and expense	-	-	(1,624,375)	(1,624,375)
Recognition of share-based payments	-	1,412,500	-	1,412,500
Issue of share capital	16,250,000	-	-	16,250,000
Issue of shares under share option plan	35,000	-	-	35,000
Share issue costs	(1,882,570)	-	-	(1,882,570)
Balance at 31 Dec 2007	37,130,666	2,155,500	(6,670,580)	32,615,586
Balance at 1 Jul 2008	48,881,004	2,905,500	(8,225,508)	43,560,996
Loss for the period	-	-	(2,223,305)	(2,223,305)
Total recognised income and expense	-	-	(2,223,305)	(2,223,305)
Recognition of share-based payments	-	1,222,875	-	1,222,875
Issue of share capital	1,396,000	-	-	1,396,000
Balance at 31 Dec 2008	50,227,004	4,128,375	(10,448,813)	43,956,566

Notes to the financial statements are included on page 14.

Condensed consolidated cash flow statement for the half-year ended 31 December 2008

	Consolidated	
	Half-year ended 31 Dec 2008 \$	Half-year ended 31 Dec 2007 \$
Cash flows from operating activities		
Receipts from customers	1,360,725	718,296
Other income	364,135	-
Payments to suppliers and employees	(4,022,093)	(1,322,226)
Net cash used in operating activities	(2,297,233)	(603,930)
Cash flows from investing activities		
Interest received	361,907	139,847
Payment for property, plant and equipment	(17,767)	(15,874)
Exploration and development costs paid	(5,512,008)	(4,716,221)
Purchase of tenements	(998,999)	-
Net cash used in investing activities	(6,166,867)	(4,592,248)
Cash flows from financing activities		
Proceeds from issues of equity securities	-	16,285,000
Payment for share issue costs	-	(1,005,070)
Repayment of borrowings	(21,511)	(7,652)
Net cash provided by financing activities	(21,511)	15,272,278
Net increase / (decrease) in cash and cash equivalents	(8,485,611)	10,076,100
Cash and cash equivalents at the beginning of the period	19,973,009	4,378,926
Cash and cash equivalents at the end of the period	11,487,398	14,455,026

Notes to the financial statements are included on page 14.

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. 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 2008 annual financial report for the financial year ended 30 June 2008.

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 2008 or 31 December 2007.

4. Issuances of equity securities

During the half-year reporting period, Reed Resources Ltd issued 2,000,000 ordinary shares to Prime Minerals Ltd as part consideration for a strategic land acquisition in relation to the Barrambie project. In addition, Reed Resources Ltd issued 200,000 ordinary shares for no consideration to the Australian Prospectors and Miners Hall of fame foundation. The issue constituted a donation to contribute to the goodwill of the Company in respect of the Company's community and public image and reputation.

Reed Resources Ltd issued 2,250,000 share options (2007: 2,500,000) over ordinary shares under its employee and executive share option plans during the half-year reporting period. These share options had a fair value at grant date of \$0.54 per share option (2007: \$0.22).