

Reed Resources Ltd

ACN: 099 116 631

Half-year Report for the half year ended 31 December 2010

Reed Resources Ltd

Directors' report

Directors' report

The directors of Reed Resources Ltd ("the Company") ("Reed") submit herewith the financial report for the half-year ended 31 December 2010. 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

The Company's exploration and development activities during the half year focused on the Mt Marion lithium project, resource expansion drilling at the Comet Vale Gold Project and advancing the Barrambie vanadium project. During the period, Cliffs Asia Pacific Iron Ore Pty Ltd ("Cliffs") continued exploration of the Mt Finnerty project for iron ore under a joint venture agreement and Reed continued exploration for nickel to earn Farm-In rights with Barranco Resources NL in ground adjoining the Company's Mt Finnerty project.

MT MARION LITHIUM PROJECT (Reed option to acquire 100%) (Production JV with Mineral Resources Limited)

During the period the Company announced it had received from its joint venture partner Mineral Resources Limited (ASX: MIN)("Mineral Resources") an Operations Commencement Notice for the Mt Marion Lithium Project located near Kalgoorlie, Western Australia.

The Joint Venture was expanded to include mica, tantalum and potash feldspars; test work has highlighted the potential to recover significant volumes of these by-products.

The Company exercised its rights under an option agreement and acquired 100% of the granted mining leases on 16 July 2010. Mineral Resources funded both the exercise price and the decision to mine payment to the prospector at settlement.

During the period Reed announced it had received works approval for plant construction from the Department of Environment and Conservation (DEC) to commence erection of the minerals processing plant at the Mt Marion Lithium Project. Construction of the plant in modular form by Mineral Resources at its workshops in Kwinana is well advanced. Approval has also been granted for site clearing and this commenced upon approval of the Mining Proposal which was received early 2011.

Production of lithium concentrate (spodumene) from the pegmatite ore bodies is anticipated to commence in the December 2011 quarter at an initial rate of 200,000 tpa of spodumene concentrate grading a nominal 6.0% Li₂O, and containing approximately 12,000 tonnes of lithium oxide (Li₂O).

Mineral Resource Estimate

During the period the Company advised that it had increased its mineral resource estimate for Mt Marion by 18% to a total of 10,522,000 tonnes of 1.4% Li₂O from the previously announced total of 8,924,000 tonnes of 1.4% Li₂O. The upgraded resource classification and increased confidence in the estimate was based upon additional geological modeling, bulk density and quality control work undertaken on the drilling at the Mt Marion lithium project.

The geological model was prepared by way of a collaborative effort by Hellman and Schofield Pty Ltd ("H&S") and Reed, from data provided by Reed. Independent consultants H&S have completed data validation, analysis, domain coding and interpretation and subsequently undertaken a re-run of the Mineral Resource Estimates. The total combined mineral resource for the Mt Marion deposit contains an estimated 146,500 tonnes of lithium oxide (Li₂O) above a cut off grade of 0.3% Li₂O (Table 1).

Table 1. Mt Marion Mineral Resource Estimate for a 0.3 % Li₂O lower block cut off grade (ASX announcement 12 August 2010).

		Tonnes	Li ₂ O	Li ₂ O Tonnes	Fe ₂ O ₅
Deposit 1	Measured	1,298,000	1.5	18,984	0.9
	Indicated	1,415,000	1.4	19,287	1.1
	Inferred	1,286,000	1.2	16,066	2.5
	TOTAL	3,999,000	1.4	54,336	1.5
Deposit 2	Measured	154,000	1.4	2,132	1.5
	Indicated	438,000	1.4	5,953	1.4
	Inferred	749,000	1.4	10,129	1.2
	TOTAL	1,341,000	1.4	18,214	1.3
Deposit 2W	Measured	694,000	1.6	10,877	1.2
	Indicated	2,051,000	1.5	30,176	1.2
	Inferred	2,080,000	1.4	28,196	1.1
	TOTAL	4,825,000	1.4	69,249	1.2
Deposit 5	Measured	-	0.0	0	0.0
	Indicated	4,000	1.5	60	2
	Inferred	353,000	1.3	4,453	2.4
	TOTAL	357,000	1.3	4,514	2.4
TOTAL		10,522,000	1.4	146,500	1.3

Figures may not sum due to rounding and notation of significant figures does not imply an added level of precision.

Lithium Carbonate Production Opportunities

Continued strong underlying market fundamentals, reflecting the growing strategic importance of chemical-grade lithium to developed economies, has led to increased interest in the Company and the Mount Marion Lithium Project from a range of industry participants. The Company has received approaches from parties proposing various transaction structures ranging from downstream toll treatment and/or joint ventures through to outright acquisition of the upstream (spodumene concentrate) operations.

In light of these developments, in December 2010 Reed appointed leading independent Australian investment bank Gresham Advisory Partners Limited to assist the Company in considering its strategic alternatives in relation to the Mount Marion Lithium Project, with a view to maximising shareholder value.

Although Reed believes that this opportunity can progress in a constructive and commercial manner, no party is under any obligation to proceed with any downstream processing proposal and regulatory requirements still need to be considered and addressed with no certainty that a transaction will eventuate. A decision on how the Company intends to proceed is expected Q1 2011.

BARRAMBIE VANDIUM PROJECT
(Reed 100%)

The Barrambie Vanadium Project continues to be a high priority despite the current global financial crisis restricting access to previously available funding for a project of this nature. The Company is continuing to investigate various project development alternatives and strategies.

Construction and Financing Update

Since May 2010 Reed Resources has been in discussions with China Non-Ferrous Metal Industry's Foreign Engineering and Construction Co. Ltd ("NFC") about NFC participating in development of the Barrambie Vanadium Project, which is recognised as one of the world's highest grade vanadium deposits.

During the period the Company announced it had entered into a Memorandum of Understanding (MoU) with NFC for the Barrambie Vanadium Project in Western Australia. The MoU formalises discussions to date between Reed and NFC, specifically covering an engineering procurement and construction contract (EPC) and project financing, and represents the next step towards the successful development of the Barrambie Vanadium Project.

The MoU envisages NFC will undertake the engineering procurement and construction ("EPC") contract for Barrambie in conjunction with West Australian based engineering and construction company Arcon (WA) Pty Ltd ("Arcon"). NFC will also assist Reed in securing debt and equity funding for the development of Barrambie.

As part of the MoU, NFC and Arcon have agreed to provide Reed with an updated fixed-price EPC estimate by Q1 2011. The updated estimate from NFC is expected to specify the use of Chinese equipment and services for the Barrambie Project and Reed expects the updated estimate will deliver significant savings compared with the original Definitive Feasibility Study capital cost estimate of A\$628.9 million, subject to escalation and foreign exchange movements.

The involvement of both NFC and Arcon in the EPC consortium enables Reed to access the cost benefits of a Chinese contractor, whilst retaining appropriate Australian expertise and experience, to ensure Australian standards and work practices are adhered to and construction of the Project can be executed smoothly.

Reed and NFC are in discussions with banks and potential equity financing partners and will ensure the market remains fully informed about further developments as they arise.

Reed is being advised by Azure Capital Limited in relation to this transaction.

Approvals - Public Environmental Review (PER)

A Public Environmental Review Document (PER) was released for public comment to the public on 17th June 2010 and public submissions closed on 26th July 2010. A number of submissions were received from interested parties, and the Environmental Protection Agency (EPA) is currently considering the Company's response to these submissions before preparing its report and recommendations for the Minister.

The PER document was based on the Definitive Feasibility Study (DFS) completed in April 2009 that targeted treating 3.2 million tonnes per annum of vanadium bearing magnetite/hematite mineralisation at a grade of 0.82% V2O5 to produce 6,300t of V as Ferrovandium (FeV80) per year for a minimum of 12 years. The Ferrovandium price is currently US \$31/Kg of V2O5 (Ryans Notes 26 February 2011).

COMET VALE PROJECT (gold, nickel)
(Reed 100%)

Sand Queen Mine Operations

The Company resumed 100% ownership of the Sand Queen Gold Mine and all associated joint venture assets and infrastructure at the Comet Vale Gold Project in Western Australia from 1 June 2010.

Reed completed the first phase of a staged holistic review of the Comet Vale Project. Stage 1 of the review examined the potential to expand the Princess Grace open pit. Stages 2 and 3 have not yet commenced, pending a review of the data and other potential opportunities.

The mine remains on care and maintenance and there was no production from the Sand Queen during the period.

NIMBUS PROCESSING PLANT
(Reed 100%)

The Nimbus precious metals processing plant and mining leases M26/490 and M26/598 were purchased in September 2009. The plant is capable of treating 250,000 tpa of oxide ore and is situated approx 15 km south-southeast of Kalgoorlie.

During the period the Company continued to progress the Pre-Feasibility Study for recommissioning of the Nimbus Treatment Plant. Results of the study indicate that the most capital effective improvement would be to refurbish the existing plant "as is" with an immediate target of 250,000 tonnes per annum of hard rock ore but allowing space within the plant footprint to expand the plant to 500,000 tonnes per annum in the future.

The current treatment plant has a Merrill Crowe circuit for the recovery of gold but this will be replaced by a carbon in pulp circuit which is seen as an important step to reduce the operational risk and improve the plant recovery.

Refurbishment of Nimbus Ball Mill

As a first step in the refurbishment the existing ball mill was removed from its bearings and placed on supports to enable the ball charge to be removed and the inside of the mill to be pressure cleaned. Overall the ball mill is in reasonable condition and has removed from site for machining of the end plate and replacement of some of the rubber liners.

Supply of Power to Nimbus Site

During the December quarter Western Power installed a customer pole top switch from the existing Bulong High Voltage Line, the poles were ordered and the tender for construction of the high voltage power line along a power line easement (L25/32) from the Bulong Road directly into the Nimbus mining lease M26/490 was let.

Geological Review

As part of the Nimbus recommissioning strategy, detailed work has commenced in collating, validating and reviewing all previous geological data at the project. Particular focus is being placed on creating a tenement scale geological model with a view to finding repeats of the mineralising system.

MOUNT FINNERTY PROJECT (iron, nickel, gold)

The Mt Finnerty Project, located about 65 km east of Koolyanobbing, is currently being explored for iron ore in joint venture with Cliffs Natural Resources ("Cliffs") and nickel mineralization, partly in joint venture with Barranco Resources NL ("Barranco").

Iron Ore Joint Venture
(Reed 20%, Cliffs 80%)

A resource definition program was undertaken during the period at a total cost \$400,000 of which Reed will contribute approximately \$150,000. Stage 1 of the program totals 25 RC holes. Drill assay results are still pending but initial (visual) results from the drilling indicate potential for a low grade resource. Several intersections have also been sampled for analysis for gold and again results are pending.

Nickel Exploration
(Barranco farm-in agreement)

During the year, exploration continued on the western flank of the Mt. Finnerty greenstone belt (in Exploration Licences E16/305, E16/330) following up the diffuse IP target from fixed loop TEM that was reported in December 2009.

Two favourable targets encountered will be followed up with additional diamond drilling planned for the December quarter. These targets are a 4m thick pyrrhotite enriched sediment (black shale intercalated with ultramafic bands) and a strong conductive horizon logged as cumulate textured ultra-mafics with disseminated pyrrhotite throughout a 15m wide zone. Interpretation on the DHTM indicate that this hole was drilled within 10m of a favourable anomaly. This was also complimented with anomalous nickel and copper assays in the anomalous geophysical zones.

A shallow RAB program to target the basal contacts has been designed.

BELL ROCK RANGE PROJECT
(Reed 100%)

Bell Rock Range project (E69/2293) covers some 471 km² within the western part of the Proterozoic Musgrave Block in central Australia. It is highly prospective for several commodities, particularly Ni-Cu sulphide and PGE mineralisation.

During the period, Anglo American (AAE) advised that it was unable to obtain Access Approval from the Ngaanyatjarra Land Council to conduct exploration on the tenement and the purpose of the option agreement cannot be realised. Accordingly both parties have exchanged letters recording that the Option Period and Option Agreement are terminated. Reed therefore maintains 100% of the project.

CORPORATE

The corporate events that took place during the six months to 31 December 2010 are summarised below:

- 1 July 2010 – the Company's American Depositary Receipt ("ADR") program commenced with the Bank of New York Mellon acting as the depositary bank. The ADRs trade under the code RDRUY (CUSIP Number: 758254106) on the Over the Counter (OTC) market in the USA.
- 2 July 2010 – 1,333,333 unlisted options with an exercise price of \$1.08 lapsed without being exercised.
- 26 July 2010 – There was an issue of 750,000 unlisted options to a key employee. The options have an exercise price of \$1 and expiry date of 1 July 2013.
- 27 July 2010 – The Company's shares were placed in a trading halt pending the finalisation of a capital raising. This raising was finalised on 4 August 2010 with 15 million shares placed at 50 cents per share. Patersons Securities Ltd acted as the lead manager to the placement.
- 4 August 2010 – The Company presented at the annual Diggers and Dealers mining forum in Kalgoorlie Western Australia.
- 27 August 2010 – The Company confirmed the issue of 2,400,000 unlisted options to staff and consultants pursuant to the Company's Employee Share Option Plan 2007. The options have an exercise price of \$1 and expiry date of 1 July 2013.
- 8 September 2010 – The Company presented at the Lithium Asia Conference in Seoul South Korea.
- 22 September 2010 – The Company's Full year accounts were released to the market.
- 27 October 2010 – The Company presented at the Mining 2010 conference in Brisbane, Australia.
- 25 November 2010 – The Company held its Annual General Meeting (AGM).
- 6 December 2010 – Following approval by its shareholders at the AGM, the Company granted, in aggregate, 4,000,000 unlisted options to Directors of the Company.
- 21 December 2010 – Pursuant to ASX Listing Rule 12.9 the Company released details of its securities trading policy.

Auditors' independence declaration

The auditor's independence declaration is included on page 8 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

A handwritten signature in black ink, appearing to read 'C Reed', written in a cursive style.

Christopher Reed

Director

Perth, 10 March 2011

The Board of Directors
Reed Resources Ltd
97 Outram Street
West Perth WA 6005

10 March 2011

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 review of the financial statements of Reed Resources Ltd for the half- year ended 31 December 2010, 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



Mark Gover
Partner
Chartered Accountants

Independent Auditor's Review Report to the Members of Reed Resources Ltd

We have reviewed the accompanying half-year financial report of Reed Resources Ltd, which comprises the condensed balance sheet as at 31 December 2010, and the condensed statement of comprehensive income, the condensed statement of cash flows and the condensed 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 11 to 18.

Directors' Responsibility for the Half-Year Financial Report

The directors of the company are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the half-year financial report that is free from material misstatement, whether due to fraud or error.

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 a 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 half-year 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 2010 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 Ltd, 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.

Auditor's Independence Declaration

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of Reed Resources Ltd, would be in the same terms if given to the directors as at the time of this auditor's review report.

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 Ltd 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 2010 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



Mark Gover
Partner
Chartered Accountants
Perth, 10 March 2011

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, 10 March 2011

Condensed consolidated statement of comprehensive income for the half-year ended 31 December 2010

	Consolidated half-year ended	
	31 Dec 2010	31 Dec 2009
	\$	\$
Continuing operations		
Revenue from sale of goods	347,821	519,284
Cost of sales before amortisation	(53,633)	(297,373)
Gross profit before amortisation	294,188	221,911
Amortisation expense	(230,775)	(177,358)
Gross profit/(loss)	(63,413)	44,553
Other income	591,782	246,768
Employment expenses	(1,504,221)	(815,637)
Occupancy expenses	(107,737)	(109,254)
Administration expenses	(1,137,643)	(1,451,921)
Finance costs	(73,777)	(73,949)
Impairment of non-current assets	(64,803)	(468,876)
Other Expenses	(228,318)	-
Loss before tax	(2,461,304)	(2,628,316)
Income tax benefit	532,082	691,670
Loss for the period from continuing operations	(1,929,222)	(1,936,646)
Loss for the period	(1,929,222)	(1,936,646)
Other comprehensive income	-	-
Total comprehensive income for the half-year	(1,929,222)	(1,936,646)
Loss attributable to:		
Owners of the parent	(1,929,222)	(1,936,646)
Minority interests	-	-
	(1,929,222)	(1,936,646)
Total comprehensive income attributable to:		
Owners of the parent	(1,929,222)	(1,936,646)
Minority interests	-	-
	(1,929,222)	(1,936,646)
Earnings per share (i)		
Basic (cents per share)	(1.00)	(1.22)
Diluted (cents per share)	(1.00)	(1.22)

(i) The number of shares used in calculating the 31 December 2010 earnings per share has been adjusted to reflect the issue of 27.5 million ordinary shares after the reporting date and prior to the finalisation of the half-year report. Refer to note 5 in the notes to the financial statements for further information.

Notes to the financial statements are included on page 16- 18.

**Condensed consolidated balance sheet
as at 31 December 2010**

	Consolidated	
	31 December 2010 \$	30 June 2010 \$
Current assets		
Cash and cash equivalents	4,452,628	1,285,378
Trade and other receivables	313,926	943,460
Inventories	51,405	282,181
Current tax assets	-	413,720
Total current assets	4,817,959	2,924,739
Non-current assets		
Exploration, Evaluation & development expenditure	37,997,701	35,529,871
Financial Assets	8,977,685	8,767,394
Property, plant and equipment	4,399,830	4,406,174
Other intangible assets	-	300,000
Deferred tax assets	6,033,805	5,377,956
Total non-current assets	57,409,021	54,381,395
Total assets	62,226,980	57,306,134
Current liabilities		
Trade and other payables	558,938	1,113,529
Provisions	971,832	985,730
Total current liabilities	1,530,770	2,099,259
Non-current liabilities		
Provisions	665,080	1,121,683
Total non-current liabilities	665,080	1,121,683
Total liabilities	2,195,850	3,220,942
Net assets	60,031,130	54,085,192
Equity		
Issued capital	70,985,100	63,773,894
Accumulated losses	(15,290,379)	(13,361,157)
Reserves	4,336,409	3,672,455
Total equity	60,031,130	54,085,192

Notes to the financial statements are included on page 16- 18.

**Condensed consolidated statement of changes in equity
for the half-year ended 31 December 2010**

	Share capital	Share based payments reserve	Accumulated losses	Total
	\$	\$	\$	\$
Balance at 1 Jul 2009	50,277,004	3,070,600	(10,694,342)	42,653,262
Loss for the period			(1,936,645)	(1,936,645)
Total comprehensive income/(loss)			(1,936,645)	(1,936,645)
Recognition of share-based payments	-	284,860	-	284,860
Issue of share capital	11,480,411	-	-	11,480,411
Share issue costs	(483,521)	-	-	(483,521)
Balance at 31 Dec 2009	61,273,894	3,355,460	(12,630,987)	51,998,367
Balance at 1 Jul 2010	63,773,894	3,672,455	(13,361,157)	54,085,192
Loss for the period	-	-	(1,929,222)	(1,929,222)
Total comprehensive income/(loss)	-	-	(1,929,222)	(1,929,222)
Recognition of share-based payments	-	663,954	-	663,954
Issue of share capital	7,500,000	-	-	7,500,000
Share issue costs	(288,794)	-	-	(288,794)
Balance at 31 Dec 2010	70,985,100	4,336,409	(15,290,379)	60,031,130

Notes to the financial statements are included on page 16 - 18.

**Condensed consolidated cash flow statement
for the half-year ended 31 December 2010**

	Consolidated half-year ended	
	31 Dec 2010	31 Dec 2009
	\$	\$
Cash flows from operating activities		
Receipts from customers	425,545	542,629
Interest received	479,037	186,950
Tax refunds	438,201	412,348
Interest and other finance costs paid	(65,254)	(65,250)
Payments to suppliers and employees	(2,148,104)	(2,124,286)
Net cash used in operating activities	(870,575)	(1,047,609)
Cash flows from investing activities		
Payment for property, plant and equipment	(233,757)	(2,594,074)
Exploration and development costs paid	(2,839,855)	(3,098,357)
Proceeds from sale of property, plant & equipment	232,000	-
Purchase of tenements	-	-
Net cash used in investing activities	(2,841,612)	(5,692,431)
Cash flows from financing activities		
Proceeds from issues of equity securities	7,500,000	10,926,412
Payment for share issue costs	(412,563)	(690,745)
Repayment of borrowings	-	-
Net cash provided by financing activities	7,087,437	10,235,667
Net increase / (decrease) in cash and cash equivalents	3,375,250	(5,204,373)
Cash and cash equivalents at the beginning of the period	1,285,378	9,287,755
Transfer to financial assets	(208,000)	(8,700,000)
Cash and cash equivalents at the end of the period	4,452,628	4,083,382

Notes to the financial statements are included on page 16- 18.

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 accounting policies adopted are consistent with those adopted and disclosed in the Company's 2010 annual financial report for the financial year ended 30 June 2010. These accounting policies are consistent with Australian Accounting Standards and with International Financial Reporting Standards.

The Group has adopted all of the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board (AASB) that are relevant to its operations and effective for the current reporting period.

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 2010 annual financial report for the financial year ended 30 June 2010.

Going Concern

The financial statements have been prepared on the basis that the consolidated entity is a going concern, which contemplates the continuity of normal business activity, realisation of assets and the settlement of liabilities in the normal course of business. The Company will fund its future strategic and working capital requirements through capital raisings, as have successfully been transacted in the past. The Directors are of the opinion that the basis upon which the financial statements are prepared is appropriate in the circumstances.

2. Segment information

Basis for segmentation:

AASB 8 Operating Segments requires the presentation of information based on the components of the entity that management regularly reviews for its operational decision making. This review process is carried out by the chief operating decision maker (CODM) for the purpose of allocating resources and assessing the performance of each segment. The amounts reported for each operating segment is the same measure reviewed by the CODM in allocating resources and assessing performance of that segment.

For management purposes the Company operates under three reportable operating segments comprised of the Company's gold, vanadium and 'other segments'. Gold and vanadium operating segments are separately identified given they possess different competitive and operating risks, and meet the quantitative criteria as set out in AASB 8. The 'other segments' category is the aggregation of all remaining operating segments given sufficient reportable operating segments have been identified.

Reed Resources Ltd

Notes to the condensed consolidated financial statements

For the six months ended 31 December 2010:

Reportable Operating Segments	Gold \$	Vanadium \$	Other \$	Unallocated \$	Total \$
Revenue from external customers	347,821	-	-	-	347,821
Cost of sales before amortization	(53,633)	-	-	-	(53,633)
Gross profit before amortization	294,188	-	-	-	294,188
Amortization expense	(230,775)	-	-	-	(230,775)
Gross Profit/(Loss)	63,413	-	-	-	63,413
Revenue – Other	169,108	-	20,208	402,466	591,782
Inter segment revenue	-	-	-	-	-
Impairment	-	-	(64,803)	-	(64,803)
Depreciation	(143,955)	-	-	(15,855)	(159,850)
Total Revenue	516,929	-	20,208	402,466	939,603
Total Expenses	(667,280)	(80,508)	(241,348)	(2,411,771)	(3,400,907)
Profit/(Loss) before tax	(150,351)	(80,508)	(221,140)	(2,009,305)	(2,461,304)

Reportable Operating Segments	Gold \$	Vanadium \$	Other \$	Unallocated \$	Total \$
Total Segment Assets	13,902,910	24,955,583	4,759,068	18,609,419	62,226,980

For the six months ended 31 December 2009:

Reportable Operating Segments	Gold \$	Vanadium \$	Other \$	Unallocated \$	Total \$
Revenue from external customers	519,284	-	-	-	519,284
Cost of sales before amortization	(297,373)	-	-	-	(297,373)
Gross profit before amortization	221,911	-	-	-	221,911
Amortization expense	(177,358)	-	-	-	(177,358)
Gross Profit/(Loss)	44,553	-	-	-	44,553
Revenue – Other	-	-	25,000	221,768	246,768
Inter segment revenue	-	-	-	-	-
Impairment	468,876	-	-	-	468,876
Depreciation	12,335	-	-	-	12,335
Total Revenue	519,284	-	25,000	221,768	766,052
Total Expenses	(969,627)	(65,250)	(232,163)	(2,127,328)	(3,394,368)
Profit/(Loss) before tax	(450,343)	(65,250)	(207,163)	(1,905,560)	(2,628,316)

For the period ended 30 June 2010:

Reportable Operating Segments	Gold \$	Vanadium \$	Other \$	Unallocated \$	Total \$
Total Segment Assets	13,435,306	24,004,950	4,189,815	15,676,063	57,306,134

Reed Resources Ltd

Notes to the condensed consolidated financial statements

3. Dividends

No dividends were paid, proposed or declared during the half-year to 31 December 2010 or 31 December 2009.

4. Issuances of equity securities

During the half-year reporting period, Reed Resources Ltd made the following share issue:

- 29 July 2010 – the Company placed 15 million fully paid ordinary shares at A\$0.50 per share to institutional and sophisticated investors.

In addition, the Company issued 7,150,000 share options (2009: 6,950,000) over ordinary shares under its employee and executive share option plans during the half-year reporting period. The share options issued to employees and consultants had a fair value at grant date of \$0.12 and \$0.18 per share option (2009: \$0.08). The share options issued to directors had a fair value at grant date of \$0.08 per share option (2009: \$0.24 and \$0.17).

5. Subsequent events

On 10 January 2011 the Company requested that the ASX put an immediate halt on the trading of the Company's shares pending an announcement regarding a major asset acquisition. The Company announced to the market on 12 January 2011 the acquisition, via its wholly owned subsidiary GMK Exploration Pty Ltd, of 100% of the landholdings and assets of Mercator Gold Australia Pty Ltd ("Mercator"), which is currently in Administration. Under the terms of the acquisition agreement the Company has agreed to make the following payments to Mercator:

A\$2 million within 48 hours of execution of the agreement (completed);

A\$15 million on 31 March 2011; and

A\$8 million at Settlement on 30 June 2011, together with the replacement of statutory environmental bonds (A\$2.8 million).

On the Settlement date, Reed Resources will also issue Mercator with the greater of 2 million or A\$1.3 million worth of Reed Resources shares based on the 5 day volume weighted average price (VWAP) prior to the Settlement date. The Company will also be responsible for the holding costs associated with the tenements for the period up until the Settlement date (estimated at A\$1.7 million).

On 3 February 2011, the Company advised that it has received final approval from the Department of Mines and Petroleum ("DMP") for its mining proposal, allowing site works to commence immediately at its Mt Marion Lithium Project, near Kalgoorlie, Western Australia.

On 16 February 2011 the Company announced that it had agreed the principles to which the ownership structure of the Mt Marion Lithium Project would be amended to achieve greater alignment of interests for the downstream processing of Spodumene to battery grade Lithium Carbonate. Mineral Resources Ltd will convert a right to 40% of Mt Marion Project profits to 30% equity interest in the Company's wholly owned subsidiary Reed Industrial Minerals Pty Ltd ("RIM") which holds 100% of the Mt Marion Project.

On 21 February 2011, the Company requested that the ASX put an immediate halt on the trading of the Company's shares pending an announcement of a capital raising. The Company announced to the market on 24 February 2011 the details of a \$30M two tranche placement ("Placement") to institutional and qualified investors and a \$10M share purchase plan ("SPP"). The raising has been lead managed, and the SPP underwritten, by Bligh Capital Partners Pty Ltd. The funds raised will be applied to finance the acquisition of the Meekatharra Gold Project and general working capital requirements of the Company.

Tenement Information - as at 30 June 2010

Barrambie

E57/769	E57/770	E57/819	G57/00005	G57/00006
G57/00007	G57/00008	L57/00029	L57/00030	L57/00031
L20/00055	L20/00049	M57/00173		

Bell Rock Range

E69/02293

Comet Vale

E29/00603	E29/00727	L29/00067	M29/00035	M29/00052
M29/00085	M29/00185	M29/00186	M29/00197	M29/00198
M29/00199	M29/00200	M29/00201	M29/00232	M29/00233
M29/00235	M29/00321	M29/00270	E29/00762	

Mount Finnerty

E15/00836	E15/00897	E15/00903	E15/01123	E15/01172
E16/00260	E16/00261	E16/00272	E16/00308	E16/00341
E16/00305	E16/00330	E16/00375	E16/00376	E16/00378
E16/00380	L15/00309	M15/00978	M15/1371	M15/01752
M15/01785	M15/01787	M16/00506	M16/00507	M16/00511
M16/00522	P15/04445	P15/04446	P15/04818	P15/04819
P16/02113	P16/02114	P15/05117		

Mount Marion

M15/00999	M15/01000	E15/01190	E15/01191	
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Nimbus

M26/00490	M26/00598	P26/03741	P26/03742	L26/00252
L25/00032				

Yinnetharra

E09/1746

All tenements held 100% by Reed Resources Ltd