Reed Resources Ltd

A.C.N. 099 116 631

Half-Year Report

for the 6 months ended 31 December 2012

The directors of Reed Resources Ltd ("Company")("Reed") submit herewith the financial report of Reed Resources Ltd and its subsidiaries ("Group")("Consolidated Entity") for the half-year ended 31 December 2012. 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 S. Cole
Dr P. Collins
Mrs V. Guthrie
Mr C. Johnstone
Mr D. Reed
Mr C. Reed
Mr L. Tonkin

The above named directors held office during and since the end of the half-year except for:

Dr P. Collins – retired 29 November 2012
Mr C. Johnstone – appointed 31 January 2013

REVIEW OF OPERATIONS

Reed Resources Ltd's (**ASX: RDR**) primary focus during the half year centred on upgrading and refurbishing infrastructure and plant and equipment at Reed's Meekatharra Gold Operation (**"MGO"**). By 31 December 2012 mining of the MGO Bluebird open pit had commenced as had wet commissioning of the Bluebird CIL processing facility.

MEEKATHARRA GOLD OPERATION

(Reed 100%)

Reed's Meekatharra Gold Operation is situated in Western Australia's prolific Meekatharra – Wydgee Greenstone Belt which is host to a number of multimillion ounce deposits, which include Mt Magnet (8 Moz) and Tuckabiana (1 Moz).

Reed has managed to acquire one of the most fertile contiguous packages of land in this greenstone belt. It has a strike of 110km, covers approximately 1,000 square kilometres and has produced in excess of four and a half million ounces of gold during the course of its history.

Strategically located in the centre of the project area is Reed's 3 million tonne per annum Bluebird CIL processing plant. Co-located at Bluebird is support infrastructure including administration offices, workshops, laboratories, power station and a 180 room accommodation village, all of which has a replacement cost in excess of $100 million.

Stage 1 – Meekatharra Gold Operation

During the previous financial year Reed committed to mine MGO's Stage 1 subject to the raising of adequate equity and debt financing.

In addition to a Rights Issue in May 2012 raising approximately $40 million to fund the upgrade and refurbish plant, equipment and infrastructure that forms part of Stage 1, Reed raised a further $10 million through a Placement and Share Purchase Plan ("**SPP**") during the half year to maintain appropriate levels of working capital.

During the half year Reed executed a $19 million syndicated finance facility with Credit Suisse, which was drawn down on 30 November 2012. These funds were used to meet working capital requirements at MGO during the start-up phase of operations. As part of the facility and to manage gold price risk, Reed selected a participating forward gold hedging structure, which involved selling 70,000 ounces of production as forward delivery contracts and purchasing put options over 40,000 ounces, with put-only protection in the first four months before delivery into a mix of put options and forward delivery contracts commences in month five.

Through this hedging structure Reed will mitigate its risk should an unexpected gold price downturn occur whilst retain some upside participation should the gold price increase. Reed will achieve a gold floor price of approximately A$1,626/oz (net of put premium costs) over the 110,000 hedged ounces.

Stage 1 is forecast to produce of 2.4 Mt @ 1.9 g/t Au recovering approximately 134,000oz over 19 months from the Bluebird, Whangamata, Batavia and Surprise open pits, which are all located within a six kilometre radius of the Bluebird mill at Yaloginda.

Meekatharra Gold Operation Activities

By 31 December 2012 MGO's $24 million capital works program (**"Program"**) was completed. Included in the Program was the:

1. Replacement of the Bluebird CIL processing facility's primary crusher;
2. Refurbishment and upgrade of the Bluebird accommodation village;
3. Refurbishment of the Bluebird CIL processing facility;
4. Upgrade of the Bluebird CIL processing facility's electrical reticulation and process control;
5. Replacement of MGO's 8MW power station;
6. Purchase of minor capital equipment; and
7. Establishment of minor infrastructure.

The Program was completed in December 2012 within budget and on schedule.

Following the partial mobilisation of the mining contractor in early October, limited mine production from the Bluebird open pit commenced in mid-October with full production commencing in November once a full complement of equipment and personnel were mobilised to site.

Total material movement from the Bluebird open pit was 1.35 million BCM for the half year. Ore mined from the Bluebird open pit was 38,787 tonnes at 1.32g/t for 1,642oz. Both total material mined and ore mined from Bluebird open pit were in line with forecast.

Wet commissioning of the Bluebird CIL processing facility commenced on 20 December. To establish both gold in circuit inventory and plant operating parameters the Bluebird plant was fed stockpiled low grade ore and mineralised waste.

Ore feed to the Bluebird plant from 20 December 2012 through to the end of the half year totalled 39,033 tonnes at 0.74g/t for 929oz. Gold produced was 668 ounces.

Establishing the plant operating parameters will continue throughout January and early February with Reed continuing to feed low grade stockpiles. Metallurgical recovery will steadily increase to expected levels, given the nature and type of ore feed, as Bluebird's physical and chemical specifications are achieved. Run of mine from the Bluebird open pit was fed to the plant once steady state in the plant was achieved in February.

The mill throughput rate for the second half is scheduled at approximately 117,500 tonnes per month which the Bluebird CIL processing facility can comfortably achieve.

Reed commenced gold production and sales from the MGO in January 2013.

Table 1: Meekatharra Gold Operation production statistics

Meekatharra	Units	Dec Qtr 2012	YTD 12/13
Bluebird Open Pit			
Total Material Movement	BCM	1,347,045	1,347,045
Ore tonnes mined	tonnes	38,787	38,787
Mined grade	g/t	1.32	1.32
Contained gold in ore	oz	1,642	1,642
Bluebird Mill			
Ore tonnes milled	tonnes	39,033	39,033
Head grade	g/t	0.74	0.74
Contained gold in ore	oz	929	929
Recovery	%	72	72
Gold produced	oz	668	668
Gold refined & sold	oz	0	0

MT MARION LITHIUM PROJECT

(Reed 70%, Mineral Resources Ltd 30%)

During the period Reed together with Mineral Resources Ltd ("**MRL**") continued to advance the Mt Marion Lithium Project ("**Mt Marion**"). Reed and MRL are continuing to assess the most effective production profile and optimal timing for the commencement of operations at Mt Marion. All project approvals for Mt Marion have been received.

On 17 October the parties announced the signing of the shareholder's agreement to formalise the 70:30 shareholding of the project's special purpose vehicle, Reed Industrial Minerals Pty Ltd ("**RIM**"). Under the agreement MRL, through its wholly owned subsidiary, Process Minerals International Pty Ltd, will continue to fund and operate Mt Marion with MRL's previous right to earn profits from the operation converted into a 30% interest in the issued share capital of RIM.

RIM was formed to ensure the appropriate financial, technical and human resources for Mt Marion, including the downstream processing into high-purity lithium battery feedstocks could be managed and accessed.

The formation of RIM is consistent with Reed's primary objective of becoming a mid-tier gold producer, whilst seeking to optimise and achieve value enhancement opportunities for Reed's non-gold assets.

Lithium carbonate and in turn spodumene prices have recovered from the price war of 2010-11 and have resumed an upward trend (up +25% in 2012). The recent acquisition of Talison Lithium by China's largest lithium producer, Tianqi, for C$800 million demonstrates the strategic value in captive sources of spodumene production in lower-risk mining jurisdictions such as Australia.

Reed and MRL are exploring opportunities for RIM to become an independently financed, advanced minerals company.

Lithium Down-streaming Strategy

The results of a Pre-feasibility Study ("**PFS**") announced on 17 October 2012, indicate robust financial returns and endorsed an integrated down-streaming strategy to maximise Mt Marion's value. A summary of results, based on RIM's proprietary process flow sheet, is shown in Table 2 below.

During the half year four diamond drill holes were completed to prepare lithium concentrates for future metallurgical test work utilising RIM's proprietary processing technology.

Table 2: Key metrics of Reed's Lithium down-streaming PFS.

Operating Parameters	Quantity
Spodumene Concentrate Feed	147,100 tpa
Spodumene Concentrate Grade	6.0 % Li_2O
Lithium Hydroxide/Lithium Carbonate Production	10,000/8,810 tpa
Life of Mine (LOM) Production	200,000t LiOH
	176,200t Li_2CO_3
LOM Revenue	US$ 3.15 billion
Pre-tax Cash flow	US$ 1.19 billion
Pre-tax NPV 12%	US$ 321 million
Pre-tax Internal Rate of Return	94%
Average Cost per tonne of LiOH	US$ 3,878
Average Cost per tonne of Li2CO3	US$ 4,538
Total initial capital costs	US$ 83 million

BARRAMBIE VANADIUM PROJECT
(Reed 100%)

During the period Reed continued its evaluation of a proprietary hydrometallurgical technology to produce high-purity titanium from the Eastern Band of the Barrambie Fe-Ti-V deposit.

Barrambie's Eastern Band is one of the highest grade hard rock titanium deposits globally and contains a Mineral Resource of 48Mt @ 22% TiO_2.

Formal laboratory scale test work in Canada has confirmed high-purity titanium dioxide can be precipitated selectively from a leach solution at recoveries greater than 90%.

Process simulation as part of a preliminary economic evaluation supports the validation of the process flow sheet at a continuous scale (mini-pilot) is warranted. A continuous scale mini plant processing trial is planned once appropriate resources and funding become available.

An updated Resource estimate for Barrambie will be prepared once cut-off grades are supported by results generated from mini plant trials of this prospective technology.

COMET VALE GOLD PROJECT
(Reed 100%)

The Sand Queen mine remains on care and maintenance and Reed is actively seeking to divest the asset with discussions continuing with third parties in relation to the divestment.

The project has combined underground and open-pitable Resources of 792Kt @ 8.2g/t Au for 208,000oz.

The project's special purpose vehicle, Sand Queen Gold Mines Pty Ltd ("**SQGM**") is party to an agreement with MacPhersons Resources Limited ("**MRP**") which requires MRP to treat up to 70,000tpa for four years at its Nimbus Processing Plant, commencing at SQGM's discretion any time after the plant is recommissioned.

MOUNT FINNERTY PROJECT

The Mt Finnerty Project located about 65km east of Koolyanobbing is currently being explored for iron ore in joint venture with Cliffs Natural Resources ("**Cliffs**") and nickel mineralisation in its own right.

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

During the half year Cliffs tested a magnetite banded-iron target (FIN5) with a single diamond drill hole, assays are pending.

Nickel
(Barranco 100%, Reed option to acquire 100%)

A review of previous exploration carried out by Western Mining Services confirms a large cumulate-textured high-magnesium ultramafic body is present within the project area.

Re-modelling of geophysical data indicates previous drilling in 2010 ineffectively tested IP targets within high-magnesium ultramafic rocks. Approvals for a drill program to effectively test the IP targets are progressing.

Reed was successful in obtaining an offer for $75,000 under the WA State Government Co-funded Exploration Program for this drill program.

ROYALTY INTERESTS

Reed holds a 1% Net Smelter Royalty on all zinc extracted and recovered from M26/0490 and M26/0598, containing MRP's Nimbus Silver-Gold-Zinc mine. MRP has reported to ASX that the mine has combined Resources of 4.4Mt @ 82g/t Ag, 0.23 g/t Au and 1.1% Zn, containing 48,800 tonnes of zinc, and that processing is planned to commence in first half of 2014.

COMPETENT PERSONS STATEMENTS

Meekatharra and Comet Vale Gold Projects

Geological aspects of this report that relate to exploration results for the company's Meekatharra and Comet Vale gold projects have been compiled by Mr Craig Fawcett (MAIMM), a full time employee of Reed Resources Ltd. Mr Fawcett has sufficient experience relevant to the style of mineralisation and type of deposit under consideration and to the activity which is being reported on to qualify as a Competent Person as defined in the Code for Reporting of Mineral Resources and Ore Reserves (2004). Mr Fawcett consents to the inclusion in this report of the matters in the form and context in which it appears.

Barrambie and Mount Marion Projects

Geological aspects of this report that relate to exploration results for the company's Barrambie and Mount Marion projects have been compiled by Dr Bryan Smith (MAIG and MAIMM), a consultant to Reed Resources Ltd. Dr Smith has sufficient experience relevant to the style of mineralisation and type of deposit under consideration and to the activity which is being reported on to qualify as a Competent Person as defined in the Code for Reporting of Mineral Resources and Ore Reserves (2004). Dr Smith consents to the inclusion in the report of the matters in the form and context in which it appears.

CORPORATE

Equity Raising

During the half year period Reed undertook an equity raising through an $8 million Share Placement and a $2 million Share Purchase Plan to raise $10 million in capital to fund the company's operations, including the development of the Meekatharra Gold Operation.

Debt funding and hedging

In November the company executed a $19 million dollar senior secured loan facility and hedge facility for 110,000 ounces of gold production.

The key features of the facility are summarised below:

- $19 million Senior Secured Term Loan Facility.
- Repayment in twelve months from first utilisation, with an option for Reed to extend a further six months.
- A hedging facility which includes 70,000 ounces of forward delivery contracts and 40,000 in bought puts.

The loan was drawn down on 30 November 2012.

Board

In November Dr Peter Collins retired from the board of Reed Resources Ltd. Dr Collins was a founding director of the company which listed in 2002.

On 31 January 2013 Mr. Colin (Cobb) Johnstone joined the board of Reed Resources Ltd as a non-executive director. Mr Johnstone brings a wealth of experience in mining operations and strategic planning.

Dividends

No dividends were paid, proposed or declared during the half year to 31 December 2012 (2011: Nil).

AUDITOR'S INDEPENDENCE DECLARATION

The auditor's independence declaration is included on page 7 of the half-year report.

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

On behalf of the directors

Luke Tonkin

Managing Director

Perth, 14 March 2013

Deloitte Touche Tohmatsu
A.C.N. 74 490 121 060

Woodside Plaza
Level 14
240 St Georges Terrace
Perth WA 6000
GPO Box A46
Perth WA 6837 Australia

DX 206
Tel: +61 (0) 8 9365 7000
Fax: +61 (0) 8 9365 7001
www.deloitte.com.au

The Board of Directors
Reed Resources Ltd
Level 1
672 Murray Street
West Perth WA 6005

14 March 2013

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 2012, 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

DELOITTE TOUCHE TOHMATSU

A Richards

A T Richards
Partner
Chartered Accountants

Deloitte.

Deloitte Touche Tohmatsu
ABN 74 490 121 060

Woodside Plaza
Level 14
240 St Georges Terrace
Perth WA 6000
GPO Box A46
Perth WA 6837 Australia

Tel: +61 8 9365 7000
Fax: +61 (0) 9365 7007
www.deloitte.com.au

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 statement of financial position as at 31 December 2012, and the statement of profit or loss and other comprehensive income, the statement of cash flows and the 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 10 to 22.

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 2012 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.

Deloitte.

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 2012 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

DELOITTE TOUCHE TOHMATSU

A Richards

A T Richards
Partner
Chartered Accountants
Perth, 14 March 2013

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;

(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

Luke Tonkin
Managing Director
14 March 2013

Consolidated statement of profit or loss and other comprehensive income

for the half year ended 31 December 2012

	Note	31 Dec 2012 $	31 Dec 2011 $
Continuing operations			
Revenue		1,160,133	-
Cost of sales		(1,087,849)	-
Gross profit		72,284	-
Other income		533,582	383,156
Administration expenses		(1,429,994)	(1,357,299)
Employee expenses		(2,652,526)	(1,880,912)
Finance costs		(2,130,098)	(326,517)
Occupancy expenses		(272,351)	(296,685)
Other expenses		(505,090)	(17,227)
Loss on revaluation of derivatives	5	(3,802,609)	-
Impairment of non-current assets		-	(61,895)
Gain on deconsolidation	10	134,457	-
Loss before income tax		(10,052,345)	(3,557,379)
Income tax benefit		-	829,870
Loss for the period from continuing operations		(10,052,345)	**(2,727,509)**
Discontinued operations			
Profit/(loss) for the period from discontinued operations, net of income tax	11	(25,736)	463,229
Loss for the period		**(10,078,081)**	**(2,264,280)**
Other comprehensive income, net of income tax			
Items that may be reclassified subsequently to profit and loss			
Loss on available-for-sale investments		**-**	(321,600)
Total comprehensive income for the period		**(10,078,081)**	**(2,585,880)**
Loss attributable to:			
Owners of the Company		**(10,078,081)**	**(2,585,880)**
Total comprehensive income attributable to:			
Owners of the Company		**(10,078,081)**	**(2,585,880)**
Loss per share			
From continuing operations:			
Basic and diluted (cents per share)		(2.10)	(0.86)
From continuing and discontinued operations:			
Basic and diluted (cents per share)		(2.10)	(1.03)

The consolidated statement of profit and loss and other comprehensive income should be read in conjunction with the accompanying notes.

Consolidated statement of financial position
as at 31 December 2012

	Note	31 Dec 2012 $	30 Jun 2012 $
Current assets			
Cash and cash equivalents		19,286,129	25,612,420
Trade and other receivables		2,504,448	1,289,308
Other financial assets		1,956,086	6,123,499
Inventories		3,729,805	1,143,810
Assets classified as held for sale	11	6,298,244	6,168,749
Total current assets		**33,774,712**	**40,337,786**
Non-current assets			
Loan to jointly controlled entity		890,956	-
Property, plant and equipment	6	40,238,440	22,701,973
Exploration and evaluation expenditure		33,103,249	32,109,585
Development expenditure	7	17,241,028	6,400,101
Equity accounted investment	10	1,458,835	-
Other financial assets		11,849,784	11,746,111
Deferred tax assets		7,327,953	7,387,199
Total non-current assets		**112,110,245**	**80,344,969**
Total assets		**145,884,957**	**120,682,755**
Current liabilities			
Trade and other payables		9,868,134	3,276,386
Other financial liabilities		2,670,579	3,015,205
Borrowings	8	19,000,000	47,668
Provisions		2,225,532	1,269,871
		33,764,245	7,609,130
Liabilities directly associated with held for sale assets	11	242,454	228,245
Total current liabilities		**34,006,699**	**7,837,375**
Non-current liabilities			
Provisions		6,663,852	7,461,708
Total non-current liabilities		**6,663,852**	**7,461,708**
Total liabilities		**40,670,551**	**15,299,083**
Net assets		**105,214,406**	**105,383,672**
Equity			
Issued capital		157,611,605	148,058,577
Accumulated losses		(57,776,169)	(47,698,088)
Reserves		5,378,970	5,023,183
Total equity		**105,214,406**	**105,383,672**

This consolidated statement of financial position should be read in conjunction with the accompanying notes.

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Consolidated statement of changes in equity

for the Half-Year ended 31 December 2012

	Issued Capital $	Investment revaluation reserve $	Share based payments reserve $	Accumulated losses $	Total $
Balance as at 1/07/11	109,790,915	-	4,717,687	(16,714,743)	97,793,859
Loss for the period	-	-	-	(2,264,280)	(2,264,280)
Other comprehensive income, net of tax	-	(321,600)	-	-	(321,600)
Total comprehensive income for the period	**-**	**(321,600)**	**-**	**(2,264,280)**	**(2,585,880)**
Recognition of share-based payments	-	-	248,597	-	248,597
Issue of share capital	1,252,650	-	-	-	1,252,650
Balance at 31/12/11	**111,043,565**	**(321,600)**	**4,966,284**	**(18,979,023)**	**96,709,226**
Balance as at 1/7/12	148,058,577	-	5,023,183	(47,698,088)	105,383,672
Loss for the period	-	-	-	(10,078,081)	(10,078,081)
Total comprehensive income for the period	-	-	-	(10,078,081)	(10,078,081)
Recognition of share-based payments	-	-	355,787	-	355,787
Issue of share capital	9,999,810	-	-	-	9,999,810
Share issue costs, net of tax	(446,782)	-	-	-	(446,782)
Balance at 31/12/12	**157,611,605**	**-**	**5,378,970**	**(57,776,169)**	**105,214,406**

This consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

Consolidated statement of cash flows
for the half year ended 31 December 2012

	Note	31 Dec 2012 $	31 Dec 2011 $
Cash flows from operating activities			
Receipts from customers		726,750	-
Payments to suppliers and employees		(10,524,383)	(3,268,611)
Tax refunds		-	286,923
Net cash used in operating activities		(9,797,633)	(2,981,688)
Cash flows from investing activities			
Exploration and evaluation costs		(3,119,460)	(5,739,025)
Development costs		(334,593)	-
Payment for property, plant & equipment		(20,477,977)	(133,307)
Proceeds from sale of property, plant & equipment		-	10,000
Purchase of Meekatharra Gold Project		-	(8,000,000)
Net proceeds from sale of subsidiary	10,11	-	3,012,883
Interest received		738,975	343,884
Transfer to restricted deposits		(189,000)	(448,683)
Transfer from restricted deposits		3,057,763	2,860,634
Purchase of financial assets		(3,069,335)	(147,759)
Net cash used in investing activities		(23,393,627)	(8,241,373)
Cash flows from financing activities			
Proceeds from issues of shares		9,999,810	-
Payment for share issue costs		(444,951)	-
Interest paid		(1,663,980)	(26,534)
Proceeds from borrowings		19,000,000	-
Repayment of borrowings		(47,668)	-
Net cash provided by/(used in) financing activities		26,843,211	(26,534)
Net increase in cash and cash equivalents		(6,348,049)	(11,249,595)
Cash and cash equivalents at the beginning of the period		25,645,762	13,824,448
Cash and cash equivalents at the end of the period	3	19,297,713	2,574,853

This consolidated statement of cash flows should be read in conjunction with the accompanying notes.

Index to notes to the consolidated financial statements

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

The accounting policies and methods of computation adopted in the preparation of the half-year financial report are consistent with those adopted and disclosed in the company's annual financial report for the financial year ended 30 June 2012. 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.

There are no new and revised Standards and amendments thereof and Interpretations effective for the current reporting period that are relevant to the Group.

The adoption of all the new and revised Standards and Interpretations has not resulted in any changes to the Group's accounting policies and has no effect on the amounts reported for the current or prior periods. However, the application of AASB 2011-9 has resulted in changes to the Group's presentation of, or disclosure in, its half-year financial statements. AASB 2011-9 introduces new terminology for the statement of comprehensive income and income statement. Under the amendments to AASB 101, the statement of comprehensive income is renamed as a statement of profit or loss and other comprehensive income and the income statement is renamed as a statement of profit or loss. The amendments to AASB 101 retain the option to present profit or loss and other comprehensive income in either a single statement or in two separate but consecutive statements. However, the amendments to AASB 101 require items of other comprehensive income to be grouped into two categories in the other comprehensive income section: (a) items that will not be reclassified subsequently to profit or loss and (b) items that may be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis – the amendments do not change the option to present items of other comprehensive income either before tax or net of tax. The amendments have been applied retrospectively, and hence the presentation of items of other comprehensive income has been modified to reflect the changes. Other than the above mentioned presentation changes, the application of the amendments to AASB 101 does not result in any impact on profit or loss, other comprehensive income and total comprehensive income.

Going concern

The half year financial report has been prepared on the going concern basis which contemplates the continuity of normal business activity and the realisation of assets and the settlement of liabilities in the normal course of business.

In the Company's 30 June 2012 Annual Report Reed disclosed that it was in the process of raising additional capital to fund the development of the company's Meekatharra Gold Operations. During the half year this process was completed with the company raising $10 million through an equity raising and executing a $19 million debt facility with Credit Suisse. This funding allowed the company to complete the development phase of Stage 1 of the Meekatharra Gold Operation, with the plant commissioned in December and first gold production in January 2013. Further details of this funding can be found in the "Corporate" section of the Review of Operations above.

The directors have reviewed the forecast cash flows, including the key assumptions underpinning the forecast cash flows from the Meekatharra gold project and are satisfied that the going concern basis of preparation is appropriate.

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.

For the six months ended 31 December 2012

Reportable Operating Segments	Gold $	Vanadium $	Other $	Unallocated $	Total $
Continuing operations					
Revenue from external customers	-	1,160,133	-	-	1,160,133
Cost of sales	-	(1,087,849)	-	-	(1,087,849)
Gross profit	**-**	**72,284**	**-**	**-**	**72,284**
Other income	75,337	-	50,518	407,727	533,582
Total income	75,337	1,160,133	50,518	407,727	1,693,715
Total expenses	(6,471,194)	(1,562,484)	(169,402)	(3,542,980)	(11,746,060)
Profit/(loss) before tax	**(6,395,857)**	**(402,351)**	**(118,884)**	**(3,135,253)**	**(10,052,345)**
Depreciation and amortisation	-	-	-	(169,303)	(169,303)
Discontinued operations					
Total revenue	870	-	-	-	870
Total expenses	(26,606)	-	-	-	(26,606)
Gain on disposal of subsidiary	-	-	-	-	-
Loss before tax	**(25,736)**	**-**	**-**	**-**	**(25,736)**
Consolidated loss before tax	**(6,421,593)**	**(402,351)**	**(118,884)**	**(3,135,253)**	**(10,078,081)**
Income tax benefit	**-**	**-**	**-**	**-**	**-**
Consolidated loss after tax	**(6,421,593)**	**(402,351)**	**(118,884)**	**(3,135,253)**	**(10,078,081)**

At as 31 December 2012

Reportable Operating Segments	Gold $	Vanadium $	Other $	Unallocated $	Total $
Movement in non-current assets	29,995,223	362,860	393,969	3,292,565	34,044,617
Impairment	-	-	-	-	-
Movement on deconsolidation	-	-	(2,152,896)	-	(2,152,896)
Re-classification as held for sale	-	-	-	-	-
Consolidated movement in non-current assets	29,995,223	362,860	(1,758,927)	3,292,565	31,891,721
Total segment assets	101,412,245	20,261,061	4,068,324	13,845,083	139,586,713
Assets classified as held for sale	6,298,244	-	-	-	6,298,244
Consolidated total assets	**107,710,489**	**20,261,061**	**4,068,324**	**13,845,083**	**145,884,957**

For the six months ended 31 December 2011

Reportable Operating Segments	Gold $	Vanadium $	Other $	Unallocated $	Total $
Continuing operations					
Revenue from external customers	-	-	-	-	-
Cost of sales					
Gross profit/(loss)	**-**	**-**	**-**	**-**	**-**
Other income	58,209	-	2,773	322,174	383,156
Total income	58,209	-	2,773	322,174	383,156
Total expenses	(1,278,012)	(5,657)	(106,236)	(2,550,630)	(3,940,535)
Loss before tax	**(1,219,803)**	**(5,657)**	**(103,463)**	**(2,228,456)**	**(3,557,379)**
Discontinued operations					
Total revenue	516	-	-	-	516
Total expenses	(29,403)	-	-	-	(29,403)
Gain on disposal of subsidiary	492,116	-	-	-	492,116
Loss before tax	**463,229**	**-**	**-**	**-**	**463,229**
Consolidated loss before tax	**(756,574)**	**(5,657)**	**(103,463)**	**(2,228,456)**	**(3,094,150)**
Income tax benefit	**-**	**-**	**-**	**829,870**	**829,870**
Consolidated loss after tax	**(756,574)**	**(5,657)**	**(103,463)**	**(2,284,456)**	**(2,264,280)**

As at 30 June 2012

Reportable Operating Segments	Gold $	Vanadium $	Other $	Unallocated $	Total $
Movement in non-current assets	14,746,546	(1,551,733)	847,950	211,880	14,254,643
Impairment	(2,495,657)	(14,694,964)	-	-	(17,190,621)
Re-classification as held for sale	1,017,202	-	-	-	1,017,202
Consolidated additions to non-current assets	13,268,091	(16,246,697)	847,950	211,880	(1,918,776)
Total segment assets	60,982,179	19,646,928	5,956,015	27,928,884	114,514,006
Assets classified as held for sale	6,168,749	-	-	-	6,168,749
Consolidated total assets	**67,150,928**	**19,646,928**	**5,956,015**	**27,928,884**	**120,682,755**

3. Cash and cash equivalents

	31 Dec 2012 $	30 June 2012 $
Cash and cash equivalents	19,286,129	25,612,420
Cash and cash equivalents included in assets classified as held for sale[1]	11,584	33,342
	19,297,713	25,645,762

(1) Refer to note 11

4. Dividends

No dividends were paid, proposed or declared during the half-years to 31 December 2012 and 31 December 2011.

5. Loss on revaluation of financial assets held at fair value

	31 Dec 2012 $	31 Dec 2011 $
Current year loss on lapsed put options[1]	3,088,116	-
Revaluation of financial assets held at fair value	714,493	-
	3,802,609	-

(1) During the half-year Reed entered into a hedge transaction with Barclays Bank in order to establish a minimum sale price for a portion of the gold production from the company's Meekatharra Gold Operation. On the lapse of these put options the purchase price was recognised as an expense in the current period.

6. Property, plant and equipment

	31 Dec 2012 $	30 Jun 2012 $
Opening balance	23,555,845	1,953,474
Additions[1]	17,705,771	22,159,804
Disposals	-	(437,412)
Reclassified as held for sale	-	(116,146)
	41,261,616	23,559,720
Less accumulated depreciation	(1,023,176)	(857,747)
	40,238,440	22,701,973

(1) Current year additions for the property, plant and equipment includes expenditure of $17,690,179 on the refurbishment and construction of the company's Meekatharra Gold Operation.

7. Development expenditure

	31 Dec 2012 $	30 Jun 2012 $
Opening balance	6,400,101	6,554,806
Movement in capitalised mining costs	8,214,379	-
Reduction in rehabilitation asset	(546,037)	
Disposals	-	-
Reclassified as held for sale	-	(154,705)
Preproduction costs	3,172,585	-
	17,241,028	6,400,101
Less accumulated amortisation	-	-
	17,241,028	6,400,101

8. Borrowings

In November 2012 the company entered in a secured loan facility and a hedging facility with Credit Suisse AG. The purpose of these facilities was to fund the development and working capital requirements of the company's Meekatharra Gold Operation.

The key features of the facilities are summarised below:

- A$19 million Senior Secured Term Loan Facility.
- Repayment in twelve months from first utilisation, with an option for Reed to extend the term by a further six months.
- A hedging facility which includes 70,000 ounces of forward delivery contracts and 40,000 ounces in bought puts.

The loan facility was fully drawn on 30 November 2012.

The loan term can be extended from 12 months to 18 months by Reed notifying Credit Suisse of its election to do so within 9 months from the first draw down date. The loan extension shall be granted if no default is subsisting on the original repayment date and by payment of an agreed fee. At balance date it is the intention of the company to extend the loan term by exercising this option prior to the expiry of 9 month time frame.

As part of the loan agreement Reed was required to enter into a hedging transaction with Credit Suisse AG for 110,000 ounces of gold prior to first utilisation of the loan. This hedge was executed on 28 November 2012 and achieved an average for sale price of A$1,626 per ounce. Reed commenced delivering into the hedging structure in January 2013.

9. Share Capital

During the half-year reporting period, Reed Resources Ltd issued the following share capital:

6 months to 31 December 2012:

- 55,554,491 shares were issued as part of a Share Placement and Share Purchase Plan to raise $9,553,027 net of costs;
- 1,000,000 shares options were issued to consultants as part consideration for services rendered in relation to the raising of debt and equity funds required to develop the company's Meekatharra Gold Operations. The fair value of the shares options issued was $3,720; and
- 1,410,500 shares were issued to employees as part of their remuneration. Of this amount, 1,333,000 were issued to executive directors of the company.

6 months to 31 December 2011:

- 1 July 2011 – the Company issued 2,505,300 fully paid ordinary shares at $0.50 per share to Mercator Gold Australia Pty Ltd (subject to Deed of Company Arrangement) as part consideration on settlement of the acquisition of the Meekatharra Gold Project.

As noted above, during the 6 months to 31 December 2012 1,000,000 share options over the company's ordinary shares were issued during reporting period (2011: nil).

7,819,989 performance rights were issued to Reed employees during the current half-year period (2011: 285,000) for nil cash consideration. These performance rights may result in the issue of a total of 7,819,989 shares if the applicable vesting and performance criteria are satisfied over the vesting period.

10. Disposal of interest in subsidiary

On 16 October 2012 Reed Resources entered into an agreement ("**RIM Shareholder's Agreement**") with Mineral Resources Ltd ("**MRL**") and its subsidiary Process Minerals International Pty Ltd ("**PMI**"), whereby Reed disposed of 30% of its ownership interest Reed Industrial Minerals Pty Ltd ("**RIM**") to PMI.

Under the terms of the RIM Shareholder's Agreement and pursuant to *AASB 127 Consolidated and Separate Financial Statement,* management has determined that Reed no longer "controls" RIM for the purpose of *AASB 127*. As such, on the date of the RIM Shareholder's Agreement Reed has "deconsolidated" RIM for the purposes of financial reporting and in accordance with *AASB 131 Interest in Joint ventures,* Reed has elected to use the equity method of accounting to recognise its interest in the jointly controlled entity. Under the equity method of accounting Reed's interest in RIM is initially recognised at cost and adjusted thereafter for the post-acquisition change in its share of the net assets of RIM and the profit and loss of Reed includes its share of the profit and loss of RIM.

	31 Dec 2012 $	31 Dec 2011 $
Consideration[(1)]	-	-
Gain on deconsolidation	134,457	-
Gain on deconsolidation of Reed Industrial Minerals Pty Ltd	134,457	-

(1) Consideration received on disposal has been assigned a fair value of $nil due to the contingent nature of the economic benefits.

11. Discontinued operations

Half year ended 31 December 2012

Sand Queen Gold Mines Pty Ltd, a wholly owned subsidiary of Reed is classified as held-for-sale under *AASB 5 Non-current Assets Held for Sale and Discontinued Operations*.

Half year ended 31 December 2011

On 8 September 2011 the Group disposed of Kalgoorlie Ore Treatment Company Pty Ltd, which held the Nimbus Processing Plant and associated assets situated near Kalgoorlie, Western Australia. The proceeds on disposal included $3.4 million cash consideration and $1.6 million worth of MacPhersons Reward Resources Gold Ltd (ASX: MRP) fully paid ordinary shares.

The profit/ (loss) for the period from the discontinued operations is analysed as follows:

	31 Dec 2012 $	31 Dec 2011 $
Revenue	870	516
Operating expenses	(26,606)	(29,403)
Loss before income tax	(25,736)	(28,887)
Income tax expense	-	8,666
Loss after income tax for the period	(25,736)	(20,221)
Gain on disposal of processing plant operations	-	483,450
	(25,736)	463,229

The net assets of Kalgoorlie Ore Treatment Company Pty Ltd at the date of disposal were as follows:

	8 Sep 2011 $
Net assets disposed of	4,237,433
Disposal costs	386,797
Gain on disposal	483,450
Total consideration	5,107,680
Consideration satisfied by:	
Fully paid ordinary shares	1,608,000
Deferred sales proceeds	100,000
Cash	3,399,680
Total consideration	5,107,680
Net cash inflow arising on disposal	3,012,883

12. Events subsequent to balance date

Subsequent to the 31 December 2012 gold production commenced at the company's Meekatharra Gold Operation, with first gold sales occurring in January 2013. Preproduction costs related to the Meekatharra Gold Operation up to the reporting date have been capitalised and will be bought to account in subsequent financial periods.

On 31 January 2013 Reed appointed Colin (Cobb) Johnstone to the position of non-executive director of Reed Resources Ltd.