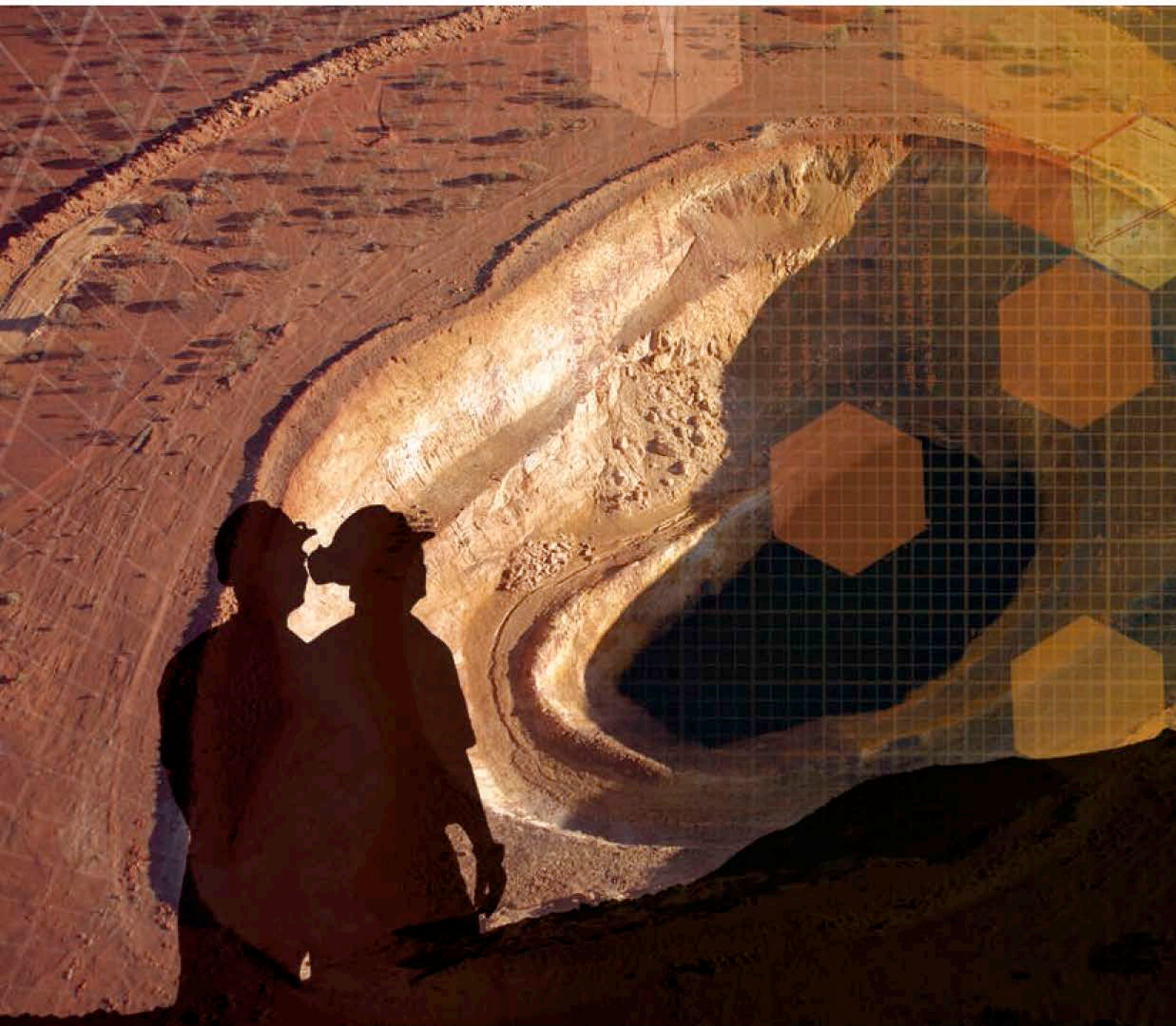


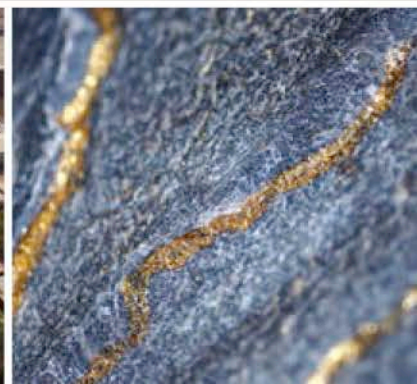


Reed Resources Ltd

ABN: 89 099 116 631



Annual Report **2012**





# Corporate Directory

## Directors

David Reed, Executive Chairman  
Luke Tonkin, Managing Director and CEO  
Christopher Reed, Executive Director  
Peter Collins, Non-Executive Director  
Steven Cole, Non-Executive Director  
Vanessa Guthrie, Non-Executive Director

## Company Secretaries

Jason Carone  
Darren Wates

## Registered Office

Level 1, 672 Murray Street  
West Perth WA 6005

## Contact Details

Telephone (+618) 9322 1182  
Facsimile (+618) 9321 0556  
[www.reedresources.com](http://www.reedresources.com)  
[info@reedresources.com](mailto:info@reedresources.com)

## Stock Exchange Listing

Reed Resources Ltd are listed on the  
Australian Stock Exchange

(Home Branch - Perth)

**ASX Code: RDR**

## American Depositary Receipts (ADR)

Reed's ADRs trade under the code RDRUY,  
CUSIP: 758254106 Each Reed ADR is equivalent  
to 10 ordinary shares of Reed as traded on  
the ASX. The Bank of New York Mellon is  
the depositary bank.

## ACN & ABN Numbers

ACN: 099 116 631  
ABN: 89 099 116 631

## Auditors

Deloitte Touche Tohmatsu  
Level 14, Woodside Plaza  
240 St Georges Terrace  
Perth WA 6000

## Share Registry

Computershare Investor Services Pty Ltd  
Level 2, Reserve Bank Building  
45 St Georges Terrace  
Perth WA 6000

## Annual General Meeting

Thursday 29 November 2012 at  
3:00pm Western Standard Time  
The Celtic Club  
48 Ord Street, West Perth  
Western Australia



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# Letter From The Chairman

Dear Shareholder,

The past year has been one of great change for Reed Resources, with the company focused on bringing its 100% owned Meekatharra Gold Project (MGP) into production by the end of 2012. Reed acquired MGP in July 2011 and after completing a Bankable Feasibility Study (BFS) in February 2012, a decision to mine was made by the board, subject to equity and debt funding being secured. The company successfully completed a \$40 million capital raising through a fully underwritten entitlement offer to shareholders in May 2012 and recently announced it had engaged Credit Suisse to provide a \$19 million debt facility for working capital purposes.

Work on refurbishment and the upgrade of the Meekatharra plant and infrastructure is progressing on budget and on schedule. Reed made the decision to undertake a certain portion of the refurbishment work in-house and this had led to cost savings over amounts initially forecast in the BFS.

As MGP moves towards production, staffing levels have increased in line with the increase in activity. While the labour market has been tight, Reed has been fortunate enough to secure an experienced team of key personnel who will help ensure the success of the mine over the coming years. As part of this process the company appointed Luke Tonkin as managing director and CEO. Luke brings a wealth of relevant experience to Reed, including many years developing and operating mines in Western Australia.

With continuing global economic uncertainty, governments around the world have taken measures to ease monetary policy in order to boost activity and employment. Against this backdrop, the outlook for gold is strong. Reed is in a position to take advantage of gains in gold price to achieve delivery prices above those outlined in the BFS. This will provide the company with a comfortable margin over its forecast cost of production. The substantial working capital generated through production of the 134,000oz of gold in Stage 1 will strengthen the balance sheet and enable increased production levels as we exploit and expand the 618,000oz Stage 2 gold reserve.

Assessment of the Barrambie Titanium and Vanadium Project and the Mount Marion Lithium Project continued during the year. Considerable work was undertaken to identify and evaluate the optimal way to ensure long-term cost competitiveness and maximise the enterprise values of the projects.

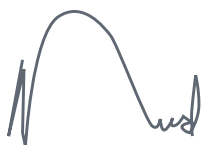
The Barrambie Titanium and Vanadium project is on the cusp of a technological breakthrough from a proprietary hydrometallurgical process developed in Canada. The results from laboratory scale test work undertaken to date have been positive and in line with results being reported by a number of companies trialling similar technology on hard-rock titanium deposits. A larger-scale continuous program of test work is scheduled for later this year, based on recent encouraging test results.

With Reed's primary strategy being the development and commissioning of MGP, investor focus on the Mount Marion Lithium project has decreased. This is not to say the project doesn't have considerable potential and value. The recent \$740 million acquisition of Western Australian producer Talison Lithium by Rockwood Holdings highlights the strong outlook for the lithium battery business throughout the world.

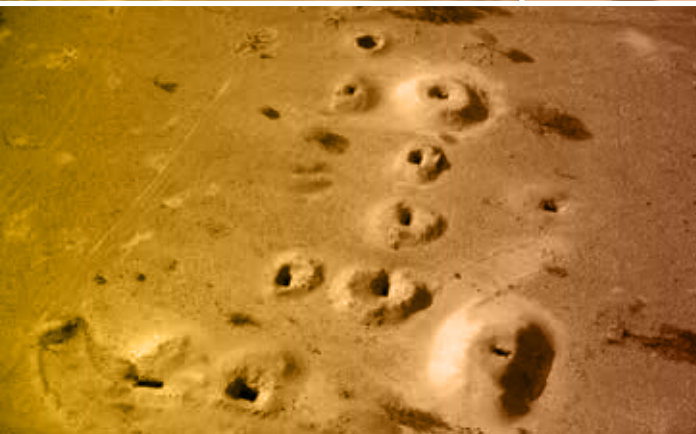
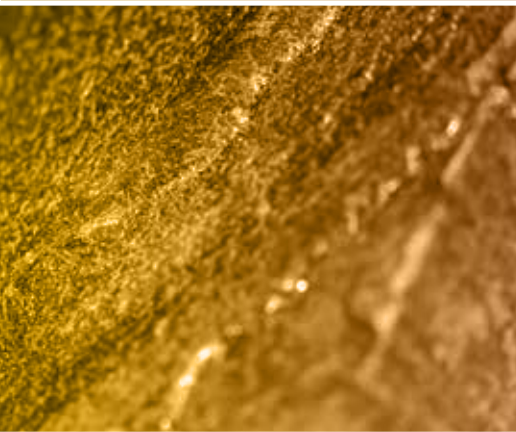
It is my opinion that Reed shares are trading at a substantial discount to other mining companies with comparative levels of reserves and resources. However, I feel a positive re-rating will occur at the end of the year when gold production at Meekatharra commences.

I reverted to non-executive chairman from 1 July and Christopher Reed moved to the position of executive director with responsibility for our lithium, titanium and vanadium projects. I would like to take this opportunity to sincerely thank retiring directors Ian Junk and Peter Collins for their many years of dedicated commitment as members of Reed Resources' board of directors.

In closing, I thank all our directors and staff for an excellent contribution in this exciting stage of our company's development and to our shareholders for their continued involvement and support of the company.



**David Reed**  
CHAIRMAN, REED RESOURCES LIMITED



# Review of Operations

## MEEKATHARRA GOLD PROJECT

(Reed 100%)

Reed Resources' Meekatharra Gold Project 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 4.5 Moz 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 are support infrastructures including administration offices, workshops, laboratories, power station and a 190 room accommodation village, all of which have a replacement cost in excess of \$100 million.

### Project Strategy

Reed is taking a strategic and disciplined 3 stage approach to the exploitation of Meekatharra's 752,000oz Reserve and 3.6 Moz Resources base (inclusive of Reserves) with the aim of delivering sustainable production of 100 to 150 thousand ounces of gold per year at a cost of less than \$1,000 per ounce over 10 years.

Stage 1 will focus on the Yaloginda region which has produced 1.5 Moz to date. In the first 19 months 134,000 ounces will be produced from four low risk open pits - Bluebird, Batavia, Whagamata and Surprise, all within 6.5km of the Bluebird CIL plant.

Stage 2 will exploit the remaining 618,000 ounces of Reserves, and will see the focus expand from open pit to open pit and higher grade underground production at Paddy's Flat to the north and Reedys to the south, in addition to ongoing operations at Yaloginda.

Paddy's Flat has produced approximately 2 Moz of gold and hosts multiple open pit and underground ore sources.

Initially large scale bulk lower grade open pit ore will be sourced from the Prohibition and Mickey Doolan pits whilst higher grade underground ore will be produced from the Prohibition, Vivian, Consol's, Fatts and Mudlode ore-bodies.

Reed is confident that significant potential exists to add ounces per vertical metre in the Eastern ore zones, given the existing exploration drill hole orientation and spacing is unlikely to have adequately tested very high grade gold spur veins and quartz lodes (resulting from steeply dipping cross-structures). Also, significant Resources are located near currently defined Reserves.

The Reedy tenement group is located at the southern end of the tenement package, approximately 65km from the Bluebird plant and has produced approximately 1 Moz of gold and constitutes one of the main gold camps in the Murchison Goldfields.

Mineralisation along the 15km long Reedy Shear Zone has long been recognised as economically important. Ore will be mined from existing open pit Reserves which include

Jack Ryan, Callisto and Rand, whilst exploration will target extensions to known deposits, additional open pit Resources and defining underground Reserves below South Emu, Triton, Rand and Jack Ryan.

Stage 3 of Reed's strategy will be executed concurrently with Stages 1 & 2, and will utilise the latest targeting and exploration techniques to convert as many of the remaining 2.8 Moz of Resources to Reserves, whilst also defining additional Resources and Reserves.

Since Reed Resources acquired the Meekatharra Gold Project in January 2011 the Mineral Resource Inventory has been increased by 1.2 Moz or 50% to a total of 3.6 Moz of gold and the Reserves have increased by 78% from 422,000 oz to 752,000 oz (as at June 30th, 2012).

### Stage 1 – Meekatharra Gold Operations Recommencement

The Stage 1 Meekatharra Gold Operations Feasibility Study was completed as scheduled and budgeted during the year. Subsequently Reed committed to mine Stage 1 subject to equity and debt financing.

Reed completed a Rights Issue raising approximately \$40 million before costs with funds being employed to upgrade and refurbish plant, equipment and infrastructure that forms part of Stage 1 of the Meekatharra project strategy. Reed also signed an engagement letter with Credit Suisse on 26 September 2012 for a term loan facility for \$19 million and the provision of a hedging facility. The Credit Suisse offer is subject to finalisation of documentation and due diligence.

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

Multiple Resources and Reserves exist within the Yaloginda area and are being investigated as possible ore sources for an extension to the Stage 1 operations.



Aggregate funding required for Stage 1 until positive net cash flow is achieved is estimated at A\$45 million.

Net cash flow generated during the 19 months of Stage 1 milling is estimated at A\$66 million (applying a A\$1,520 price floor). Reed is expecting to adopt a Participating Forward structure for price protection, essentially selling some production as forward delivery contracts over this period and purchasing put options for the balance. The proposed hedge structure mitigates risk resulting from unexpected gold price decline whilst retaining some exposure to higher gold prices.

### Accommodation Village

The accommodation supplier, APB, commenced earthworks on site during the latter half of the year in preparation for the installation of 80 new accommodation units and a dry mess facility, effectively extending the existing Bluebird accommodation village. Both refurbishment and upgrade of the village is scheduled to be completed by October.

Current capacity of the existing village is 110 personnel which will increase to 190 when upgrade works are completed.

**Table 1: Forecast Stage 1 operational statistics**

OPERATING INPUTS	
Ore Milled	2.4 Mt
Feed Head Grade	1.88 g/t
Recovery	94%
OPERATING OUTPUTS	
Recovered ounces	134,000
Revenue @ A\$1,520 / oz	\$205 million
Cash available for debt servicing	\$66 million
Net Cash Inflows	\$45 million
FUNDING	
Capex	-\$24.0 million
Owners cost including mining	-\$11.4 million
Equity Contribution	\$35.4 million
Working capital	-\$ 8.0 million
Debt Facility	\$19.0 million

### Project Work Packages and Delivery

The capital works package for the Stage 1 of the Meekatharra Gold Project is estimated at \$24 million and comprises replacement of the primary crusher, mill refurbishment, upgrade and refurbishment of the accommodation village, and minor capital works.

#### Primary Crusher

A new Metso C125 primary crusher arrived on site during the year and GR Engineering is scheduled to complete the installation of the new heavy duty crusher by mid-November 2012.

#### Mill Refurbishment

Refurbishment of the Bluebird CIL processing facility progressed as scheduled during the year with ~65% of total planned project refurbishment activities completed at 30 June 2012 with the remaining works to be completed by mid-November 2012. Refurbishment of the facility has progressed as budgeted.

#### Other Site Activities:

##### Power Station

During the year Pacific Energy (KPS) Pty Ltd was awarded the contract for the provision of power "over-the-fence" under a Build-Own-Operate (BOO) agreement. The existing diesel power generators were removed from site and the new power generating facility is scheduled to be installed and operational by the end of November 2012.

##### Mining Contract

All open pit ore sources for Stage 1 will be mined by an open pit mining contractor.

The award of the mining contract and subsequent mobilisation is subject to finalising key conditions precedent to drawdown of the debt facility. Mining contractor mobilisation is scheduled in October.

##### People

Key operational staff for the Meekatharra Gold Project have been appointed and further operational staff are being

# Review of Operations

engaged and will commence site duties as project activity increases and preparation for mine operations intensifies.

## Project Timeline

The commencement of Stage 1 mining and consequently ore processing is subject to Reed's access to debt finance covering Meekatharra Gold Project's working capital expenditure requirements. The primary condition precedent to full draw down of the facility is Department of Mines and Petroleum ('DMP') mining approval for Stage 1 open pits Batavia and Whangamata with Surprise and the 86,200 ounce Bluebird open pits already approved. Reed is working with the DMP, and particularly the Environmental Division of the DMP to progress Mining Proposals as efficiently as practicable. Material mining approvals allowing access to debt draw down are anticipated to be received over the coming weeks with mining scheduled to commence in October.

## BARRAMBIE IRON-TITANIUM-VANADIUM PROJECT

(Reed 100%)

Since May 2010 Reed has been in discussions with China Non-Ferrous Metal Industry's Foreign Engineering and Construction Co. Ltd ('NFC') and West Australian based engineering and construction company Arcon (WA) Pty Ltd, relating to an engineering procurement and construction contract ('EPC') and project financing.

The Company received a final, fixed price EPC quote for Barrambie in early August 2011 indicating a potential capital cost saving of approximately \$100 million with Direct Construction Costs and EPCM Fee's reduced from \$539 million to \$439 million.

However, in light of ongoing weak market conditions for vanadium (US\$6.50/lb V2O5, Metals Bulletin 13/7/12) the parties have made the decision to cease further formal discussions. Barrambie remains one of the world's highest grade vanadium deposits with a Probable Ore Reserve of 39.7 Mt at 0.82% V2O5.

In the December 2011 quarter Reed commenced a concept study level evaluation of the production of a titanium rich concentrate from the Eastern Band of the Barrambie Fe-Ti-V deposit. Initially the study evaluated the recovery of titanium and iron units via the production and export of a titanomagnetite concentrate, the study has now been expanded to evaluate recovery of Fe-Ti-V units via a proprietary hydrometallurgical route. A number of companies globally are trialling variants of this technology on hard rock titanium deposits and reporting very high recoveries (+90%) of each metal (Fe-Ti-V) into pure products.

Barrambie's Eastern Band is currently the second highest grade hard rock titanium deposit globally

(behind Rio Tinto's Lac Tio mine in Canada) (Mineral Resource Estimate (2005) of 48Mt @ 22% TiO2).

Initial laboratory scale test work has been conducted on Eastern Band magnetic concentrates generated during the 2007-09 DFS. A mini-plant (150kg) test work program is planned, pending the receipt of successful laboratory scale test results. A new resource estimate will be released pending determination of an appropriate cut-off grade for titanium, and supported by test work recoveries.

The Public Environmental Review Document (PER) was recommended for approval subsequent to the end of the financial year.

## MOUNT MARION LITHIUM PROJECT

(Reed Resources 70%, Mineral Resources Limited earning 30%)

During the year Reed together with partner Mineral Resources Ltd ('Mineral Resources') continued to advance the Mount Marion Lithium Project ('Mount Marion').

Mount Marion has a designed capacity of 200,000 tpa of 6% Li2O chemical grade spodumene concentrate, 60,000 tpa of muscovite mica and 30 tpa tantalite concentrate.

## Mine Development Update

Reed is working with Mineral Resources to establish the most effective production profile and optimal timing for the commencement of operations in light of the prevailing industry, economic and financial market conditions. All project approvals have been received.

During the year the partners met with potential marketers of lithium and mica products as part of its continuing evaluation. The world's largest spodumene producer has announced that effective from 1 July 2012 it was raising prices a further 10% and in addition to a 15% increase in the first half of 2012, however they have now commissioned an expansion from 400,000 to 740,000t. The partners believe this has the potential to elicit a response from the large South American brine producers as both are targeting the largest market in the world, China.

Project development is fully funded by Mineral Resources.

## Mineral Resource Estimate

The Mount Marion deposit consists of a series of shallow westerly dipping, parallel sheets of spodumene-bearing pegmatite within mafic-ultramafic volcanic rocks. The pegmatite sheets are over 20 metres in thickness and have been drill tested to a depth of ~100 metres below surface.



An updated Mineral Resource estimate was undertaken by Hellman and Schofield and reported to the market on 22 July 2011. Total resources now stand at 14.9Mt at 1.3% Li2O for 201,000 tonnes of contained lithium oxide (Li2O), representing a 38% increase over the previous estimate of 146,000 tonnes of contained Li2O.

### **Lithium Down-Streaming Strategy**

The integration or conversion of lithium spodumenes into lithium battery materials like lithium carbonate and lithium hydroxide maximises the revenue and margins derived from the sale of product. To this end Reed completed a PFS examining the construction of a 17,000 tpa lithium carbonate facility and is working with the Malaysian Industrial Development Authority on its application for Pioneer Status/Investment Tax Allowance. Reed is also evaluating the production of a high purity lithium hydroxide product, a potentially higher margin feedstock preferred by some lithium battery makers.

Reed is continuing strategic discussions with third parties in relation to a partial sale of the spodumene concentrate operations and/or joint ventures for lithium carbonate production. It should be stressed that discussions remain preliminary and there can be no assurance that a binding proposal will emerge.

Reed continues to work with Mineral Resources reviewing the most appropriate method for the Project's special purpose vehicle to become an independently financed, industrial minerals company.

## **COMET VALE PROJECT**

**(100% Reed)**

### **Sand Queen Gold Mine**

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

A sale process for the Comet Vale project run during the June quarter did not generate a binding offer sufficiently attractive to Reed. Discussions are continuing with other interested parties in relation to partial or full sale alternatives. The project has combined underground and open-pit resources of 850Kt @ 7.66g/t Au for 209,000 oz.

## **MT FINNERTY PROJECT**

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 mineralisation, partly in joint venture with Barranco Resources NL ('Barranco').

All iron exploration is conducted by Cliffs Asia Pacific Iron Ore Pty Ltd ('Cliffs'), targeting banded iron formations along the central spine of the greenstone belt.

Nickel exploration has focussed on the western flank of the greenstone belt which is most prospective for massive nickel sulphide mineralisation.

## **Iron Ore Joint Venture**

**(Reed 20%, Cliffs 80%)**

The first stage of a resource definition drilling program was undertaken during the December 2010 quarter with a total of 25 RC holes completed. Drill assay results confirmed a low grade iron ore occurrence with potential for gold. A magnetite exploration review was completed during the current financial year.

## **Nickel Exploration**

**(Barranco 100%, Reed Option to Acquire 100%)**

During the year an auger geochemical sampling survey was conducted, which confirmed strongly anomalous Ni-Cu-Pt-Pd values coincident with the contact of the western ultramafic unit with a hornfelsed basalt footwall.

A wide-spaced RC program drilled in the 2011 September Quarter intersected non-nickeliferous disseminated sulphides in a number of the drill holes, with elevated copper and PGE values at the contact positions in addition to the high MgO tenor of the ultramafics. All of these features are favourable indicators for nickel sulphides.

## **Nimbus Silver-Zinc Project**

**(Reed 1% Zinc Royalty)**

On 25 July 2011 the Company announced the sale of its subsidiary Kalgoorlie Ore Treatment Company Pty Ltd ("KOTC"), which holds the Nimbus processing plant and associated assets, to Macphersons Reward Gold Limited (ASX code: MRP), pursuant to a binding memorandum of understanding ("MOU"). Consideration for the sale consisted of \$4.5 million (\$3.4 million cash and \$1.6 million in MRP ordinary shares). The Company will retain a 1% Net Smelter Royalty on zinc production from KOTC's two mining leases.

MRP also agreed to process up to 70,000 tonnes per annum of gold ore from Reed Resource's Comet Vale Gold Project for up to 4 years from commencement of the first milling campaign.

# Review of Operations

## REED RESOURCES LTD – MINERAL RESOURCE STATEMENT

Meekatharra	Category	Tonnes (Mt)	Au (g/t)	Au (koz)
Meekatharra North	Indicated	1.2	1.8	66.0
	Inferred	0.2	1.6	9.0
Nannine	Indicated	0.6	1.6	31.0
	Inferred	0.2	1.6	13.0
Paddy's Flat	Indicated	25.2	1.6	1,281.0
	Inferred	13.4	1.6	670.0
Yaloginda	Indicated	10.1	1.7	564.0
	Inferred	6.2	1.7	347.0
Reedys	Indicated	2.7	3.1	276.0
	Inferred	4.0	2.7	338.0
TOTAL	Indicated	39.8	1.7	2,217.0
	Inferred	24.1	1.8	1,377.0
	TOTAL	63.9	1.8	3,594.0

Comet Vale	Category	Tonnes (Mt)	Au (g/t)	Au (koz)
Comet Vale	Indicated	0.41	7.2	96.9
	Inferred	0.43	8.1	112.6
Total		0.85	7.6	209.5

Mt Marion	Category	Tonnes (Mt)	Li <sub>2</sub> O (%)	Li <sub>2</sub> O (kt)
1, 2, 2W, 4, 5, 6	Measured	2.0	1.45	29.2
	Indicated	4.8	1.39	66.3
	Inferred	8.1	1.30	105.1
Total		14.9	1.35	200.7

Barrambie	Category	Tonnes (Mt)	V <sub>2</sub> O <sub>5</sub> (%)	TiO <sub>2</sub> (%)
Barrambie	Indicated	49.2	0.82	17.3
	Inferred	16.0	0.81	17.2
Total		65.2	0.82	17.3



## REED RESOURCES LTD – ORE RESERVE STATEMENT

Project	Category	Tonnes (Mt)	Au (g/t)	Au (koz)
Bluebird	Probable	1.39	1.9	86.2
Prohibition	Probable	1.11	2.7	96.0
Mickey Doolan	Probable	3.31	1.1	121.7
Maid Marion	Probable	0.2	1.4	8.6
South Junction	Probable	0.1	1.5	4.5
Surprise	Probable	0.1	3.0	13.0
Batavia	Probable	0.2	2.4	14.0
Whangamata	Probable	0.3	1.4	11.9
GNH	Probable	0.9	1.3	35.6
Aladdin	Probable	0.4	1.7	21.4
Jack Ryan	Probable	0.2	3.1	21.8
Callisto	Probable	0.1	3.1	7.2
Rand	Probable	0.1	2.4	7.6
South Emu	Probable	0.1	4.7	13.9
TOTT	Probable	0.5	1.8	29.4
Sub-total (Open Pit)	Probable	9.01	1.7	492.9
Prohibition	Probable	1.3	2.4	104.1
Vivian/Consols	Probable	0.3	7.7	63.6
Fatts/Mudlode	Probable	0.4	4.7	57.2
South Emu	Probable	0.2	4.3	34.2
Sub-total (Underground)	Probable	2.2	3.6	259.1
Total	Probable	11.2	2.1	752.0

Barrambie	Category	Tonnes (Mt)	V <sub>2</sub> O <sub>5</sub> (%)	TiO <sub>2</sub> (%)
Barrambie	Probable	39.7	0.82	15.7
Total		39.7	0.82	15.7

### Notes:

1. Resources and Reserves comply with the JORC Code.
2. Resources are inclusive of Reserves.

# Review of Operations

## 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

In May 2012 the Company successfully completed an underwritten, non-renounceable entitlement offer raising approximately \$40 million before costs. These funds are being utilised by the Company to fund development of Reed's 100% owned Meekatharra Gold Project and for general working capital purposes. Details of the company's Meekatharra Gold Project can be found above.

### Debt funding

Subsequent to the balance date the company received an offer for a \$19M debt facility and a hedging facility from Credit Suisse to fund the development of the company's 100% owned Meekatharra Gold Project. On 26 September 2012 the Company accepted the offer from Credit Suisse, the offer being subject to due diligence and final documentation. The Credit Suisse facility replaces a previous offer for a \$23M facility from another lender made during the year. The Credit Suisse facility was selected on the basis that it provides the company with greater flexibility with respect to commencing operations at the company's Meekatharra Gold Project and future funding requirements. This information is also disclosed in subsequent events note 33.

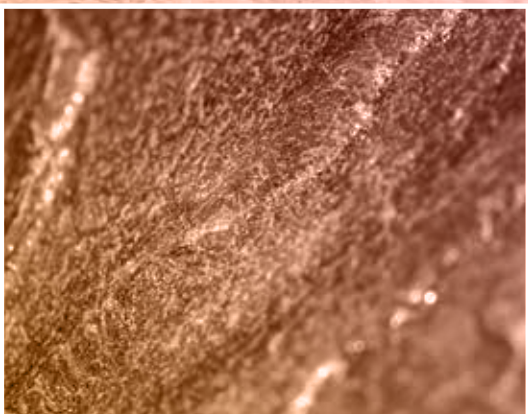
The company is currently seeking additional funding in order to undertake its forecast activities over the coming financial year. Further details in relation to the company's funding activities can be found under the going concern heading in note 1 to the consolidated financial statements.

### Management changes

During the reporting period the company's board of directors and its executive management team were restructured with the following changes occurring during the year:

- Mr David Reed transitioned from an executive chairman position to non-executive position on 1 July 2012.
- Mr Luke Tonkin commenced with the company as managing director and chief executive officer on 14 May 2012.
- Mr Chris Reed transitioned from managing director to executive director on the commencement of Mr. Tonkin's employment.
- Mr Ian Junk ceased being a director on 28 June 2012.
- Mr David Lim commenced as Chief Financial Officer on 11 April 2012.





# Directors' Report

The directors of Reed Resources Ltd submit their report for the financial year ended 30 June 2012.

The names and particulars of the directors of the company during or since the end of the financial year are:

## Current Directors

Name	Particulars
------	-------------

David J. Reed OAM

**Non-Executive Chairman**

Mr Reed is an accountant with over 40 years' experience in stock broking and corporate management. From 1985 to 1997 Mr Reed was chairman of stock-broking firm Eyres Reed Ltd until its sale to CIBC World Markets in 1997 at which time he became Chairman of CIBC Australia, a position he held until 2003. Mr Reed has extensive public company experience having served as chairman of several ASX listed mineral exploration companies. Mr Reed is a former chairman of the fund raising committee for the Australian Prospectors and Miners Hall of Fame and secretary of the Amalgamated Prospectors and Leaseholders Association and was a co-founder of the Diggers and Dealers Forum in Kalgoorlie. Mr Reed received an Order of Australia Medal in 2002 for his service to the community.

Mr David Reed is Fellow of CPA Australia.

**Appointed:** 20 December 2001

**Special responsibilities:** Member of the Nomination and Remuneration Committee

**Directorships of other listed companies:** Nil

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Luke Tonkin

**Managing Director**

Mr Tonkin, a mining engineer, joined Reed Resources Ltd as Managing Director on 14 May 2012. Mr Tonkin has extensive experience within the resource industry with a range of commodities including gold, nickel, tantalum, tin, lithium and iron ore. Prior to joining Reed Resources Mr Tonkin was Managing director of Mount Gibson Iron Ltd and has held senior management roles with some of Australia's largest mining operations including WMC's Kambalda Nickel operations, St Ives Gold operations, Leinster Nickel operations and Sons of Gwalia. Mr Tonkin has extensive experience with implementing large-scale investment, divestment, transition and integration strategies

Mr Tonkin holds a Bachelor of Engineering from the West Australian School of Mines and is a member of AusIMM and the Australian Institute of Company Directors.

**Appointed:** 14 May 2012

**Special responsibilities:** Nil

**Directorships of other listed companies:** Managing Director Mt Gibson Iron Ltd  
25 October 2005 to 16 December 2011.

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## Christopher J. Reed Executive Director

Mr Reed is an accountant with over 20 years of experience in the resource industry including more than 10 years in corporate administration and management. Mr Reed served as Managing Director of Reed Resources Ltd from September 2007 until May 2012 at which time he assumed the role executive director. Mr Reed is the current serving Vice-president of the Association of Mining and Exploration Companies.

Mr Reed holds a Bachelor of Commerce from the University of Notre Dame and a Graduate Certificate in Mineral Economics from the WA School of Mines. He is a member of the AusIMM and CPA Australia.

**Appointed:** 20 December 2001

**Special responsibilities:** Nil

**Directorships of other listed companies:** Nil

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## Steven Cole Non-Executive Director

Mr Cole is a lawyer with over 35 years of professional consultancy and commercial experience. Mr Cole has extensive experience in the management of ASX listed companies, statutory, and proprietary and NFP organisations covering the industrial, financial, educational, professional services, health and resources sectors.

Mr Cole holds a Bachelor of laws (hons) and is a Fellow of the Australian Institute of Company Directors.

**Appointed:** 24 July 2008

**Special responsibilities:** Deputy Chairman, Chairman of the Nomination and Remuneration and Audit and Risk Management Committees

**Directorships of other listed companies:** Chairman of Emerson Stewart Group Limited (31 March 2008 to 16 October 2011)

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## Peter L.F. Collins Non-Executive Director

Dr Peter Collins is a geologist with over 35 years of experience in the resource industry, government and academia. He currently holds a senior lecturing position in economic geology at Curtin University, Perth. Dr Collins has extensive experience in the investigation of and exploration for a variety of minerals include gold, base metals, ferrous metals, tin-tungsten and was responsible for discovery of the Sand George gold deposit at Comet Vale, WA.

Mr Collins holds a Bachelor of Science (Hons) and a PhD in geology from the University of Tasmania and is a member of the Australian Institute of Geoscientists.

**Appointed:** 20 December 2001

**Special responsibilities:** Member of the Nomination and Remuneration and Audit and Risk Management Committees

**Directorships of other listed companies:** Nil

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# Directors' Report

## Current Directors (continued)

Name	Particulars
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Vanessa Guthrie	<b>Non-Executive Director</b>
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Dr Guthrie has more than 20 years of experience in the Australian resources sector, working in a number of areas in the resources sector including mining, refining, smelting and gas production. Dr Guthrie has previously held positions in corporate administration as well as holding the position of Mine Manager at Australia's largest bauxite operation. She has worked for organisations such as Woodside Energy Ltd, Alcoa World Alumina Australia, WMC Resources, RGC Limited, Goldfields Limited, Pasminco Ltd and Toro Energy.

Dr Guthrie holds a Bachelor of Science with Honors II (I) (Geology), a Doctor of Philosophy (Geology), Diploma in Natural Resources, Diploma in Business Management and Diploma in Commercial and Resources Law. Dr Guthrie is also member of AusIMM and the Australian Institute of Company Directors.

**Appointed:** 17 June 2011

**Special responsibilities:** Member of the Audit and Risk Management Committee

**Directorships of other listed companies:** Nil

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## Former Directors

Ian C. Junk	<b>Non-Executive Director</b>
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Mr Junk is a mining engineer with considerable experience in narrow vein underground mining and project development having managed several private mining companies during his career. He has been a national finalist in the Ernst & Young Entrepreneur of the Year and received a Goldfields Business of the Year Award.

Mr Junk graduated with a Bachelor of Engineering with honours from the WA School of Mines and is a Member of the AusIMM.

**Term of Office:** 1 December 2003 to 28 June 2012

**Special responsibilities:** Member of the Nomination and Remuneration and Audit and Risk Management Committees

**Directorships of other listed companies:** Nil

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## Company Secretaries

Jason Carone	<b>Company Secretary (Joint) and Financial Controller</b>
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Mr Carone is a Chartered Accountant with over 15 years' experience in accounting and company administration in Australia and South East Asia.

Mr Carone holds a Bachelor of Commerce in Accounting and Business Law from Curtin University, WA and is a member of the Institute of Chartered Accountants.

**Appointed:** 4 March 2009

## Darren Wates

### Company Secretary (Joint) and Legal Counsel

Mr Wates joined Reed Resources in December 2010 as Commercial Legal Counsel and in April 2011 was appointed Joint Company Secretary. Mr Wates has over 10 years' experience in corporate and commercial law in Western Australia, having worked in the Perth office of a national law firm and more recently in senior consultancy at a specialist corporate, commercial and resources law firm.

Mr Wates holds a Bachelor of Laws and a Bachelor of Commerce from Murdoch University, and a Graduate Diploma in Applied Finance and Investment from the Financial Services Institute of Australasia.

**Appointed:** 6 April 2011

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## Review of operations

The consolidated loss after income tax for the year attributable to members of Reed Resources Ltd ("Reed Resources", "Company" and "Consolidated Entity") was \$30,983,345 (2011: \$3,353,586) after an impairment loss of \$23.5 million (2011: \$0.74 million). Details of the impairment loss are included in note 14. A detailed review of the company's operations during the financial year can be found on pages 4 to 10 of this Annual Financial Report.

## Changes in state of affairs

During the financial year the consolidated entity completed a Bankable Feasibility Study on the Meekatharra Gold Project and commenced development of project. Other than these activities there have not been any other significant changes in the affairs of the company from the previous year.

## Principal activities

The consolidated entity's principal activities during the period consisted of mineral exploration and the development of the company's Meekatharra Gold Project located in the Murchison region of Western Australia.

## Events subsequent to balance date

Subsequent to the end of the financial year the company engaged Credit Suisse to provide a corporate debt financing for \$19 million. Pursuant to this agreement Credit Suisse will provide the company with a senior debt facility for \$19 million dollars and a hedging facility. Funds from this facility will be used by the company to fund the development of the Meekatharra Gold Project. Formal documentation for the facility, based on a binding term sheet, is expected to be completed by the end of October 2012.

On 19 September a contract for put options over 70,000oz of gold expired. As the options were out-of-the-money at expiration the Group recognised a loss of \$3.048 million on the transaction. Refer to subsequent events note 33 for additional details.

## Future developments

As detailed above the consolidated entity commenced development of its Meekatharra Gold Project with operations scheduled to commence in the 2012/13 financial year. The company continues to undertake exploration and evaluation studies on its non-producing projects with the aim of maximising shareholder value through either development or sale. The company is unable to comment on any additional likely developments or future results as this is likely to prejudice the Consolidated Entity.

Please refer to the Going Concern Assumption Note in Note 2 of the notes to the consolidated financial statements.

## Environmental regulations

As required by section 299(f) of the Corporations Act the company states that it has performed all of its environmental obligations in accordance with applicable environmental regulations.



# Directors' Report

## Dividends

No dividends were paid, recommended or declared during the reporting period.

## Indemnification of officers and auditors

During the financial year the company paid a premium in respect of a contract insuring the directors and officers of the company and of any related body corporate against a liability incurred as a director or officer, to the extent permitted by the Corporations Act 2001. The contract of insurance prohibits disclosure of the nature of the liability and the amount of the premium.

The company has not otherwise, during or since the financial year, except to the extent permitted by law, indemnified or agreed to indemnify an officer or auditor of the company or of any related body corporate against a liability incurred as such an officer or auditor.

## Unissued shares under option

The following table sets out the unissued ordinary shares of the company, Reed Resources Ltd, which are under option at the date of this report.

Options series	Number	Grant date	Expiry Date	Exercise Price \$	Fair Value at grant date \$	Vesting Date
Issued 14 September 2007	300,000	14/09/2007	31/12/2012	0.834	0.22	Pursuant to ESOP
Issued 28 November 2007	1,500,000	28/11/2007	31/12/2012	0.834	0.22	At date of grant
Issued 15 September 2008	600,000	15/09/2008	30/06/2013	1.184	0.13	Pursuant to ESOP
Issued 25 November 2008	1,250,000	25/11/2008	30/06/2013	1.184	0.03	At date of grant
Issued 26 July 2010	750,000	19/07/2010	01/07/2013	0.984	0.18	50% 12/04/2011 50% 12/04/2012
Issued 27 August 2010	2,250,000	20/08/2010	01/07/2013	0.984	0.12	Pursuant to ESOP
Issued 7 September 2009	1,600,000	31/08/2009	31/12/2013	0.784	0.08	Pursuant to ESOP*
Issued 9 December 2009	850,000	26/11/2009	31/12/2013	0.784	0.24	Pursuant to ESOP
Issued 8 April 2011	500,000	08/04/2011	01/07/2014	0.984	0.12	50% 06/12/2011 50% 06/06/2012
	9,600,000					

The holders of these options do not have the right, by virtue of the option, to participate in any share issue, other than through the exercise of their option, or interest payment.

Service conditions only relate to options issued under the Company's Employee Share Option Plan 2007 ("ESOP") in that 50% of the options vest 12 months following issue with the balance vesting 18 months following issue. In addition, in the event that an employee leaves, the options lapse 3 months following the date of cessation of employment. The options marked with an asterisk (\*) include 900,000 options with additional vesting conditions (one third 11 September 2010, one third 30 June 2011 and one third 30 June 2012).

No shares of the Company were issued during or since the end of the financial year as a result of the exercise of an option over the unissued shares of the company.

## Directors' meetings

The following table sets out the number of directors' meetings (including meetings of committees of directors) held during the financial year and the number of meetings attended by each director (while they were a director or committee member). During the financial year, 17 board meetings, 3 nomination and remuneration committee meetings and 4 audit and risk committee meetings were held.

Directors	Board of Directors		Nomination & Remuneration Committee		Audit Committee	
	Held	Attended	Held	Attended	Held	Attended
S. Cole	17	17	3	3	4	4
P. Collins	17	16	3	3	4	3
V. Guthrie <sup>(1)</sup>	17	17	n/a	n/a	4	3
I. Junk	17	15	3	3	4	4
C. Reed	17	17	n/a	n/a	n/a	n/a
D. Reed <sup>(2)</sup>	17	15	n/a	n/a	n/a	n/a
L. Tonkin	4	4	n/a	n/a	n/a	n/a

(1) V. Guthrie became a member of the Audit Committee on 17 June 2011 and a member of the Nominations and Remuneration Committee on 23 August 2012.

(2) D. Reed became a member the Nominations and Remuneration and Audit Committees on 23 August 2012.

## Directors' shareholdings

The following table sets out each director's relevant interest in shares, debentures, and rights or options in shares or debentures of the company or a related body corporate as at the date of this report:

	Fully paid Ordinary Shares Number	Share Options Number	Performance Rights Number
S. Cole	75,068	600,000	-
P. Collins	285,705	450,000	-
V. Guthrie	-	-	-
C. Reed	1,109,202	1,600,000	2,154,184
D. Reed	26,977,338	-	-
L. Tonkin	833,000	-	4,247,390

## Proceedings on behalf of the company

No person has applied for leave of Court to bring proceedings on behalf of the Company or intervene in any proceedings to which the Company is a party for the purpose of taking responsibility on behalf of the Company for all or part of those proceedings. The Company was not a party to any such proceedings during the year.

# Directors' Report

## Remuneration Report (audited)

### Key Management Personnel

The following persons were deemed to be Key Management Personnel (KMP) during or since the end of the financial year for the purpose of Section 300A of the Corporations Act 2001 and unless otherwise stated were KMP for the entire reporting period.

#### Non-executive directors

- Steven Cole non-executive director/deputy chairman
- Peter Collins non-executive director
- Vanessa Guthrie non-executive director
- Ian Junk non-executive director (ceased being a director on 28 June 2012)
- David Reed non-executive chairman (executive chairman to 30 June 2012)

#### Executive directors

- Luke Tonkin managing director (commenced 14 May 2012)
- Christopher Reed executive director (managing director to 13 May 2012)

#### Other executives

- Jason Carone financial controller and joint company secretary
- Craig Fawcett general manager - gold
- David Lim chief financial officer (commenced 11 April 2012)
- Darren Wates legal counsel and joint company secretary

## Remuneration policy for key management personnel

### Non-executive directors

The board's policy is to remunerate non-executive directors at market rates for comparable companies for time, commitment and responsibilities. The nomination and remuneration committee on behalf of the board determines payments to the non-executive directors and reviews their remuneration annually, based on market practice, duties and accountability. Independent external advice is sought when required. The maximum aggregate amount of fees that can be paid to non-executive directors is \$400,000 as approved by shareholders at the General Meeting on 15 November 2011. Fees for non-executive directors are not linked to the performance of the economic entity. However, to align directors' interests with shareholder interests, the directors are encouraged to hold shares in the Company and non-executive directors have formerly received options in order to secure their services.

### General

The Group's remuneration policy for KMP is to provide a fixed remuneration component and performance based components. The board believes that this remuneration policy is appropriate given the size of the company and the activities which it undertakes and is appropriate in aligning KMP objectives with shareholder and business objectives.

The remuneration policy for the employees is developed by the Nomination and Remuneration Committee taking into account market conditions and comparable salary levels for companies of a similar size and operating in similar sectors.





The Company operates in the mineral exploration and development sector with the majority of its funds allocated to specific exploration programs and new business development activities. Due to the nature of the company's business activities the board has determined that issuing executives with securities in Reed Resources as a key component of the incentive portion of their remuneration packages to be an effective method in both retaining valued staff and aligning their goals with that of shareholders. The board considers that each executive's experience will greatly assist the company advance its current projects to the next stage of development and to identify new projects. As such, the board believes that the number of incentive securities granted to executives is commensurate to their value to the company.

The Company adopted a Performance Rights Plan (PRP) for its staff, including the KMP, in July 2011. The board believes that the PRP will assist the Company in remunerating and providing ongoing incentives to employees of the Company.

The rules of the PRP enable the Company to issue performance rights to eligible personnel subject to performance and vesting conditions determined by the Company. Each performance right entitles the holder, for nil cash consideration, to one fully paid ordinary share in the Company for every performance right offered, if the applicable performance and vesting conditions set for that holder are satisfied.

During the financial year a total of 10,000 performance rights were offered to and accepted by KMP.

Due to the uncertain nature of the company's business activities, that is mineral exploration, the board has determined that it is appropriate that KMP are issued with Performance Rights which provide the KMP with shares in Reed Resources. Other than service-based vesting conditions, there are no additional performance criteria on the incentive securities granted to executives.

All remuneration provided to KMP in the form of share based payments are valued at cost to the Company and expensed on a pro rata basis over the vesting period of the relevant security.

To date the Company's principal activities have been the exploration for minerals and the ongoing evaluation of these projects to determine if they can be brought into production or sold for value. As the Company does not currently hold any operating projects which generated income the board does not consider current or prior year earnings when assessing remuneration of key management personnel.

As a result of the Company's exploration and business development activities, the board anticipates that it will retain future earnings (if any) and other cash resources for the operation and development of its business. Accordingly, the Company does not currently have a policy with respect to the payment of dividends, and as a result the remuneration policy does not take into account the level of dividends or other distribution to shareholders (e.g. return of capital). In addition, the board does not directly base remuneration levels on the Company's share price or movement in the share price over time. However, as noted above a number of KMP have received incentive options and performance rights, the value of which is dependent on the company's share price. To date remuneration packages for executive KMPs contain the following key elements:

- a) Fixed Base Salary – salary, superannuation and non-monetary benefits;
- b) Short term incentives – cash bonus incentives applied to a maximum percentage of Fixed Base Salary and structured against relative satisfaction (at the reasonable discretion of the Board) of certain corporate and personally related key performance indicators of the executive.
- c) Long term incentives – the grant of Performance Rights in the Company, with value capped to a maximum percentage of Fixed Base Salary, vesting progressively on an annualised basis while the executive remains engaged, with the degree of vesting structured relatively against the company's relative Total Shareholder Return (TSR) performance against a comparator group of companies.

The committee's remuneration policies are designed to align executive's remuneration with shareholders' interests and to retain appropriately qualified executive talent for the benefit of the Company. The main principles of the policies are that:

- shareholder interests and employee interests are aligned;
- the Company is able to attract, develop and retain superior talent; and
- the integrity of the Company's reward program is maintained.

# Directors' Report

## Remuneration policy for key management personnel (continued)

### Relationship between the remuneration policy and company performance

The tables below set out summary information about the consolidated entity's earnings and movements in shareholder wealth for the five years to June 2012:

	30 June 2012 \$	30 June 2011 \$	30 June 2010 \$	30 June 2009 \$	30 June 2008 \$
Revenue	-	347,821	2,883,931	3,593,481	1,972,498
Net loss before tax	(30,983,345)	(4,738,594)	(3,484,481)	(3,629,760)	(4,439,216)
Net loss after tax	(30,983,345)	(3,353,586)	(2,666,815)	(2,468,834)	(3,179,303)
Share price at start of year	0.50	0.60	0.24	1.03	0.46
Share price at end of year	0.205	0.50	0.60	0.24	1.03
Market capitalisation at year end (undiluted)	94,853,822	131,118,600	106,362,881	33,036,000	139,513,500
Basic loss per share	(0.0966)	(0.0150)	(0.0161)	(0.0180)	(0.0283)
Diluted loss per share	(0.1061)	(0.0150)	(0.0161)	(0.0180)	(0.0283)
Dividends Paid	Nil	Nil	Nil	Nil	Nil

### Key management personnel remuneration

The key management personnel received the following amounts as compensation for their services as directors and executives of the Company and/or the Group during the year:

2012	Short-term employee benefits				Post em- ployment benefits	Termi- nation benefits \$	Share- based payment	Total \$	% Con- sisting of options
	Salary & fees \$	Bonus \$	Non- monetary \$	Other \$	Super- annua- tion \$		Options and rights \$		
Non-executive directors									
S. Cole	71,101	-	-	-	6,399	-	-	77,500	-
P. Collins	52,752	-	-	-	4,748	-	-	57,500	-
V. Guthrie	52,752	-	-	-	4,748	-	-	57,500	-
I. Junk	52,752	-	-	-	4,748	-	-	57,500	-
	229,357	-	-	-	20,643	-	-	250,000	
Executive directors									
C. Reed <sup>(1)</sup>	455,585	70,000	-	-	35,092	-	62,815	623,492	10.07
D. Reed <sup>(2)</sup>	151,376	22,936	-	-	15,688	-	31,407	221,407	14.19
L. Tonkin <sup>(3)</sup>	82,140	-	-	-	-	-	-	82,140	-
	689,101	92,936	-	-	50,780	-	94,222	927,039	
Other executives									
J. Carone	180,000	-	-	-	16,200	-	29,560	225,760	13.09
C. Fawcett	260,000	30,000	10,699	-	26,100	-	31,200	357,999	8.72
D. Lim <sup>(4)</sup>	55,087	-	-	-	4,958	-	-	60,045	-
D. Wates	210,000	-	-	-	18,900	-	48,459	277,359	17.47
	705,087	30,000	10,699	-	66,158	-	109,219	921,163	
Total	1,623,545	122,936	10,699	-	137,581	-	203,441	2,098,202	

(1) C. Reed's salary includes an amount of \$ 65,677 for long service paid out during the financial year.

(2) D. Reed was Executive Chairman until 30 June 2012. On 1 July 2012 D. Reed became a non-executive director.

(3) L. Tonkin commenced employment on 14 May 2012.

(4) D. Lim commenced employment on 11 April 2012.

In reference to (3) above, subject to shareholder approval Mr L Tonkin is entitled to receive a sign-on award of 883,000 shares and 1,667,000 performance rights vesting in equal annual tranches until 30 June 2014. This was approved by shareholders at the Company's Extraordinary General Meeting held on 12 July 2012.

2011	Short-term employee benefits				Post employment benefits	Termination benefits \$	Share-based payment	Total \$	Consisting of options %
	Salary & fees \$	Bonus \$	Non-monetary \$	Other \$	Super-annuation \$		Options and rights \$		
Non-executive directors									
S. Cole	50,000	-	-	-	4,500	-	39,312	93,812	41.90
P. Collins	40,000	-	-	-	3,600	-	19,656	63,256	31.07
V. Guthrie	2,051	-	-	-	185	-	-	2,236	-
I. Junk	40,000	-	-	-	3,600	-	19,656	63,256	31.07
	132,051	-	-	-	11,885	-	78,624	222,560	
Executive directors									
C. Reed	250,000	-	-	-	22,500	-	400,220	672,720	59.49
D. Reed	125,000	-	-	-	11,250	-	200,110	336,360	59.49
	375,000	-	-	-	33,750	-	600,330	1,009,080	
Other executives									
J. Carone	145,301	30,000	4,011	-	16,200	-	76,554	272,066	28.14
C. Fawcett	205,000	-	-	-	18,450	-	106,426	329,876	32.26
D. Wates	113,978	-	-	-	10,258	-	16,644	140,880	11.81
	464,279	30,000	4,011	-	44,908	-	199,624	742,822	
Total	971,330	30,000	4,011	-	90,543	-	878,578	1,974,462	



# Directors' Report

## Remuneration policy for key management personnel (continued)

### Service agreements - performance based remuneration

The KMP of the Company, other than non-executive directors, are employed under Service Agreements.

A summary of performance conditions for relevant KMP are detailed below:

**Name:** Mr J. Carone

**Position:** Financial Controller/ Company Secretary (Joint)

**Term:** No defined term

### Incentive based remuneration

#### Short Term Incentive

Each financial year during the term of his Service Agreement the board, at its sole discretion, may award the KMP a cash bonus of up to 25% of the KMP's annual Salary Package (currently \$228,900 inclusive of superannuation). The basis for the calculating the STI will be a range of criteria including both the KMP's personal performance and the company financial performance/position and share price.

#### Long Term Incentive

Each financial year during the term of his Service Agreement the KMP is entitled to receive up to 25% of their annual Salary Package (currently \$228,900 inclusive of superannuation) as Performance Rights granted under the company's Performance Rights Plan, subject to satisfaction of the following criteria.

#### Criteria

The KMP's entitlement to Performance Rights under the incentive scheme is based on Total Shareholder Return (TSR) over the calculation period (1 year) and will be calculated as follows:

1. If the Company's TSR is below the 45th percentile of the Comparator Group of companies no performance rights will vest.
2. If the Company's TSR ranks between the 45th and 50th percentile, for each percentile over the 45th percentile 10% of the Performance Rights will vest.
3. For each 1% ranking above the 51st percentile an additional 2% of the Performance rights will vest, with 100% vesting above the 76th percentile.

Performance rights granted to the KMP have a vesting period of 2 years from the end of the financial year in which they are granted and will lapse on the KMP ceasing to be an employee of the company prior to the vesting date.

**Name:** Mr C. Fawcett

**Position:** General Manager - Gold

**Term:** Termination date of 13 March 2015

### Incentive based remuneration

Mr Fawcett is entitled to cash bonuses on the satisfaction of the following corporate/financial milestones:

1. \$50,000 on the successful commissioning of the Bluebird plant to produce 100,000oz per annum.
2. \$50,000 payable on production of 100,000oz of gold bullion from the Bluebird plant.
3. \$50,000 payable on production of 200,000oz of gold bullion from the Bluebird plant.

Mr Fawcett is entitled to performance rights in accordance with the Company's Performance Rights Plan as set out below:

1. 150,000 performance rights vest on the first anniversary of the KMP's employment.
2. 150,000 performance rights vest on the second anniversary of the KMP's employment.
3. 150,000 performance rights vest on the third anniversary of the KMP's employment.

**Name:** Mr D. Lim

**Position:** Chief Financial Officer

**Term:** Termination date of 16 April 2015

### Incentive based remuneration

Mr Lim is entitled to cash bonuses on the satisfaction of the following corporate/financial milestones:

1. \$30,000 on the financial close of debt funding for the Meekatharra Gold Project, payable on the successful commissioning of the Project.
2. \$50,000 on certain key corporate/financial milestones relating to the development of the Meekatharra Gold Project and Barrambie Project.
3. \$70,000 on completion of a change of control/liquidity event with respect to the Mount Marion Lithium Project.

Mr Lim is entitled to performance rights in accordance with the Company's Performance Rights Plan as set out below:

1. 100,000 performance rights vest on the first anniversary of the KMP's employment.
2. 150,000 performance rights vest on the second anniversary of the KMP's employment.
3. 250,000 performance rights vest on the third anniversary of the KMP's employment.

These rights were granted subsequent to the end of the financial year.

**Name:** Mr C. Reed

**Position:** Executive Director

**Term:** Termination date of 30 June 2015

### Incentive based remuneration

#### Short Term Incentive

Each financial year during the term of his Service Agreement the board, at its sole discretion, may award the KMP a cash bonus of up to 33% of the KMP's annual Salary Package (currently \$446,900 inclusive of superannuation). The basis for the calculating the STI will be a range of criteria including both the KMP's personal performance and the company financial performance/position and share price.

#### Long Term Incentive

Each financial year during the term of his Service Agreement the KMP is entitled to receive up to 50% of their annual Salary Package (currently \$446,900 inclusive of superannuation) as Performance Rights granted under the company's Performance Rights Plan, subject to satisfaction of the following criteria, and shareholder approval.

#### Criteria

The KMP's entitlement to the Performance Rights under the incentive scheme is based on Total Shareholder Return (TSR) over the calculation period (1 year) and will be calculated as follows:

1. If the Company's TSR is below the 45th percentile of the Comparator Group of companies no performance rights will vest.
2. If the Company's TSR ranks between the 45th and 50th percentile, for each percentile over the 45th percentile 10% of the Performance Rights will vest.
3. For each 1% ranking above the 51st percentile an additional 2% of the Performance rights will vest, with 100% vesting above the 76th percentile.

# Directors' Report

## Remuneration policy for key management personnel (continued)

### Service agreements - performance based remuneration

Performance rights granted to the KMP vest on the grant date and lapse on the KMP ceasing to be an employee of the company prior to the vesting date.

**Name:** Mr L. Tonkin

**Position:** Managing Director and Chief Executive Officer

**Term:** Termination date of 30 June 2015

### Incentive based remuneration

#### Short Term Incentive

Each financial year during the term of his Service Agreement the board, at its sole discretion, may award the KMP a cash bonus of up to 50% of the KMP's annual Salary Package (currently \$599,500 inclusive of superannuation). The basis for the calculating the STI will be a range of criteria including both the KMP's personal performance and the company financial performance/position and share price.

#### Long Term Incentive

Each financial year during the term of his Service Agreement the KMP is entitled to receive up to 83.33% of their annual Salary Package (currently \$599,500 inclusive of superannuation) as Performance Rights granted under the company's Performance Rights Plan, subject to satisfaction of the following criteria, and shareholder approval.

#### Criteria

The KMP's entitlement to the Performance Rights under the incentive scheme is based on Total Shareholder Return (TSR) over the vesting period (1 year) and will be calculated as follows:

1. If the Company's TSR is below the 45th percentile of the Comparator Group of companies no performance rights will vest.
2. If the Company's TSR ranks between the 45th and 50th percentile, for each percentile over the 45th percentile 10% of the Performance Rights will vest.
3. For each 1% ranking above the 51st percentile an additional 2% of the Performance rights will vest, with 100% vesting above the 76th percentile.

Performance rights granted to the KMP vest on the grant date and lapse on the KMP ceasing to be an employee of the company prior to the vesting date.

**Name:** Mr D. Wates

**Position:** Legal Counsel/ Company Secretary (Joint)

**Term:** No defined term

### Incentive based remuneration

#### Short Term Incentive

Each financial year during the term of his Service Agreement the board, at its sole discretion, may award the KMP a cash bonus of up to 25% of the KMP's annual Salary Package (currently \$272,500 inclusive of superannuation). The basis for the calculating the STI will be a range of criteria including both the KMP's personal performance and the company financial performance/position and share price.

#### Long Term Incentive

Each financial year during the term of his Service Agreement the KMP is entitled to receive up to 25% of their annual Salary Package (currently \$272,500 inclusive of superannuation) as Performance Rights granted under the company's Performance Rights Plan, subject to satisfaction of the following criteria.

## Criteria

The KMP's entitlement to the Performance Rights under the incentive scheme is based on Total Shareholder Return (TSR) over the calculation period (1 year) and will be calculated as follows:

1. If the Company's TSR is below the 45th percentile of the Comparator Group of companies no performance rights will vest.
2. If the Company's TSR ranks between the 45th and 50th percentile, for each percentile over the 45th percentile 10% of the Performance Rights will vest.
3. For each 1% ranking above the 51st percentile an additional 2% of the Performance rights will vest, with 100% vesting above the 76th percentile.

Performance rights granted to the KMP have a vesting period of 2 years from the end of the financial year in which they are granted and will lapse on the KMP ceasing to be an employee of the company prior to the vesting date.

The Company provides the KMP with performance based incentives in order to incentivise KMP to pursue strategies that are aligned with the overall business strategy and the interests of the shareholders. Where deemed appropriate the Company has set specific Key Performance Indicators as performance criteria for staff that have a direct role/responsibility in achieving a specific outcome. To ensure that KMP are also incentivised to pursue longer term strategies that increase shareholder wealth a portion of the KMP's remuneration is linked to a "comparative TSR model" which links the level of the KMP remuneration to the Company's performance against a group of comparable ASX listed entities, using Total Shareholder Return as the basis of comparison. KMP are also issued with Performance Rights with service conditions as vesting criteria which assist the company retain staff as well as aligning the interests of the KMP with shareholders. The Company has deemed the issue of service based Performance rights as an appropriate form of remuneration due the uncertain nature of the company's business, that is, mineral exploration and the fact that the company does not yet have any operating projects.

For the purpose of determining the KMP's entitlement to Performance Right under the comparative TSR model detailed above, the Company has selected a range of gold focused ASX listed companies as the comparator group.

### List of comparator group of companies:

- |                                          |                                     |
|------------------------------------------|-------------------------------------|
| • Doray Minerals Ltd (ASX: DRM)          | • Silver Lake (ASX: SLR)            |
| • Evolution Mining (ASX: EVN)            | • Tanami Gold Ltd (ASX: TAM)        |
| • Focus Minerals Ltd (ASX: FML)          | • Unity Mining Ltd (ASX: UML)       |
| • Gold Road Resources Ltd (ASX: GOR)     | • St Barbara Ltd (ASX: SBM)         |
| • Northern Star Resources Ltd (ASX: NST) | • Millenium Minerals Ltd (ASX: MOY) |
| • Regis Resources Ltd (ASX: RRL)         | • Ramelius Resources (ASX: RMS)     |

The company has selected the above group of companies as the comparator group for the following reasons:

1. Represent a broad cross section of resource companies with respect to market capitalisation, resource base and phase of development.
2. Primarily focused on gold exploration and production in Western Australia.



# Directors' Report

## Performance Rights granted to key management personnel

The following tables summarises information relevant to the current financial year in relation to the grant of performance rights to KMP as part of their remuneration.

Name	Grant date	No. granted	No. vested	Fair value at grant date	Earliest exercise date	Consideration payable on exercise
Executives:						
D.Wates	1 August 2011	10,000	9,151	3,564	1 August 2012	Nil
Total		10,000	-	3,564		

Name	Grant date	Fair value of rights at grant date \$	Vested during the financial year %	Forfeited/ lapsed during the financial year %	Ordinary shares issued on exercise of rights \$
Executives:					
D. Wates	1 August 2011	3,564	91.51	-	-
Total		3,564	91.51	-	-

The performance rights granted entitle the grantee to one fully paid ordinary share in Reed Resources Ltd for nil consideration on satisfaction of the vesting criteria. KMP must satisfy a service period equal to the vesting period in order to exercise the performance rights.

## Share options granted to key management personnel

No share options were issued to KMP during the financial year as part of their remuneration.

## Non-audit services

Details of the amounts paid or payable to the auditor for the audit and non-audit services during the year are as follows:

	2012 \$	2011 \$
Auditor (Deloitte Touche Tohmatsu)		
Audit fees	94,716	70,495
Non-audit fees	-	30,381
	94,716	100,876

The directors are satisfied that the provision of non-audit services, during the year, by the auditor (or by another person or firm on the auditor's behalf) is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001.

The directors' are satisfied that the non-audit services provided did not compromise the external auditor's independence for the following reasons:

- all non-audit services are reviewed and approved by the directors' prior to commencement to ensure they do not adversely affect the integrity and objectivity of the auditor; and
- the nature of the services provided do not compromise the general principles relating to auditor independence as set out in the Institute of Chartered Accountants in Australia and CPA Australia's Professional Statement F1: Professional Independence.

## Auditor's independence declaration

The auditor's independence declaration is included on page 28 of the Annual Financial Report.

Signed in accordance with a resolution of directors made pursuant to s.298(2) of the Corporations Act 2001.

On behalf of the Directors,

A handwritten signature in black ink, appearing to read 'L. Tonkin', is shown within a light gray rectangular box.

Luke Tonkin

Managing Director

West Perth, WA 28 September 2012

# Auditor's Independence Declaration

for the year ended 30 June 2012



Deloitte Touche Tohmatsu  
ABN 74 490 121 060

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

28 September 2012

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 financial statements of Reed Resources Ltd for the financial year ended 30 June 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 audit; and
- (ii) any applicable code of professional conduct in relation to the audit.

Yours sincerely

**DELOITTE TOUCHE TOHMATSU**

**A T Richards**  
Partner  
Chartered Accountants

Liability limited by a scheme approved under Professional Standards Legislation.  
Member of Deloitte Touche Tohmatsu Limited

# Independent Auditor's Report

for the year ended 30 June 2012



Deloitte Touche Tohmatsu  
ABN 74 490 121 060

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

### Report on the Financial Report

We have audited the accompanying financial report of Reed Resources Ltd, which comprises the statement of financial position as at 30 June 2012, the statement of comprehensive income, the statement of cash flows and the statement of changes in equity for the year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity, comprising the company and the entities it controlled at the year's end or from time to time during the financial year as set out on pages 31 to 84.

### *Directors' Responsibility for the Financial Report*

The directors of the company are responsible for the preparation of the 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 financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error. In Note 2, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the consolidated financial statements comply with International Financial Reporting Standards.

### *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. Those 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 of the financial report that gives a true and fair view, 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*. 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 report.

Liability limited by a scheme approved under Professional Standards Legislation.  
Member of Deloitte Touche Tohmatsu Limited



# Independent Auditor's Report

for the year ended 30 June 2012

## Deloitte

### *Opinion*

In our opinion:

- (a) the financial report of Reed Resources Ltd is in accordance with the *Corporations Act 2001*, including:
  - (i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2012 and of its performance for the year ended on that date; and
  - (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and
- (b) the consolidated financial statements also comply with International Financial Reporting Standards as disclosed in Note 2.

### *Emphasis of matter*

Without modifying our opinion, we draw attention to Note 2 in the financial report, which indicates that the consolidated entity incurred a net loss of \$30,983,345 and had net cash outflows from operating and investing activities of \$24,853,600 for the year ended 30 June 2012. These conditions, along with other matters as set forth in Note 2, indicate the existence of a material uncertainty that may cast significant doubt about the company's and consolidated entity's ability to continue as going concerns and therefore, the company and consolidated entity may be unable to realise their assets and discharge their liabilities in the normal course of business.

### **Report on the Remuneration Report**

We have audited the Remuneration Report included in pages 18 to 26 of directors' report for the year ended 30 June 2012. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

### *Opinion*

In our opinion the Remuneration Report of Reed Resources Ltd for the year ended 30 June 2012, complies with section 300A of the *Corporations Act 2001*.



DELOITTE TOUCHE TOHMATSU



A T Richards

Partner

Chartered Accountants

Perth, 28 September 2012

# Directors' Declaration

for the year ended 30 June 2012

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) the attached financial statements are in compliance with International Financial Reporting Standards as stated in note 2 to the financial statements;
- (c) 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; and
- (d) the directors have been given the declarations required by s.295A of the Corporations Act 2001.

Signed in accordance with a resolution of the directors made pursuant to s.295(5) of the Corporations Act 2001.

On behalf of the Directors



Luke Tonkin  
Managing Director

28 September 2012





# Consolidated Statement of Comprehensive Income

for the year ended 30 June 2012

	Note	2012 \$	2011 \$
<b>Continuing operations</b>			
Revenue from sale of goods	5	-	347,821
Cost of sales before amortisation	5	-	(53,633)
Gross profit before amortisation		-	294,188
Amortisation expense	14	-	(230,775)
Gross profit		-	63,413
Other income	5	1,016,951	941,209
Loss on sale of equity instruments		(301,874)	-
(Loss)/gain on sale of property, plant and equipment		(319,221)	164,364
Loss on revaluation of financial asset held at fair value		(380,384)	-
Employee expenses	5	(3,421,582)	(3,021,365)
Occupancy expenses		(548,136)	(254,519)
Administration expenses		(2,800,716)	(2,095,203)
Finance costs	5	(1,089,208)	(8,527)
Other expenses		(35,026)	(221,195)
Impairment of non-current assets	14	(20,340,077)	(74,356)
Loss before income tax		(28,219,273)	(4,506,179)
Income tax benefit	6	-	1,321,233
<b>Loss for the period from continuing operations</b>		<b>(28,219,273)</b>	<b>(3,184,946)</b>
<b>Discontinued operations</b>			
Loss for the period from discontinued operations, net of tax	8	(2,764,072)	(168,640)
<b>Loss for the period</b>		<b>(30,983,345)</b>	<b>(3,353,586)</b>
Other comprehensive income		-	-
<b>Total comprehensive income for the period</b>		<b>(30,983,345)</b>	<b>(3,353,586)</b>
<b>Loss attributable to:</b>			
Owners of the Company	22	(30,983,345)	(3,353,586)
<b>Total comprehensive income attributable to:</b>			
Owners of the Company		(30,983,345)	(3,353,586)
<b>Loss per share</b>			
From continuing operations:			
Basic and diluted (cents per share)	23	(9.66)	(1.43)
From continuing and discontinued operations:			
Basic and diluted (cents per share)	23	(10.61)	(1.50)

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



# Consolidated Statement of Financial Position

for the year ended 30 June 2012

	Note	2012 \$	2011 \$
<b>Current assets</b>			
Cash and cash equivalents	34 (a)	25,612,420	13,824,448
Trade and other receivables	11	1,289,308	1,118,288
Other financial assets	12 (a)	6,123,499	28,431,001
Inventories	13	1,143,810	51,405
Current tax assets	6	-	286,923
		34,169,037	43,712,065
Assets classified as held for sale	7	6,168,749	4,269,580
<b>Total current assets</b>		40,337,786	47,981,645
<b>Non-current assets</b>			
Exploration, evaluation and development expenditure	14	38,509,686	41,701,430
Other financial assets	12 (b)	11,746,111	11,560,634
Property, plant and equipment	15	22,701,973	1,304,158
Deferred tax assets	6	7,387,199	7,320,136
<b>Total non-current assets</b>		80,344,969	61,886,358
<b>Total assets</b>		120,682,755	109,868,003
<b>Current liabilities</b>			
Trade and other payables	16	3,276,386	873,745
Other financial liabilities	17	3,015,205	9,400,000
Borrowings	19	47,668	-
Provisions	18	1,269,871	1,074,568
		7,609,130	11,348,313
Liabilities directly associated with held for sale assets	7	228,245	27,320
<b>Total current liabilities</b>		7,837,375	11,375,633
<b>Non-current liabilities</b>			
Provisions	18	7,461,708	698,511
<b>Total non-current liabilities</b>		7,461,708	698,511
<b>Total liabilities</b>		15,299,083	12,074,144
<b>Net assets</b>		105,383,672	97,793,859
<b>Equity</b>			
Issued capital	20	148,058,577	109,790,915
Accumulated losses	22	(47,698,088)	(16,714,743)
Reserves	21	5,023,183	4,717,687
<b>Total equity</b>		105,383,672	97,793,859

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

# Consolidated Statement of Changes in Equity

for the year ended 30 June 2012

	Issued Capital \$	Share based payments reserve \$	Accumulated losses \$	Total attributable to equity holders of the entity \$
Balance at 01/07/10	63,773,894	3,672,455	(13,361,157)	54,085,192
Loss for the period	-	-	(3,353,586)	(3,353,586)
<b>Total comprehensive loss for the period</b>	-	-	(3,353,586)	(3,353,586)
Recognition of share-based payments	-	1,045,232	-	1,045,232
Issue of share capital	48,164,951	-	-	48,164,951
Share issue costs, net of tax	(2,147,930)	-	-	(2,147,930)
<b>Balance at 30/06/11</b>	109,790,915	4,717,687	(16,714,743)	97,793,859
Loss for the period	-	-	(30,983,345)	(30,983,345)
<b>Total comprehensive loss for the period</b>	-	-	(30,983,345)	(30,983,345)
Recognition of share-based payments	-	305,496	-	305,496
Issue of share capital	40,844,464	-	-	40,844,464
Share issue costs, net of tax	(2,576,802)	-	-	(2,576,802)
<b>Balance at 30/06/12</b>	148,058,577	5,023,183	(47,698,088)	105,383,672

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

# Consolidated Statement of Cash Flows

for the year ended 30 June 2012

	Note	2012 \$	2011 \$
<b>Cash flows from operating activities</b>			
Receipts from customers		-	367,821
Payments to suppliers and employees		(6,305,893)	(4,278,762)
Interest received		487,371	1,012,799
Interest and other finance costs paid		(66,521)	-
Tax refunds		512,292	413,720
Net cash used in operating activities	34(c)	(5,372,751)	(2,484,422)
<b>Cash flows from investing activities</b>			
Exploration and development costs paid		(11,199,655)	(7,382,394)
Payment for financial assets		(3,746,331)	(21,275,001)
Proceeds from sale of financial assets		1,313,260	-
Payment for property, plant & equipment		(8,976,006)	(816,093)
Proceeds from sale of property, plant & equipment		115,000	232,000
Net proceeds from sale of subsidiary	27(b)	3,012,883	100,000
Net cash used in investing activities		(19,480,849)	(29,141,488)
<b>Cash flows from financing activities</b>			
Proceeds from issues of shares		39,591,790	47,499,951
Payment for share issue costs		(2,576,778)	(3,068,471)
Amounts advanced to related parties		(1,420,286)	-
Amounts received from related parties		1,260,026	-
Repayment of borrowings		(238,338)	-
Net cash provided by financing activities		36,616,414	44,431,480
<b>Net increase in cash and cash equivalents</b>		11,762,814	12,805,570
<b>Cash and cash equivalents at the beginning of the Financial Year</b>		13,882,948	1,285,378
<b>Transfer to other financial assets</b>		-	(208,000)
<b>Cash and cash equivalents at the end of the financial year</b>	34(a)	25,645,762	13,882,948

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

# Index to Notes to the Consolidated Financial Statements

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# Notes to the Consolidated Financial Statements

## 1. General information

Reed Resources Ltd is a for-profit public company, incorporated and domiciled in Australia, listed on the Australian Securities Exchange.

### Registered office and principal place of business

Level 1, 672 Murray St,  
West Perth WA 6005

## 2. Significant accounting policies

### Statement of compliance

The financial report is a general purpose financial report which has been prepared in accordance with the Corporations Act 2001, Accounting Standards and Interpretations, and complies with other requirements of the law. The financial statements comprise the consolidated financial statements of the Group. For the purpose of preparing the financial statements the consolidated entity is a for-profit entity.

Accounting Standards include Australian Accounting Standards. Compliance with Australian Accounting Standards ensures that the financial statements and notes of the company and the Group comply with International Financial Reporting Standards ('IFRS').

The financial statements were authorised for issue by the directors on 28 September 2012.

### Basis of preparation

The accounting policies adopted are consistent with those adopted and disclosed in the Company's 2011 Annual Financial Report for the Financial Year Ended 30 June 2011 except for the impact of the Standards and Interpretations described below. 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 Boards ('AASB') that are relevant to its operations and effective for the current reporting period beginning 1 July 2011.

The financial report has been prepared on the basis of historical cost except for the revaluation of certain non-financial 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.

### Going concern assumption


The financial report for Reed Resources Ltd 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.

The Consolidated Entity has incurred a net loss after tax of \$30,983,345 (including \$23,558,139 of impairment charges) (2011: Loss \$3,353,586) and experienced net cash outflows from operating and investing activities of \$24,853,600 (2011: \$31,625,910) for the year ended 30 June 2012.

During this same period the Company raised \$37,015,012 (2011: \$44,431,480) through capital raisings which have primarily been used to develop the Company's projects through the acquisition and development of the Meekatharra Gold Project and continued exploration and evaluation of its non-gold projects.

On 26 September 2012 Reed Resources Ltd executed a binding term sheet with Credit Suisse. Pursuant to this term sheet Credit Suisse will provide the company with a senior debt facility for \$19 million and a hedging facility. These facilities are subject to final documentation and due diligence which are expected to be finalised by the end of October 2012.

At present management has identified a shortfall in the funds required to execute Stage 1 of the Meekatharra Gold Project. The Company is actively engaged in raising additional funds to cover this shortfall which is also a condition precedent to the availability of the Credit Suisse debt facility.



The Directors have reviewed the Company's and Consolidated Entity's overall position and outlook in respect of the matters identified above and are of the opinion that the use of the going concern basis remains appropriate given the following:

- (i) The Directors have reviewed the quantum and timing of expenditure required to execute the Company's business strategy and the funds required in order for it to prudently commit to certain key contracts associated with its Meekatharra Gold Project. Should the Company be unable raise the funds required to execute tasks in the forecast timeframes, management will be required to implement a revised strategy of reduced activity and expenditure until such time as funds become available.
- (ii) The Directors have identified non-core assets, as disclosed in Note 7 to the financial report, which are intended to be disposed of, with completion expected to occur within 12 months from the date of signing this report.

At the date of this report the Company is at an advanced stage in its endeavours to raise the required funding and while there is no assurance that the steps taken, and to be taken, will be successful, the Directors are confident in the Company's ability to raise the necessary additional funds in order to continue to develop the Meekatharra Gold Project.

Should the Company be unable to secure additional funding a material uncertainty would exist as to whether the Company and Consolidated Entity will be able to continue as going concerns at planned levels of activity and therefore whether they will realise their assets and extinguish their liabilities in the normal course of business and at the amounts stated in the financial report.

The financial report does not include any adjustments relating to the recoverability and classification of recorded asset amounts or, to the amounts and classification of liabilities that might be necessary should the Company and Consolidated Entity not continue as going concerns.

### Standards and interpretations adopted in the current year

The Company has adopted all of the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board that are relevant to their operations and are effective for the current financial reporting period beginning 1 July 2011.

The following new and revised Standards and Interpretations have been adopted in the current period:

- AASB 124 'Related Party Disclosures' (revised December 2009) and AASB 2009-12 'Amendments to Australian Accounting Standards'
- AASB 1054 'Australian Additional Disclosures'
- AASB 2010-4 'Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project'
- AASB 2010-5 'Amendments to Australian Accounting Standards'
- AASB 2010-6 'Amendments to Australian Accounting Standards – Disclosures on Transfers of Financial Assets'

The impact of the adoption of these Standards and Interpretations did not have a material impact on the Company.

# Notes to the Consolidated Financial Statements

## 2. Significant accounting policies (continued)

### Statement of compliance (continued)

#### Standards and interpretations issued not yet effective

At the date of authorisation of the financial statements, the following Australian Accounting Standards and Interpretations have recently been issued or amended but are not yet effective and have not been adopted by the Company for the year ended 30 June 2012:

Standard	Effective for annual reporting periods beginning on or after	Expected to be initially applied in the financial year ending
• AASB 9 'Financial Instruments' (December 2009), AASB 2009-11 'Amendments to Australian Accounting Standards arising from AASB 9'	1 January 2013	30 June 2014
• AASB 10 'Consolidated Financial Statements'	1 January 2013	30 June 2014
• AASB 11 'Joint Arrangements'	1 January 2013	30 June 2014
• AASB 12 'Disclosure of Interests in Other Entities'	1 January 2013	30 June 2014
• AASB 127 'Separate Financial Statements' (2011)	1 January 2013	30 June 2014
• AASB 128 'Investments in Associates and Joint Ventures' (2011)	1 January 2013	30 June 2014
• AASB 13 'Fair Value Measurement' and AASB 2011-8 'Amendments to Australian Accounting Standards arising from AASB 13'	1 January 2013	30 June 2014
• AASB 119 'Employee Benefits' (2011) and AASB 2011-10 'Amendments to Australian Accounting Standards arising from AASB 119 (2011)'	1 January 2013	30 June 2014
• AASB 2010-8 'Amendments to Australian Accounting Standards – Deferred Tax: Recovery of Underlying Assets'	1 January 2012	30 June 2013
• AASB 2011-4 'Amendments to Australian Accounting Standards to Remove Individual Key Management Personnel Disclosure Requirements'	1 July 2013	30 June 2014
• AASB 2011-7 'Amendments to Australian Accounting Standards arising from the Consolidation and Joint Arrangements Standards'	1 January 2013	30 June 2014
• AASB 2011-9 'Amendments to Australian Accounting Standards – Presentation of Items of Other Comprehensive Income'	1 July 2012	30 June 2013
• AASB 2012-2 'Amendments to Australian Accounting Standards – Disclosures – Offsetting Financial Assets and Financial Liabilities'	1 January 2013	30 June 2014
• AASB 2012-3 'Amendments to Australian Accounting Standards – Offsetting Financial Assets and Financial Liabilities'	1 January 2014	30 June 2015
• AASB 2012-5 'Amendments to Australian Accounting Standards arising from Annual Improvements 2009-2011 Cycle'	1 January 2013	30 June 2014
• AASB 2012-6 'Amendments to Australian Accounting Standards -Mandatory Effective Date of AASB 9 and Transition Disclosures'	1 January 2013	30 June 2014

At the date of authorisation of the financial statements the following IASB Standards and IFRIC Interpretations were also in issue but not yet effective, although Australian equivalent Standards and interpretations have not yet been issued and have not been adopted by the Company for the year ended 30 June 2012. The impact of these recently issued or amended standards and interpretations have not been determined by the Company.

Standard/Interpretation	Effective for annual reporting periods beginning on or after	Expected to be initially applied in the financial year ending
• Offsetting Financial Assets and Financial Liabilities (Amendments to IAS 32)	1 January 2014	30 June 2015
• Disclosures – Offsetting Financial Assets and Financial Liabilities (Amendments to IFRS 7)	1 January 2013	30 June 2014
• Mandatory Effective Date of IFRS 9 and Transition Disclosures (Amendments to IFRS 9 and IFRS 7)	1 January 2015	30 June 2016
• Annual Improvements 2009-2011 cycle	1 January 2013	30 June 2014

## Critical accounting judgments and key sources of estimation uncertainty

In the application of the Group's accounting policies, management is required to make judgments, estimates and assumptions about carrying values of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods. Refer to Note 3 for a discussion of critical judgments in applying the entity's accounting policies, and key sources of estimation uncertainty.

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

### (a) Cash and cash equivalents

Cash comprises cash on hand and demand deposits. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

### (b) Employee benefits

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

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

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

Contributions to defined contribution superannuation plans are expensed when incurred.

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

#### Debt and equity instruments

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

#### Financial liabilities

Financial liabilities are classified as either financial liabilities 'at fair value through profit or loss' or other financial liabilities.

# Notes to the Consolidated Financial Statements

## 2. Significant accounting policies (continued)

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

#### Financial liabilities at fair value through profit or loss

Financial liabilities are classified as at fair value through profit or loss where the financial liability is either held for trading or it is designated as at fair value through profit or loss.

A financial liability is held for trading if:

- It has been incurred principally for the purpose of repurchasing in the near future; or
- It is a part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- It is a derivative that is not designated and effective as a hedging instrument.

A financial liability other than a financial liability held for trading is designated as at fair value through profit or loss upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and AASB 139 'Financial Instruments: Recognition and Measurement' permits the entire combined contract (asset or liability) to be designated as at fair value through profit or loss.

Financial liabilities at fair value through profit or loss are stated at fair value, with any resultant gain or loss recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any interest paid on the financial liability. Fair value is determined in the manner described in Note 2 (o).

#### Other financial liabilities

Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs. Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis. The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

#### Transaction costs on the issue of equity instruments

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



## Interest and dividends

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

## (d) Goods and service tax

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

- i) where the amount of GST incurred is recoverable from the taxation authority, it is recognised as part of the cost of acquisition of an asset or as part of an item of expense; or
- ii) for receivables and payables which are recognised inclusive of GST.

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

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

## (e) Non-current assets held for sale

Non-current assets and their disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than continuing use. This condition is regarded as met only when the sale is highly probable and the non-current asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

When the Group is committed to a sale plan involving loss of control of a subsidiary, all of the assets and liabilities of that subsidiary are classified as held for sale when the criteria described above are met, regardless of whether the Group will retain a non-controlling interest in its former subsidiary after the sale. Non-current assets (and disposal groups) classified as held for sale are measured at the lower of their previous carrying amount and fair value less cost to sell.

## (f) Impairment of assets

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

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

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

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

# Notes to the Consolidated Financial Statements

## 2. Significant accounting policies (continued)

### (g) Income tax

#### Current tax

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

#### Deferred tax

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

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

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

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


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

#### Current and deferred tax for the period

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

#### Tax consolidation

The Company and all its wholly-owned Australian resident entities are part of a tax-consolidated group under Australian taxation law. Reed Resources Ltd is the head entity in the tax-consolidated group. Income tax expense/benefit, deferred tax liabilities and deferred tax assets arising from temporary differences of the members of the tax consolidated group are recognised in the separate financial statements of the members of the tax consolidated group using a 'group allocation' approach based on the allocation specified in the tax funding arrangement.



The tax funding arrangement requires a notional current and deferred tax calculation for each entity as if it were a taxpayer in its own right, except that unrealised profits, distributions made and received and capital gains and losses and similar items arising on transactions within the tax consolidated group are treated as having no consequence. Current tax liabilities and assets and deferred tax assets arising from unused tax losses and tax credits of the members of the tax consolidated group are recognised by the Company (as head entity in the tax consolidated group).

Due to the existence of a tax funding arrangement between the entities in the tax consolidated group, amounts are recognised as payable to or receivable by the Company and each member of the group in relation to the tax contribution amounts paid or payable between the parent and the other members of the tax consolidated group in accordance with the arrangement.

Where the tax contribution amount recognised by each member of the tax consolidated group for a particular period is different to the aggregate of the current tax liability or asset and any deferred tax asset arising from the unused tax losses and tax credits in respect of that period, the difference is recognised as a contribution from, or distribution to, equity participants.

### **(h) Exploration and evaluation expenditure**

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

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

Capitalised exploration costs for each area of interest (considered to be the cash generating unit) are reviewed each reporting date to test whether an indication of impairment exists. If any such indication exists, the recoverable amount of the capitalised exploration costs is estimated to determine the extent of the impairment loss (if any). The recoverable amount for capitalised exploration costs has been determined as the fair value less costs to sell by reference to an active market. Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but only to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in previous years.

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

### **Development expenditure**

Development expenditure is recognised at cost less any impairment losses. Where commercial production in an area of interest has commenced, the associated costs are amortised over the life of the reserves associated with the area of interest. Changes in factors such as estimates of proved and probable reserves that effect unit-of-production calculations are dealt with on a prospective basis.

### **Provision for restoration and rehabilitation**

A provision for restoration and rehabilitation is recognised when there is a present obligation as a result of development, production, transportation or storage activities undertaken, it is probable that an outflow of economic benefits will be required to settle the obligation, and the amount of the provision can be measured reliably. The estimated future obligations include the costs of restoring the affected areas.

The provision for future restoration costs is the best estimate of the present value of the expenditure required to settle the restoration obligation at the reporting date. Future restoration costs are reviewed annually and any changes in the estimate are reflected in the present value of the restoration provision at each reporting date.

# Notes to the Consolidated Financial Statements

## 2. Significant accounting policies (continued)

### (h) Exploration and evaluation expenditure (continued)

#### Provision for restoration and rehabilitation (continued)

The initial estimate of the restoration and rehabilitation provision relating to development is capitalised into the cost of the related asset and depreciated over the estimated remaining life of the asset on a straight line basis. Changes in the estimate of the provision for restoration and rehabilitation are treated in the same manner, except that the unwinding of the effect of discounting on the provision is recognised as a finance cost rather than being capitalised into the cost of the related asset.

### (i) Payables

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

### (j) Principles of consolidation

The consolidated financial statements are prepared by combining the financial statements of all the entities that comprise the consolidated entity, being the Company (the parent entity) and its subsidiaries as defined in Accounting Standard AASB 127 'Consolidated and Separate Financial Statements'. A list of subsidiaries appears in Note 30 to the financial statements. Consistent accounting policies are employed in the preparation and presentation of the consolidated financial statements.

On acquisition, the assets, liabilities and contingent liabilities of a subsidiary are measured at their fair values at the date of acquisition. Any excess of the cost of acquisition over the fair values of the identifiable net assets acquired is recognised as goodwill. If, after reassessment, the fair values of the identifiable net assets acquired exceeds the cost of acquisition, the excess is credited to profit and loss in the period of acquisition. The consolidated financial statements include the information and results of each subsidiary from the date on which the Company obtains control and until such time as the Company ceases to control such entity. In preparing the consolidated financial statements, all inter-company balances and transactions, and unrealised profits arising within the consolidated entity are eliminated in full.

### (k) Property, plant and equipment

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

Depreciation is calculated on a diminishing value basis so as to write off the net cost or other re-valued amount of each asset over its expected useful life to its estimated residual value. The estimated useful lives, residual values and depreciation method are reviewed at the end of each annual reporting period with the effect of any changes recognised on a prospective basis.

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

Furniture & Fittings	5-20 years
Plant and Equipment	2-10 years
Buildings	10-20 years

An item of property, plant and equipment is derecognised upon disposal when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit and loss.

## **(l) Provisions**

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

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at reporting date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows. When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognised as an asset if it is virtually certain that recovery will be received and the amount of the receivable can be measured reliably.

## **(m) Revenue recognition**

Revenue is measured at the fair value of the consideration received or receivable.

### **Sale of goods**

Revenue from the sale of goods is recognised when the consolidated entity has transferred to the buyer the significant risks and rewards of ownership of the goods.

### **Dividend and interest revenue**

Dividend revenue from investments is recognised when the shareholder's right to receive the payment has been established. Interest revenue is recognised on a time proportionate basis that takes into account the effective yield on the financial asset.

## **(n) Joint ventures**

### **Jointly controlled assets and operations**

Interests in jointly controlled assets and operations are reported in the financial statements by including the consolidated entity's share of assets employed in the joint ventures, the share of liabilities incurred in relation to the joint ventures and the share of any expenses incurred in relation to the joint ventures in their respective classification categories.

## **(o) Share-based payments**

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

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

## **(p) Financial assets**

Subsequent to initial recognition, investments in subsidiaries are measured at cost in the Company's financial statements. Other financial assets are classified into the following specified categories: financial assets 'at fair value through profit or loss', 'held-to-maturity investments', 'available-for-sale' financial assets, and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All of the Company's and group financial assets are classified as loans and receivables.

### **Loans and receivables**

Trade receivables, loans, and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as 'loans and receivables'. Loans and receivables are measured at amortised cost using the effective interest method less impairment.

Interest income is recognised by applying the effective interest rate.



# Notes to the Consolidated Financial Statements

## 2. Significant accounting policies (continued)

### (p) Financial assets (continued)

#### Impairment of financial assets

Financial assets, other than those at fair value through profit or loss, are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that as a result of one or more events that occurred after the initial recognition of the financial asset the estimated future cash flows of the investment have been impacted. For financial assets carried at amortised cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables where the carrying amount is reduced through the use of an allowance account. When a trade receivable is uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

With the exception of available-for-sale equity instruments, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised. In the case of available-for-sale equity instruments, the reversal is recognised directly in equity.

### (q) Leased assets

Leases are classified as finance leases when the terms of the lease transfer substantially all the risks and rewards incidental to ownership of the leased asset to the lessee. All other leases are classified as operating leases.

Assets held under finance leases are initially recognised at their fair value or, if lower, at amounts equal to the present value of the minimum lease payments, each determined at the inception of the lease. The corresponding liability to the Lessor is included in the balance sheet as a finance lease obligation.

Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Group's general policy on borrowing costs.

Contingent rentals are recognised as expenses in the periods in which they are incurred. Finance leased assets are amortised on a straight line basis over the estimated useful life of the asset.

Operating lease payments are recognised as an expense on a straight-line basis over the least term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they incurred.

### (r) Inventories

Work in progress and finished goods inventories are measured at the lower of cost and net realisable value. Costs are assigned on a weighted average basis and comprise all costs of purchase, costs of conversion and any other costs incurred in bringing inventories to their present location and condition. Costs of conversion include costs relating directly to production in addition to an apportionment of fixed and variable production overhead expenses, and include costs such as depreciation and amortisation. Net realisable value is the estimated selling price in the ordinary course of business less estimated costs of completion and any estimated selling costs. Consumable stores inventory are measured at the cost of acquisition.

### 3. Critical accounting judgments and key sources of estimation uncertainty

In the application of the Group's accounting policies, which are described in Note 2, management is required to make judgments, estimates and assumptions about carrying values of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstance, the results of which form the basis of making the judgments. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

#### 3.1 Critical judgments in applying the entity's accounting policies

The following are the critical judgments that management has made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the financial statements.

##### (a) Recovery of capitalised exploration evaluation and development expenditure

The Group capitalises exploration, evaluation and development expenditure incurred on ongoing projects. The recoverability of this capitalised exploration expenditure is entirely dependent upon returns from the successful development of mining operations or from surpluses from the sale of the projects or the subsidiary companies that control the projects. At the point that it is determined that any capitalised exploration expenditure is definitely not recoverable, it is written off.

##### (b) Share-based payments

Equity-settled share-based payments granted are measured at fair value at the date of grant. The fair value of share options is measured by use of the Black Scholes model and requires substantial judgement. Management has made its best estimate for the effects of non-transferability, exercise restrictions (including the probability of meeting market conditions attached to the option), and behavioural considerations.

The fair value of performance rights issued during the period was made with reference to the parent entity's closing share price on the date of grant. Management has been required to estimate the probability that the employee will meet the performance criteria determined by the Board and that the employee will remain with the Company.

##### (c) Rehabilitation provision

The Group is required to perform a detailed assessment of its provision for rehabilitation at each reporting date. Significant estimates and assumptions are made in determining the provision for mine rehabilitation as there are numerous factors that will affect the ultimate amount payable. These factors include estimates of the extent and costs of rehabilitation activities, technological changes, regulatory changes, cost increases and changes in discount rates. These uncertainties may result in future actual expenditure differing from the amounts currently provided. The provision at reporting date represents management's best estimate of the present value of the future rehabilitation costs required. This estimate is completed with the assistance of external consultants having substantial expertise in the area of mine rehabilitation.

# Notes to the Consolidated Financial Statements

## 3. Critical accounting judgments and key sources of estimation uncertainty (continued)

### 3.2 Key areas of estimation uncertainty

The following are key assumptions concerning the future, or other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

#### (a) Capitalised development and evaluation assets

Certain assumptions are required to be made in order to assess the recoverability of long-lived assets. Key assumptions include the future price of gold, future cash flows, an estimated discount rate and estimates of recoverable gold ounces. In addition, cash flows are projected over the life of mine, which is based on indicated ore resources. Estimates of ore are dependent on various assumptions. Changes in these estimates could materially impact on ore reserves, and could therefore affect estimates of future cash flows used in the assessment of recoverable amount. The carrying amount of development and evaluation assets which is included in the consolidated statement of financial position at 30 June 2012 is \$38.5 million (2011: \$41.7 million) after an impairment loss of \$23.5 million was recognised during 2012 (2011: \$0.74 million). Details of the impairment loss are included in note 14.

The Company estimates its mineral resources based on information compiled by Competent Persons (as defined in the JORC code). In estimating the remaining life of the mine for the purpose of amortisation and depreciation calculations, due regard is given, not only to the amount of remaining recoverable gold ounces, but also to limitations which could arise from the potential for changes in technology, demand, and other issues which are inherently difficult to estimate over a lengthy timeframe.

Where a change is estimated recoverable gold ounces contained in indicated resources is made, depreciation and amortisation is accounted for prospectively.

The determination of indicated resources and remaining mine life affects the carrying of value of a number of the Consolidated Entity's assets and liabilities including deferred mining costs and the provision for rehabilitation.

#### (b) Value of deferred tax assets

Deferred income tax assets, including those arising from un-utilised tax losses, require management to assess the likelihood that the Group will generate sufficient taxable earnings in future periods, in order to utilise recognised deferred income tax assets. Assumptions about the generation of future taxable profits depend on management's estimates of future cash flows. These estimates of future taxable income are based on forecast cash flows from operations (which are impacted by production and sales volumes, commodity prices, reserves, operating costs, closure and rehabilitation costs, capital expenditure, dividends and other capital management transactions) and judgement about the application of existing tax laws in Australia. To the extent that future cash flows and taxable income differ significantly from estimates, the ability of the Group to realise the net deferred income tax assets recorded at the reporting date could be impacted.

In addition, future changes in tax laws in Australia could limit the ability of the Group to obtain tax deductions in future periods.

The carrying amount of deferred tax assets which is included in the consolidated statement of financial position at 30 June 2012 is \$7.4 million (2011: \$7.3 million).

## 4. Parent entity disclosure

	2012 \$	2011 \$
<b>Financial Position</b>		
<b>Assets</b>		
Current assets	21,247,430	13,990,521
Non-current assets	92,593,595	86,153,807
<b>Total assets</b>	<b>113,841,025</b>	<b>100,144,328</b>
<b>Liabilities</b>		
Current liabilities	659,344	759,911
Non-current liabilities	19,919	8,570
<b>Total liabilities</b>	<b>679,263</b>	<b>768,481</b>
<b>Equity</b>		
Issued capital	148,058,577	109,790,915
Retained earnings	(39,919,998)	(15,132,755)
<b>Reserves</b>		
Share based payments	5,023,183	4,717,687
<b>Total equity</b>	<b>113,161,762</b>	<b>99,375,847</b>
<b>Financial Performance</b>		
<b>Loss for the year</b>	<b>(24,787,243)</b>	<b>(3,205,240)</b>
Other comprehensive income	-	-
<b>Total comprehensive income</b>	<b>(24,787,243)</b>	<b>(3,205,240)</b>
<b>Guarantees entered into on behalf of subsidiaries <sup>(i)</sup></b>	<b>8,700,000</b>	<b>8,771,634</b>
<b>Contingent liabilities</b>		
Contingent liability arising from interest in joint ventures <sup>(ii)</sup>	(80,000)	(80,000)
<b>Contingent liability arising from MoU <sup>(iii)</sup></b>	<b>-</b>	<b>(234,490)</b>
	<b>(80,000)</b>	<b>(314,490)</b>
Commitments for exploration, evaluation and development <sup>(iv)</sup>	-	(433,310)

- (i) Barramie Gas Pty Ltd, a wholly owned subsidiary of the Company, is party to a gas transmission agreement with DBNGP (WA) Transmission Pty Ltd for the Barramie Project. As part of this agreement the parent entity was required to procure term deposits of \$8.7 million from its bankers as security. Refer to Note 12(b) for details.
- (ii) As part of the Mt Finnerty Project joint venture agreement with Cliffs Asia Pacific Iron Ore Pty Ltd ("Cliffs"), the Company agreed to provide an indemnity in respect of performance bonds provided to the Department of Mines and Petroleum by Cliffs. Refer to Note 25 for details.
- (iii) In the prior year the Company had entered into a memorandum of understanding (MoU) for the development of the Barramie Project. The agreement has terminated in the current period and there are no outstanding contingent liabilities at 30 June 2012. Refer to note 25 for details.
- (iv) The Company had been committed to certain exploration and evaluation expenditure by virtue of contracts entered into by its wholly owned subsidiary GMK Exploration Pty Ltd for the Meekatharra Gold Project. These obligations were settled in the current period and are reflected in the financial statements.

# Notes to the Consolidated Financial Statements

## 5. Loss for the year

	2012 \$	2011 \$
<b>(a) Income</b>		
Income from operations consisted of the following items:		
Revenue from the sale of goods	-	347,821
Other income:		
Interest revenue	790,813	883,974
Statutory refunds and grants	221,777	24,481
Other	4,361	32,754
	1,016,951	941,209
<b>(b) Loss before Income Tax</b>		
Loss before income tax has been arrived at after charging the following expenses:		
Finance costs:		
Borrowing costs	(449,566)	-
Facility fees	(80,025)	-
Unwinding of provision for rehabilitation	(544,412)	(8,523)
Other	(15,205)	(4)
	(1,089,208)	(8,527)
Cost of goods sold	-	(284,408)
Impairment of non-current assets <sup>(i)</sup>	(20,340,077)	(74,356)
Depreciation of non-current assets	(223,542)	(243,507)
(Loss)/gain on sale of plant and equipment	(319,221)	164,364
Loss on financial asset held at fair value <sup>(ii)</sup>	(380,384)	-
Loss on sale of equity instruments <sup>(iii)</sup>	(301,874)	-
Employee benefits expense:		
Equity settled share-based payments	(305,496)	(1,045,232)
Defined contribution plans	(208,207)	(142,512)
Other employee benefits	(2,907,879)	(1,833,621)
	(3,421,582)	(3,021,365)

- (i) Impairment expense relates to the exploration, evaluation and development assets for continuing operations (\$20,340,077). The impairment expense of discontinued operations (\$3,218,062) is shown at note 8. Refer to note 14 for further details of the impairment of these assets.
- (ii) The Company purchased put options for 70,000 oz of gold with a view to underpinning the hedging program for the company's Meekatharra Gold Project. These options expired unexercised on 19 September 2012. The loss represents the movement in fair value up to 30 June 2012. Refer to note 12(a) for additional information on the option purchase.
- (iii) The Company recorded a loss on disposal of fully paid ordinary shares acquired as part consideration for disposal of its subsidiary Kalgoorlie Ore Treatment Pty Ltd. Refer to note 27 for details of the disposal.



## 6. Income taxes continuing operations

	2012 \$	2011 \$
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### Continuing operations

#### (a) Income tax recognised in profit or loss

##### Tax income comprises:

Current tax income	-	286,923
Deferred tax income relating to the origination and reversal of temporary differences	-	1,034,310
Total tax income	-	1,321,233

The prima facie income tax expense on pre-tax accounting profit from continuing operations reconciles to the income tax expense in the financial statements as follows:

Loss from continuing operations	(28,219,273)	(4,506,179)
Income tax calculated at 30%	8,465,782	1,351,854
Effect of expenses that are not deductible in determining taxable profit	(1,173,572)	(88,006)
Effect of research and development tax off-set	-	57,385
Current tax benefit not recognised during the period	(7,292,210)	-
	-	1,321,233

The tax rate used in the above reconciliation is the corporate tax rate of 30% payable by Australian corporate entities on taxable income under Australian tax law. There has been no change in the corporate tax rate during the reporting period.

For tax disclosures on discontinued operations refer to note 8.

#### (b) Deferred tax assets not brought to account

##### On income account:

Carry forward tax losses	7,900,936	-
Other	(214,294)	-
	7,686,642	-

##### On capital account

Share issue costs	217,862	-
	7,904,504	-

# Notes to the Consolidated Financial Statements

## 6. Income taxes (continued)

	2012 \$	2011 \$
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(c) Deferred tax balances are presented in the statement of financial position as follows:

### Continuing Operations

Deferred tax assets	16,186,273	16,521,047
Deferred tax liabilities	(8,799,074)	(9,200,911)
	7,387,199	7,320,136

### Classified as assets held for sale

Directly associated with assets held for sale	9,383	76,446
<b>Total recognised deferred tax balances</b>	<b>7,396,582</b>	<b>7,396,582</b>

Deferred tax assets have been recognised based upon the directors assessment of future probable taxable income arising from the development or sale of the Company's assets. Where the directors believe that there may be some uncertainty regarding the generation of adequate taxable income to utilise deferred tax assets of the company the deferred tax asset is not recognised in the statement of financial position until the directors assess otherwise.

### (d) Current tax balance

Current tax assets comprise:

Tax refund receivable	-	286,923
	-	286,923

Taxable and deductible temporary differences arise from the following:

2012	Consolidated			
	Opening Balance \$	Charged to Equity \$	Charged to Income \$	Closing Balance \$
<b>Gross deferred tax liabilities:</b>				
Capitalised expenditure	(9,200,911)	-	-	(9,200,911)
<b>Gross deferred tax assets:</b>				
Unclaimed share issue costs	1,132,102	-	-	1,132,102
Unclaimed borrowing costs	-	-	-	-
Unclaimed impairment of put options	-	-	-	-
Accrued expenses	71,654	-	-	71,654
Tax loss - revenue	15,393,737	-	-	15,393,737
	16,597,493	-	-	16,597,493
	7,396,582	-	-	7,396,582

2011	Consolidated			
	Opening Balance \$	Charged to Equity \$	Charged to Income \$	Closing Balance \$
<b>Gross deferred tax liabilities:</b>				
Capitalised expenditure	(7,686,297)	-	(1,514,614)	(9,200,911)
<b>Gross deferred tax assets:</b>				
Unclaimed share issue costs	624,074	920,541	(412,513)	1,132,102
Accrued expenses	38,522	-	33,132	71,654
Tax loss - revenue	12,401,657	-	2,992,080	15,393,737
	13,064,253	920,541	2,612,699	16,597,493
	5,377,956	920,541	1,098,085	7,396,582

## Tax consolidation

### Relevance of tax consolidation to the consolidated entity

The Company and its wholly-owned Australian resident entities have formed a tax-consolidated group and are therefore taxed as a single entity. The head entity within the tax-consolidated group is Reed Resources Ltd. The members of the tax-consolidated group are identified at note 30.

### Nature of tax funding arrangements and tax sharing agreements

Entities within the tax-consolidated group have entered into a tax funding arrangement and a tax sharing agreement with the head entity. Under the terms of the tax funding arrangement, Reed Resources Ltd and each of the entities in the tax consolidation group has agreed to pay a tax equivalent payment to or from the head entity, based on the current tax liability or current tax assets of the entity. Such amounts are reflected in amounts receivable from or payable to other entities in the tax consolidated group. The tax sharing agreement entered into between the members of the tax-consolidated group provides for the determination of the allocation of income tax liabilities between the entities should the head entity default on its payment obligations or if an entity should leave the tax-consolidated group. The effect of the tax sharing agreement is that each member's tax liability for tax payable by the tax-consolidated group is limited to the amount payable to the head entity under the tax funding arrangement.

## 7. Assets classified as held for sale

	2012 \$	2011 \$
Assets classified as held for sale <sup>(i), (ii)</sup>	6,168,749	4,269,580
Liabilities directly associated with assets classified as held for sale <sup>(i), (ii)</sup>	228,245	27,320

(i) In January 2012 the Board decided the Comet Vale Gold Project did not form part of the Company's core assets, and that it should be actively marketed for sale. Despite having received several offers to purchase the project, the Company believed these did not adequately reflect its value. Consequently a renewed marketing strategy has been undertaken with a view to disposing of the assets within the next 12 months.

(ii) Comparatives represent the assets and liabilities associated with the Nimbus Gold Project disposed of during the current period. Refer to note 27 for details.

# Notes to the Consolidated Financial Statements

## 7. Assets classified as held for sale (continued)

	2012 \$	2011 \$
<b>Classified as held for sale</b>		
Cash and cash equivalents	33,342	58,500
Trade and other receivables	1,409	22,623
Exploration, evaluation and development expenditure	6,021,849	280,605
Other financial assets	64,683	228,000
Property, plant & equipment	38,083	3,603,406
Deferred tax assets	9,383	76,446
Assets classified as held for sale	6,168,749	4,269,580
Trade and other payables	(3,014)	(22,357)
Provisions	(225,231)	(4,963)
Liabilities directly associated with assets classified as held for sale	(228,245)	(27,320)
<b>Net assets classified as held for sale</b>	5,940,504	4,242,260

## 8. Discontinued operations

### (i) Disposal of interest in Kalgoorlie Ore Treatment Company Pty Ltd

On 8 September 2011 the Group disposed of Kalgoorlie Ore Treatment Company Pty Ltd, which held the Nimbus Gold Project situated near Kalgoorlie, Western Australia. The proceeds on disposal included \$3.4 million cash consideration and \$1.6 million worth of MacPhersons Reward Gold Ltd (ASX: MRP) fully paid ordinary shares. The ordinary shares acquired were subsequently disposed of during the period. Details of the assets and liabilities disposed of, and the calculation of the gain on disposal are disclosed in note 27.

### (ii) Plan to dispose of the Comet Vale Gold Project

The Comet Vale Gold Project, situated near Kalgoorlie, Western Australia, has been actively marketed for sale during the period. Subsequent to the acquisition of the Meekatharra Gold Project it was decided the comparatively small scale of the Comet Vale Project rendered it a non-core asset.

### (iii) Analysis of loss for the year from discontinued operations

The combined results of the discontinued operations included in the consolidated statement of comprehensive income are set out below. The comparative loss from discontinued operations has been re-presented to include those operations classified as discontinued in the current year.

	2012 \$	2011 \$
<b>Loss for the year</b>		
Interest income	2,013	9,853
Impairment of non-current assets	(3,218,062)	-
Expenses	(116,585)	(242,268)
Loss before income tax	(3,332,634)	(232,415)
Attributable income tax benefit recognised	-	63,775
	(3,332,634)	(168,640)
Gain on disposal of operation	568,562	-
<b>Loss for the year from discontinued operations</b>	(2,764,072)	(168,640)

## 9. Key management personnel compensation

Details of key management personnel compensation are provided on pages 18-26 of the Directors' Report.

## 10. Share based payments

### Employee and executive share option plan

Reed Resources Ltd has an ownership based remuneration scheme for executives and employees (excluding directors). In accordance with the provisions of the scheme, as approved by shareholders at the Company's AGM on 26 November 2007. No share options were issued during the financial year ended 30 June 2012.

The following share-based payment arrangements to employees were in existence during the period:

Options series	Number	Grant date	Expiry date	Exercise price \$	Fair Value at grant date \$
Issued 14 September 2007	300,000	14/09/2007	31/12/2012	0.85	0.22
Issued 28 November 2007	1,500,000	28/11/2007	31/12/2012	0.85	0.22
Issued 9 December 2009	4,500,000	26/11/2009	30/06/2012	0.80	0.17
Issued 6 December 2010	4,000,000	25/11/2010	01/07/2012	1.00	0.08
Issued 15 September 2008	600,000	15/09/2008	30/06/2013	1.20	0.13
Issued 25 November 2008	1,250,000	25/11/2008	30/06/2013	1.20	0.03
Issued 26 July 2010	750,000	19/07/2010	01/07/2013	1.00	0.18
Issued 27 August 2010	2,400,000	20/08/2010	01/07/2013	1.00	0.12
Issued 7 September 2009	1,600,000	01/09/2009	31/12/2013	0.80	0.08
Issued 9 December 2009	850,000	26/11/2009	31/12/2013	0.80	0.24
Issued 8 April 2011	500,000	07/04/2011	01/07/2014	1.00	0.12
	18,250,000				



# Notes to the Consolidated Financial Statements

## 10. Share based payments (continued)

Option series	Inputs into the model				
	Grant date share price \$	Exercise price \$	Expected volatility %	Option life Years	Risk-free interest rate %
14 September 2007	0.61	0.85	63	5	6.27
28 November 2007	0.61	0.85	63	5	6.27
15 September 2008	0.57	1.20	64	5	6.53
25 November 2008	0.28	1.20	69	5	6.53
7 September 2009	0.37	0.80	73	4	3.95
9 December 2009	0.65	0.80	73	3	3.95
26 July 2010	0.595	1.00	64	3	4.70
27 August 2010	0.48	1.00	64	3	4.70
6 December 2010	0.53	1.00	64	2	4.70
8 April 2011	0.63	1.00	64	3	5.00

The following reconciles the outstanding share options granted under the executive and employee share option plan at the beginning and end of the financial year:

	2012		2011	
	Options No.	Weighted average exercise price \$	Options No.	Weighted average exercise price \$
Balance at beginning of the financial year	18,250,000	0.93	13,300,000	0.85
Granted during the financial year as compensation	-	-	7,650,000	1.00
Exercised during the financial year <sup>(i)</sup>	-	-	-	-
Lapsed during the financial year <sup>(ii)</sup>	(4,650,000)	0.81	(2,700,000)	0.75
Balance at the end of the financial year <sup>(iii)</sup>	13,600,000	0.97	18,250,000	0.93

(i) Exercised during the financial year

There were no share options exercised during the year (2011: Nil).

(ii) Lapsed during the financial year

There were 4,650,000 share options that lapsed during the financial year (2011: 2,700,000).

(iii) Balance at the end of the financial year

The share options outstanding at the end of the financial year had a weighted average exercise price of \$0.97 (2011: \$0.93), and a weighted average remaining contractual life of 281 days (2011: 578 days).

No share options were issued during the financial year ended 30 June 2012.

There were 285,000 performance rights issued to employees on 1 August 2011 that resulted in the issue of 77,500 ordinary shares in the Company on 1 August 2012 following satisfaction of the applicable vesting and performance criteria. The fair value of performance rights issued was determined by the closing share price on date of issue, applied to a probability factor reflecting the likelihood that both the service period would be satisfied and the Board would assess an employee's performance as meeting the required standard.

The total expense recognised for the period arising from share-based payment transactions and accounted for as equity-settled share-based payment transactions is \$305,496 (2011: \$1,045,232).

## 11. Trade and other receivables

	2012 \$	2011 \$
Current trade and other receivables		
Trade receivables <sup>(i)</sup>	68,798	889,370
Other receivables <sup>(ii)</sup>	508,705	31,538
Prepayments	226,636	56,832
Goods and services tax recoverable	485,169	140,548
	1,289,308	1,118,288

(i) The average settlement terms are 30 days and all amounts are considered recoverable.

(ii) Includes an amount of \$160,260 receivable from Mr C Reed (executive director). During the period the Company provided a loan to Mr Reed of \$150,000 at a commercial rate of interest that is adjusted in line with the official interest rate set by the Reserve Bank of Australia. Additional amounts of \$10,260 were paid on behalf of Mr C Reed and are due to be repaid by 31 December 2012. Refer to note 32 for further information.

## 12. Other financial assets

	2012 \$	2011 \$
<b>(a) Current</b>		
Option fee <sup>(i)</sup>	3,088,116	-
Restricted term deposit <sup>(ii)</sup>	3,035,072	-
Meekatharra Gold Project deposit <sup>(iii)</sup>	-	28,431,001
Other	311	-
	6,123,499	28,431,001

(i) During the year the Group via its wholly owned subsidiary GMK Exploration Pty Ltd, entered into a transaction with Barclays Bank to purchase put options over 70,000 oz of gold. The put options give the Company the right but not the obligation to sell gold at a price of \$1,560 per ounce on the 19th of September 2012. Refer to subsequent events note 33 for a description of the expiration of this contract and financial impact on the Group.

(ii) The amount represents security for a deferred premium payable to Barclays Bank under the purchase of put options detailed in (i) above. As part of the above transaction with Barclays Bank, a portion of the premium payable for the put options is deferred until the maturity date of 19 September 2012. GMK Exploration Pty Ltd is required to deposit funds with Barclays Bank to settle deferred premium payment obligation.

(iii) The Group entered into an agreement to purchase the Meekatharra Gold Project assets during the previous financial period via its wholly owned subsidiary GMK Exploration Pty Ltd. As part of this agreement the Company was required to pay a deposit on the acquisition cost. The transaction settled on 1 July 2011. Refer to note 28 for details of the assets acquired.

# Notes to the Consolidated Financial Statements

## 12. Other financial assets (continued)

	2012 \$	2011 \$
<b>(b) Non-current</b>		
Barrambie Gas term deposit <sup>(i)</sup>	8,700,000	8,700,000
Other bond term deposits <sup>(ii)</sup>	2,803,352	2,860,634
Option premiums <sup>(iii)</sup>	147,759	-
Rental bond term deposit	95,000	-
	<b>11,746,111</b>	<b>11,560,634</b>

- (i) Barrambie Gas Pty Ltd (Barrambie), a wholly owned subsidiary of the Company, is party to a gas transmission agreement with DBNGP (WA) Transmission Pty Ltd in relation to the Barrambie Project. As part of the agreement the Company is required to procure a term deposit from its bankers in the amount of \$8.7 million as security for Barrambie's contractual obligations. The value of the security represented the present value of the Company's commitment under the agreement. The gas transmission and the Group's commitment commenced on 1 July 2010. Whilst the Group is not utilising this transmission capacity, it may enter into agreements to on-sell this capacity.
- (ii) Cash restrictions exist on a term deposit with a total value of \$2,803,352 relating to environmental performance bonds issued by the Macquarie Bank Ltd in favour of the Minister for State Development. The deposit acts as security for the bonds. The performance bonds relate specifically to environmental obligations at the Meekatharra Gold Project site.
- (iii) Comprised of several options held by the Group relating to the Mount Marion Lithium Project, Meekatharra Gold Project and Mount Finnerty-Barranco Project. Payments have been made to secure options furthering the interests of the Group in these areas.

## 13. Inventories

	2012 \$	2011 \$
Consumable stores	1,143,810	51,405

Consumable stores are mainly comprised of items acquired as part of the Meekatharra Gold Project purchase. The transaction settled on 1 July 2011, details of assets acquired can be found at note 28. During the year the company undertook development work at the Meekatharra Gold Project which included the upgrade of the processing plant and associated camp infrastructure. All inventories used in relation the development activities have been capitalised as part of the capital work in process. No inventories were recognised as an expense during the financial year (2011: \$265,597).

## 14. Exploration, evaluation and development expenditure

	Consolidated		
	Capitalised development \$	Capitalised exploration \$	Total \$
<b>Gross carrying amount</b>			
<b>Balance at 1 July 2010</b>	10,489,277	31,899,316	42,388,593
Additions	1,238,337	5,010,031	6,248,368
Transferred to development	1,113,637	(1,113,637)	-
Reclassified as held for sale <sup>(i)</sup>	(280,605)	-	(280,605)
Transferred from intangible assets	200,000	100,000	300,000
<b>Balance at 1 July 2011</b>	12,760,646	35,895,710	48,656,356
Additions	330,022	20,661,898	20,991,920
Reclassified as held for sale <sup>(i)</sup>	(10,972,432)	(2,056,282)	(13,028,714)
Rehabilitation asset	-	6,400,101	6,400,101
<b>Balance at 30 June 2012</b>	2,118,236	60,901,427	63,019,663
<b>Accumulated amortisation and impairment</b>			
<b>Balance at 1 July 2010</b>	3,745,108	3,113,614	6,858,722
Amortisation expense	-	-	-
Impairment losses charged to profit	-	74,356	74,356
Depreciation of rehabilitation asset	21,848	-	21,848
Reclassified as held for sale <sup>(i)</sup>	-	-	-
<b>Balance at 1 July 2011</b>	3,766,956	3,187,970	6,954,926
Amortisation expense <sup>(ii)</sup>	-	981,930	981,930
Impairment losses charged to profit <sup>(iii)</sup>	2,495,657	21,062,482	23,558,139
Depreciation of rehabilitation asset <sup>(iv)</sup>	21,848	-	21,848
Reclassified as held for sale <sup>(i)</sup>	(6,284,461)	(722,405)	(7,006,866)
<b>Balance at 30 June 2012</b>	-	24,509,977	24,509,977
<b>Net book value</b>			
As at 30 June 2011	8,993,690	32,707,740	41,701,430
As at 30 June 2012	2,118,236	36,391,450	38,509,686

The recovery of exploration expenditure carried forward is dependent upon the discovery of commercially viable mineral and other natural resource deposits, their development and exploration, or alternatively their sale.

(i) The assets and associated liabilities of the Comet Vale Gold Project are held for sale in the current period. The prior year balances relate to the Nimbus Gold Project. Refer to note 7 for details.

(ii) There was no active mining carried out at the Comet Vale Gold Mine for the year. Consequently no additional amortisation has been charged to the development asset.

# Notes to the Consolidated Financial Statements

## 14. Exploration, evaluation and development expenditure (continued)

- (iii) The Group performed a detailed review of the recoverable amount of all projects due to continued weakness in commodity prices. Total impairment charges of \$23.55 million (2011: \$0.074 million) were recognised in respect of exploration, evaluation and development assets, with write-downs on expired or lapsed tenements comprising \$136,774 of this total amount. The impairment expense relating to continuing operations was \$20,340,077 (note 5) whilst impairment to discontinued operations totalled \$3,218,062 and related to the write-down of the Comet Vale Gold Project which is classified as held for sale in the current period (note 8). The major element of the impairment was a charge of \$18.43 million relating to the Barrambie Project. The triggers for the impairment test were primarily the effect of delays to the anticipated development of the project due to continued weakness in the vanadium commodity price. The recoverable amount used in assessing all of the impairment charges is fair value less costs to sell.
- (iv) The rehabilitation asset comprises part of the Comet Vale Gold Project which is classified as held for sale in the current period (refer to note 7). Depreciation of the asset is included in the loss from discontinued operations at note 8.

## 15. Property, plant and equipment

	Consolidated				
	Land & buildings at cost \$	Office equipment, furniture & fittings at cost \$	Plant and equipment at cost \$	Capital work in progress <sup>(i)</sup> \$	Total \$
<b>Gross carrying amount</b>					
<b>Balance at 1 July 2010</b>	27,900	212,952	1,687,525	2,896,452	4,824,829
Additions	-	69,635	39,541	695,672	804,848
Disposals	-	-	(70,641)	-	(70,641)
Reclassified as held for sale <sup>(ii)</sup>	-	(4,268)	(9,170)	(3,592,124)	(3,605,562)
<b>Balance at 1 July 2011</b>	27,900	278,319	1,647,255	-	1,953,474
Additions <sup>(iii)</sup>	3,491,834	323,524	13,376,508	4,967,938	22,159,804
Disposals	-	-	(437,412)	-	(437,412)
Reclassified as held for sale <sup>(ii)</sup>	(27,900)	-	(88,246)	-	(116,146)
<b>Balance at 30 June 2012</b>	3,491,834	601,843	14,498,105	4,967,938	23,559,720
<b>Accumulated depreciation</b>					
<b>Balance at 1 July 2010</b>	8,750	146,319	263,586	-	418,655
Disposals	-	-	(3,005)	-	(3,005)
Reclassified as held for sale <sup>(ii)</sup>	-	(800)	(1,356)	-	(2,156)
Depreciation expense	1,128	29,109	205,585	-	235,822
<b>Balance at 1 July 2011</b>	9,878	174,628	464,810	-	649,316
Disposals	-	-	(4,422)	-	(4,422)
Reclassified as held for sale <sup>(ii)</sup>	(10,959)	-	(67,104)	-	(78,063)
Depreciation expense	1,081	65,641	224,194	-	290,916
<b>Balance at 30 June 2012</b>	-	240,269	617,478	-	857,747
<b>Net book value</b>					
As at 30 June 2011	18,022	103,691	1,182,445	-	1,304,158
As at 30 June 2012	3,491,834	361,574	13,880,627	4,967,938	22,701,973

- (i) Capital work in progress in the current year is comprised of refurbishment expenditure incurred on the Meekatharra Gold Project's processing plant and associated assets. The program of work commenced in February 2012 following completion of a bankable feasibility study for the project.
- (ii) The assets and associated liabilities of the Comet Vale Gold Project are held for sale in the current period. Prior period balances relate to the Nimbus Gold Project that was subsequently disposed of in the current period. Refer to note 7 for details.
- (iii) Substantial additions are due to the Meekatharra Gold Project purchase price allocation to their respective assets. The purchase transaction settled on 1 July 2011. Refer to note 28 for details of the assets acquired.

## 16. Trade and other payables

	2012 \$	2011 \$
Trade payables	2,021,889	434,089
Accrued expenses	720,849	299,145
Other <sup>(i)</sup>	533,648	140,511
	<u>3,276,386</u>	<u>873,745</u>

The average credit period on purchases is 30 days. No interest is charged on the trade payables. The Group has financial risk management policies in place to ensure that all payables are paid within the credit timeframe.

- (i) The other payable's balance for the current period is predominantly comprised of payroll related liabilities.

## 17. Other financial liabilities

	2012 \$	2011 \$
Financial liabilities held at amortised cost – Meekatharra Gold Project <sup>(i)</sup>	-	8,000,000
Other <sup>(i)</sup>	-	1,300,000
Deferred revenue <sup>(ii)</sup>	-	100,000
Deferred consideration payable <sup>(iii)</sup>	3,015,205	-
	<u>3,015,205</u>	<u>9,400,000</u>

- (i) Amounts associated with the final consideration payable to acquire the Meekatharra Gold Project via its wholly owned subsidiary GMK Exploration Pty Ltd. The transaction settled on 1 July 2011.
- (ii) Deferred consideration received in the prior period relates to the sale of wholly owned subsidiary Kalgoorlie Ore Treatment Company Pty Ltd. The revenue was recognised at settlement on 8 September 2011.
- (iii) Deferred payment for the purchase of put options to acquire 70,000 oz of gold. The payment is due on 19 September 2012. Refer to note 12 for additional information.



# Notes to the Consolidated Financial Statements

## 18. Provisions

	2012 \$	2011 \$
<b>Current</b>		
Annual leave	245,764	85,384
Long service leave	12,784	85,328
Other <sup>(a)</sup>	1,011,323	903,856
	1,269,871	1,074,568
<b>Non-current</b>		
Long service leave	22,062	8,570
Other <sup>(a)</sup>	7,439,646	689,941
	7,461,708	698,511
	8,731,579	1,773,079

(a) Detail of movement in other provisions

2012	Provision for rehabil- itation <sup>(i)</sup> \$	Onerous contracts <sup>(ii)</sup> \$	Total \$
Balance at 1 July 2011	206,191	1,387,606	1,593,797
Additional provisions recognised	5,730,645	-	5,730,645
Reductions arising from payments/other sacrifices of future economic benefits	-	(918,749)	(918,749)
Additions/(reductions) resulting from re-measurement or settlement without cost	669,457	1,020,378	1,689,835
Unwinding of discount and effect of changes in the discount rate	563,450	17,222	580,672
Reclassified as held for sale	(225,231)	-	(225,231)
<b>Balance at 30 June 2012</b>	<b>6,944,512</b>	<b>1,506,457</b>	<b>8,450,969</b>
Comprised of:			
Current provision	-	1,011,323	1,011,323
Non-current provision	6,944,512	495,134	7,439,646
	6,944,512	1,506,457	8,450,969

(i) Represents an estimate of the present value of the future rehabilitation costs required for the Meekatharra Gold Project area.

(ii) The onerous contract relates to a contract entered into by Barrambie Gas Pty Ltd, a wholly owned subsidiary of the Company, for the Company's Barrambie Project. The contract is with DBNGP (WA) Transmission Pty Ltd for gas transmission that commenced on 1 July 2010. The provision in the accounts represents the present value of 18 months of gas transmission obligations under the contract for gas transmission not expected to be utilised or on sold.

2011	Provision for rehabil- itation \$	Onerous contracts \$	Total \$
Balance at 1 July 2011	188,761	1,837,498	2,026,259
Additional provisions recognised	-	-	-
Reductions arising from payments/other sacrifices of future economic benefits	-	(991,024)	(991,024)
Additions/(reductions) resulting from re-measurement or settlement without cost	-	513,133	513,133
Unwinding of discount and effect of changes in the discount rate	17,430	27,999	45,429
Reclassified as held for sale	-	-	-
<b>Balance at 30 June 2011</b>	<b>206,191</b>	<b>1,387,606</b>	<b>1,593,797</b>
Comprised of:			
Current provision	-	903,856	903,856
Non-current provision	206,191	483,750	689,941
	<b>206,191</b>	<b>1,387,606</b>	<b>1,593,797</b>

## 19. Borrowings

	2012 \$	2011 \$
Unsecured – at amortised cost		
Insurance premium funding	47,668	-

During the period the Company entered into a financing arrangement for the payment of its annual insurance premiums. This allows the Company to better manage cash outflows by paying the premiums evenly over a 12-month period.

## 20. Issued capital

	2012 \$	2011 \$
462,701,573 fully paid ordinary shares (2011: 262,237,201)	148,058,577	109,790,915

Changes to the then Corporations Law abolished the authorised capital and par value concept in relation to share capital from 1 July 1998. Therefore, the Company does not have a limited amount of authorised capital and issued shares do not have a par value.

# Notes to the Consolidated Financial Statements

## 20. Issued capital (continued)

	2012		2011	
	No.	\$	No.	\$
<b>Fully paid ordinary shares</b>				
Balance at beginning of financial year	262,237,201	109,790,915	177,271,768	63,773,894
Issue of shares for cash	197,959,072	39,591,790	83,965,433	47,499,951
Share issue costs	-	(2,576,778)	-	(3,068,471)
Income tax on items taken directly to equity	-	-	-	920,541
Issue of shares as part consideration for acquisition of the Meekatharra Gold Project	2,505,300	1,252,650	-	-
Issue of shares to consultant	-	-	1,000,000	665,000
<b>Balance at the end of the financial year</b>	<b>462,701,573</b>	<b>148,058,577</b>	<b>262,237,201</b>	<b>109,790,915</b>

Fully paid ordinary shares carry one vote per share and carry the right to dividends.

## Share options

In accordance with the provisions of the employee share option plan or as approved by shareholders, at 30 June 2012, employees and directors held options over 13,600,000 ordinary shares (13,600,000 of which are vested) in aggregate, 4,000,000 expiring 01/07/2012, 1,800,000 expiring 31/12/2012, 1,850,000 expiring 30/06/2013, 3,000,000 expiring 01/07/2013, 2,450,000 expiring 31/12/2013 and the remaining 500,000 expiring on 01/07/2014.

Share options carry no rights to dividends and no voting rights. Further details of the executive share option plan are contained in Note 10 to the financial statements.

## 21. Reserves

The equity-settled benefits reserve arises on the grant of share options for the provision of services by consultants and to executives and employees under the employee share option plan or as approved by shareholders. Share options may also be granted to suppliers. Additional reserve amounts have arisen from the issue of performance rights to several employees. Amounts are transferred out of the reserve and into issued capital when the options are exercised or when the performance rights are fully vested. Further information about share-based payments to employees is provided in Note 10 to the financial statements.

	2012 \$	2011 \$
<b>Share based payments reserve:</b>		
Balance at the beginning of the financial year	4,717,687	3,672,455
Share-based payments	305,496	1,045,232
<b>Balance at the end of the financial year</b>	<b>5,023,183</b>	<b>4,717,687</b>

## 22. Accumulated losses

	2012 \$	2011 \$
<b>Accumulated losses:</b>		
Balance at the beginning of the financial year	(16,714,743)	(13,361,157)
Net loss attributable to members of the Company	(30,983,345)	(3,353,586)
<b>Balance at the end of the financial year</b>	<b>(47,698,088)</b>	<b>(16,714,743)</b>

## 23. Loss per share

	2012 Cents per share	2011 Cents per share
<b>Basic and diluted loss per share:</b>		
Continuing operations	(9.66)	(1.43)
Continuing and discontinued operations	(10.61)	(1.50)

## Basic loss per share

The loss and weighted average number of ordinary shares used in the calculation of basic loss per share are as follows:

	2012 \$	2011 \$
Loss <sup>(a)</sup>		
Continuing operations	(28,219,273)	(3,184,946)
Continuing and discontinued operations	(30,983,345)	(3,353,586)
	2012 No	2011 No
Weighted average number of ordinary shares for the purpose of basic loss per share	292,137,998	223,344,318

(a) Loss used in the calculation of loss per share reconciles to net loss in the income statement.

# Notes to the Consolidated Financial Statements

## 23. Loss per share (continued)

### Diluted loss per share

The loss and weighted average number of ordinary shares used in the calculation of diluted loss per share are as follows:

	2012 \$	2011 \$
Loss <sup>(a)</sup>		
Continuing operations	(28,219,273)	(3,184,946)
Continuing and discontinued operations	(30,983,345)	(3,353,586)

	2012 No	2011 No
Weighted average number of ordinary shares for the purpose of diluted loss per share	292,137,998	223,344,318

(a) Loss used in the calculation of diluted loss per share reconciles to net loss in the income statement.

All potential ordinary shares are not dilutive and are therefore excluded in the weighted average number of ordinary shares for the purposes of diluted loss per share.

## 24. Commitments for expenditure

### (a) Exploration and evaluation expenditure commitments

As referred to in Note 12 (b) to the accounts, Barrambie Gas Pty Ltd, a wholly owned subsidiary of the Company, previously entered into a gas transmission agreement with DBNGP (WA) Transmission Pty Ltd for the Barrambie Project. As part of the agreement the Company was required to procure a term deposit in the amount of \$8.7 million from its bankers as security, which represented the present value of the Company's commitment under the agreement. The gas transmission agreement and the Company's commitment commenced on 1 July 2010.

### (b) Capital expenditure commitments

GMK Exploration entered into an irrevocable agreement to purchase mobile plant equipment for the Meekatharra Gold Project during the period. The value of this commitment at the end of the period is \$185,000.

### (c) Lease commitments

Non-cancellable operating lease commitments are disclosed in Note 26 to the financial statements. There are no finance lease commitments at reporting date.



## 25. Contingent liabilities

	2012 \$	2011 \$
Arising from interests in joint ventures <sup>(i)</sup>	80,000	80,000
Barrambie Project <sup>(ii)</sup>	-	234,490
<b>Contingent liabilities at year-end</b>	<b>80,000</b>	<b>314,490</b>

- (i) In consideration of Cliffs agreeing to provide performance bonds totalling \$80,000 for the benefit of the Company to the Department of Mines and Petroleum in relation to four Mount Finnerty Project tenements, the Company agrees to unconditionally indemnify Cliffs in respect of any claims made against Cliffs in respect of the performance bonds where such claims arise out of the Company's activities on those four tenements that are outside the scope of the joint venture and irrespective of whether such activities are undertaken by the Company alone or by a third party with the Company's consent.
- (ii) The Company was party to a Memorandum of Understanding (MoU) with Arccon (WA) Pty Ltd and China Non-Ferrous Industry's Foreign Engineering and Construction Company Ltd for the development of the Barrambie Vanadium Project. However due to ongoing weak market conditions for vanadium the MoU terminated during the current period. Consequently the contingent liability did not eventuate and has been extinguished.

## 26. Leases

### Finance leases:

#### Leasing arrangements

The Company had no finance leases for the current or prior period.

### Operating leases:

#### Leasing arrangements

Operating leases relate to the lease of several commercial premises with original lease terms of between 1 and 2 years. The lease agreement for the Company's registered head office provides the option to extend for a further two years from October 2013. There is additional provision for the annual increase in lease payments at the greater of CPI and a fixed rate. For all other leases the future tenancy is deemed to continue on a periodic (casual) basis and any escalation to be negotiated. The consolidated entity does not have an option to purchase the leased assets at the expiry of the leases.

	2012 \$	2011 \$
<b>Payments recognised as an expense</b>		
Minimum lease payments	264,807	226,575
Contingent rentals	-	-
Sub-lease payments received	-	-
	<b>264,807</b>	<b>226,575</b>

#### Non-cancellable operating lease commitments

Not longer than 1 year	282,038	334,846
Longer than 1 year and not longer than 5 years	41,748	256,340
Longer than 5 years	-	-
	<b>323,786</b>	<b>591,186</b>

# Notes to the Consolidated Financial Statements

## 27. Disposal of subsidiary

On 8 September 2011 the Group disposed of Kalgoorlie Ore Treatment Company Pty Ltd which held the Nimbus Gold Project situated near Kalgoorlie, Western Australia.

	2012 \$	2011 \$
<b>(a) Analysis of assets and liabilities over which control was lost</b>		
<b>Current assets</b>		
Cash and cash equivalents	111	-
Other receivables	10,780	-
<b>Non-current assets</b>		
Exploration, evaluation and development expenditure	332,964	-
Property, plant and equipment	3,687,874	-
Other financial assets	228,000	-
Deferred tax assets	-	-
<b>Current liabilities</b>		
Payables	(107,408)	-
<b>Net assets disposed of</b>	<b>4,152,321</b>	<b>-</b>
<b>(b) Gain on disposal of subsidiary</b>		
Net assets disposed of	4,152,321	-
Gain on disposal	568,562	-
<b>Total consideration</b>	<b>4,720,883</b>	<b>-</b>
<b>Consideration satisfied by</b>		
Fully paid ordinary shares	1,608,000	-
Cash <sup>(i)</sup>	3,499,680	-
Total consideration	5,107,680	-
Disposal costs	(386,797)	-
	4,720,883	-
Total cash received <sup>(i)</sup>	3,399,680	-
Disposal costs paid	(386,797)	-
<b>Net cash inflow arising on disposal</b>	<b>3,012,883</b>	<b>-</b>

(i) Deferred cash consideration received in the prior reporting period and recognised as income at settlement on 8 September 2011.

The gain on disposal is included in the loss for the year from discontinued operations in the statement of comprehensive income. Refer to note 8 for details of discontinued operations.

## 28. Acquisition of assets

On 1 July 2011 the Group acquired the assets of the Meekatharra Gold Project. The transaction was not considered a business combination as the assets acquired did not meet the definition of a business as defined in the Australian Accounting Standards. The fair values of the net assets acquired at the date of the acquisition and the consideration paid are as follows:

	2012 \$
Consumables	1,092,406
Property, plant & equipment	17,010,000
Exploration tenements	10,313,360
Rehabilitation asset	5,730,645
Rehabilitation liability	(5,730,645)
<b>Value of net assets acquired</b>	<b>28,415,766</b>
Equity consideration	1,252,650
Cash consideration <sup>(i)</sup>	25,000,000
Stamp duty	1,400,498
Directly attributable costs	762,618
<b>Total consideration</b>	<b>28,415,766</b>

- (i) The total cash consideration was paid in instalments including \$17 million paid in the prior period. The final payment made on 1 July 2011 for acquisition of the Meekatharra Gold Project included a cash component of \$8 million. This payment is disclosed as a cash outflow from investing activities in the consolidated cash flow statement and is allocated across the assets acquired on a pro-rata basis; property, plant and equipment, exploration assets and inventory consumables.

## 29. Jointly controlled operations and assets

Name of operation	Principal activity	Interest	
		2012 %	2011 %
Mt Finnerty Iron Ore Project	Iron Ore Exploration	20	20

The consolidated entity's interest in assets employed in the above jointly controlled operations and assets is detailed below.

The amounts are included in the financial statements and consolidated financial statements under their respective asset categories:

	2012 \$	2011 \$
<b>Non-current assets</b>		
Exploration expenditure	1,968,510	1,960,090
<b>Total non-current assets</b>	<b>1,968,510</b>	<b>1,960,090</b>
<b>Total assets</b>	<b>1,968,510</b>	<b>1,960,090</b>

# Notes to the Consolidated Financial Statements

## 30. Subsidiaries

Name of entity	Country of incorporation	Ownership interest	
		2012 %	2011 %
Parent entity			
Reed Resources Ltd	Australia	-	-

### Subsidiaries

Mount Finnerty Pty Ltd	Australia	100	100
Barrambie Gas Pty Ltd	Australia	100	100
Australian Vanadium Corporation (Holdings) Pty Ltd	Australia	100	100
Australian Vanadium Exploration Pty Ltd	Australia	100	100
Kalgoorlie Ore Treatment Company Pty Limited <sup>(i)</sup>	Australia	-	100
Reed Industrial Minerals Pty Ltd <sup>(ii)</sup>	Australia	100	100
Reed Exploration Pty Ltd	Australia	100	100
Reed Advanced Materials Pty Ltd	Australia	100	100
GMK Exploration Pty Ltd	Australia	100	100
GMK Administration Pty Ltd	Australia	100	100
Gold Mines of Kalgoorlie Ltd	Australia	100	100
Sand Queen Gold Mines Pty Ltd	Australia	100	100
Australian Vanadium Corporation (Investments) Pty Ltd	Australia	100	100

All of these companies are members of a tax consolidated group. Reed Resources Ltd is the head entity of the tax consolidated group.

- (i) Kalgoorlie Ore Treatment Company Pty Ltd was disposed of during the period. Refer to note 27 for details.
- (ii) Mineral Resources Ltd is earning a 30% equity interest in Reed Industrial Minerals Pty Ltd.

## 31. 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 Group 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 the AASB 8. The 'other segments' category is the aggregation of all remaining operating segments given sufficient reportable operating segments have been identified.

### For the year ended 30 June 2012

Reportable operating segments	Gold \$	Vanadium \$	Other \$	Unallocated \$	Total \$
Revenue from external customers	-	-	-	-	-
Cost of sales before amortisation	-	-	-	-	-
Gross profit before amortisation	-	-	-	-	-
Amortisation expense	-	-	-	-	-
Gross profit	-	-	-	-	-
Other income	97,949	-	90,451	828,551	1,016,951
Impairment	(1,802,613)	(18,428,566)	(108,898)	-	(20,340,077)
Depreciation and amortisation	(171,159)	-	-	(52,383)	(223,542)
Total revenue	97,949	-	90,451	828,551	1,016,951
Total expense	(4,313,804)	(18,436,412)	(181,222)	(6,304,786)	(29,236,224)
<b>Loss before tax</b>	<b>(4,215,855)</b>	<b>(18,436,412)</b>	<b>(90,771)</b>	<b>(5,476,235)</b>	<b>(28,219,273)</b>
<b>Discontinued operations</b>					
Total revenue	2,013	-	-	-	2,013
Total expenses	(3,334,647)	-	-	-	(3,334,647)
Gain on disposal of subsidiary	568,562	-	-	-	568,562
Loss before tax	(2,764,072)	-	-	-	(2,764,072)
<b>Consolidated loss before tax</b>	<b>(6,979,927)</b>	<b>(18,436,412)</b>	<b>(90,771)</b>	<b>(5,476,235)</b>	<b>(30,983,345)</b>

# Notes to the Consolidated Financial Statements

## 31. Segment information (continued)

As at 30 June 2012

Reportable operating segments	Gold \$	Vanadium \$	Other \$	Unallocated \$	Total \$
Increase/(decrease) in non-current assets	12,250,889	(16,246,697)	847,950	211,880	(2,935,978)
Reclassified as held for sale	1,017,202	-	-	-	1,017,202
Consolidated increase/(decrease) in 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
<b>Consolidated total assets</b>	<b>67,150,928</b>	<b>19,646,928</b>	<b>5,956,015</b>	<b>27,928,884</b>	<b>120,682,755</b>

For the year ended 30 June 2011

Reportable operating segments	Gold \$	Vanadium \$	Other \$	Unallocated \$	Total \$
Revenue from external customers	347,821	-	-	-	347,821
Cost of sales before amortisation	(53,633)	-	-	-	(53,633)
Gross profit before amortisation	294,188	-	-	-	294,188
Amortisation expense	(230,775)	-	-	-	(230,775)
Gross profit/(loss)	63,413	-	-	-	63,413
Revenue – other	174,218	113	22,454	918,641	1,115,426
Impairment	-	-	(74,356)	-	(74,356)
Depreciation and amortisation	(229,270)	-	-	(28,400)	(257,670)
Total revenue	522,039	113	22,454	918,641	1,463,247
Total expense	(1,102,230)	(10,792)	(249,700)	(4,839,119)	(6,201,841)
<b>Loss before tax</b>	<b>(580,191)</b>	<b>(10,679)</b>	<b>(227,246)</b>	<b>(3,920,478)</b>	<b>(4,738,594)</b>



## As at 30 June 2011

Reportable operating segments	Gold \$	Vanadium \$	Other \$	Unallocated \$	Total \$
Increase/(decrease) in non-current assets	34,877,582	2,786,570	937,916	1,522,352	40,124,420
Reclassified as held for sale	(1,200,664)	-	-	-	(1,200,664)
Consolidated increase/(decrease) in non-current assets	33,676,918	2,786,570	937,916	1,522,352	38,923,756
Total segment assets	43,836,940	35,546,586	5,882,651	20,332,246	105,598,423
Assets classified as held for sale	4,269,580	-	-	-	4,269,580
<b>Consolidated total assets</b>	<b>48,106,520</b>	<b>35,546,586</b>	<b>5,882,651</b>	<b>20,332,246</b>	<b>109,868,003</b>

## Information about major customers

Revenue from external customers includes gold ore sales to a third party of nil (2011: \$0.3 million).

## Geographical information

The Group operates in a single geographical area being Western Australia (country of domicile).

# Notes to the Consolidated Financial Statements

## 32. Related party disclosures

### (a) Equity interests in related parties

#### Equity interest in subsidiaries

Details of the percentage of ordinary sharelets held in subsidiaries are disclosed in Note 30 to the financial statements.

### (b) Key management personnel remuneration

Details of Key Management Personnel Remuneration are disclosed in pages 18-26 of the Directors Report.

### (c) Key management personnel equity holdings

#### Fully paid ordinary shares of Reed Resources Ltd

2012	Balance at 01/07/11 No.	Balance on appointment No.	Received on exercise of options No.	Net other change No.	Balance at 30/06/12 No.	Balance held nominally No.
<b>Non-executive directors</b>						
S. Cole	42,896	-	-	32,172	75,068	-
P. Collins	285,705	-	-	-	285,705	-
I. Junk <sup>(i)</sup>	781,102	-	-	(781,102)	-	-
<b>Executive directors</b>						
C. Reed	2,909,202	-	-	(1,800,000)	1,109,202	-
D. Reed <sup>(ii)</sup>	21,776,113	-	-	5,201,225	26,977,338	-
L.Tonkin <sup>(iii)</sup>	-	-	-	833,000	833,000	-
<b>Other executives</b>						
J. Carone	147,388	-	-	25,112	172,500	-
C. Fawcett	-	-	-	-	-	-
D. Lim	-	-	-	80,000	80,000	-
D. Wates	151,121	-	-	-	151,121	-
<b>Total</b>	26,093,527	-	-	3,590,407	29,683,934	-

(i) Mr I Junk ceased being a director on 28 June 2012.

(ii) Mr D Reed became a non-executive director on 1 July 2012.

(iii) Mr L Tonkin commenced as managing director and chief executive officer on 14 May 2012. Upon appointment and subject to shareholder approval Mr Tonkin is entitled to a sign-on award of 833,000 shares. Refer to the directors' report for further discussion on this matter.

## 32. Related party disclosures

2011	Balance at 01/07/10 No.	Balance on appoint- ment No.	Received on exercise of options No.	Net other change No.	Balance at 30/06/11 No.	Balance held nominally No.
<b>Non-executive directors</b>						
S. Cole	17,034	-	-	25,862	42,896	-
P. Collins	285,705	-	-	-	285,705	-
I. Junk	781,102	-	-	-	781,102	-
<b>Executive directors</b>						
C. Reed	2,909,202	-	-	-	2,909,202	-
D. Reed	21,750,251	-	-	25,862	21,776,113	-
<b>Other executives</b>						
J. Carone	138,768	-	-	8,620	147,388	-
C. Fawcett	-	-	-	-	-	-
D. Wates	-	142,500	-	8,621	151,121	-
<b>Total</b>	25,882,062	142,500	-	68,965	26,093,527	-

### Share options of Reed Resources Ltd

2012	Balance at 01/07/11 No.	Granted as remunera- tion No.	Exercised/ (lapsed) No.	Balance at 30/06/12 No.	Balance vested at 30/06/12 No.	Vested but not exer- cisable No.	Vested and exercis- able No.	Options vested during year No.
D.Reed	2,500,000	-	(1,500,000)	1,000,000	1,000,000	-	1,000,000	1,250,000
C. Reed	6,600,000	-	(3,000,000)	3,600,000	4,600,000	-	4,600,000	2,500,000
P.Collins	700,000	-	-	700,000	700,000	-	700,000	-
I. Junk	700,000	-	-	700,000	700,000	-	700,000	-
S. Cole	1,100,000	-	-	1,100,000	1,100,000	-	1,100,000	-
J. Carone	1,800,000	-	-	1,800,000	1,800,000	-	1,800,000	900,000
C. Fawcett	750,000	-	-	750,000	750,000	-	750,000	375,000
D. Wates	500,000	-	-	500,000	500,000	-	500,000	500,000
Others	3,600,000	-	(150,000)	3,450,000	2,450,000	-	2,450,000	825,000
<b>Total</b>	18,250,000	-	(4,650,000)	13,600,000	13,600,000	-	13,600,000	6,350,000

# Notes to the Consolidated Financial Statements

## 32. Related party disclosures (continued)

### (c) Key management personnel equity holdings (continued)

#### Share options of Reed Resources Ltd (continued)

2011	Balance at 01/07/10 No.	Granted as remuneration No.	Exercised/ (lapsed) No.	Balance at 30/06/11 No.	Balance vested at 30/06/11 No.	Vested but not exercisable No.	Vested and exercisable No.	Options vested during year No.
D.Reed	1,500,000	1,000,000	-	2,500,000	1,250,000	-	1,250,000	1,250,000
C. Reed	5,600,000	2,000,000	(1,000,000)	6,600,000	5,100,000	-	5,100,000	2,500,000
P.Collins	950,000	250,000	(500,000)	700,000	1,200,000	-	1,200,000	250,000
I. Junk	950,000	250,000	(500,000)	700,000	1,200,000	-	1,200,000	250,000
S. Cole	600,000	500,000	-	1,100,000	1,100,000	-	1,100,000	500,000
J. Carone	1,200,000	600,000	-	1,800,000	900,000	-	900,000	600,000
C. Fawcett	-	750,000	-	750,000	375,000	-	375,000	375,000
D. Wates	-	500,000	-	500,000	-	-	-	-
Others	2,500,000	1,800,000	(700,000)	3,600,000	2,500,000	-	2,500,000	1,050,000
Total	13,300,000	7,650,000	(2,700,000)	18,250,000	13,625,000	-	13,625,000	6,775,000

All share options have been issued in accordance with the provisions of the employee share option plan or as approved by shareholders. No options were issued during the current period.

#### Executive performance rights of Reed Resources Ltd

In the current period the Company granted 10,000 performance rights to Mr D Wates as remuneration. At the reporting date 9,153 performance rights had vested. There were no performance rights issued to executives in the prior period.

Further details of the executive share option plan and of share options and performance rights granted are contained in pages 18-26 of the Directors Report and note 10 to the financial statements.

### (d) Other transactions with key management personnel

The loss from operations includes the following items of revenue and expense that resulted from transactions other than compensation, loans or equity holdings, with Key Management Personnel or their related parties:

	2012 \$	2011 \$
Interest income	8,464	-
Total recognised as income	8,464	-
Service fees and charges	(18,950)	(61,709)
Rent	(84,843)	(187,421)
Interest and fees expense <sup>(i)</sup>	(11,473)	-
Consulting fees	-	(12,538)
Royalties	-	(18,701)
Total recognised as expenses	(115,266)	(280,369)

(i) Interest of \$8,586 and fees of \$2,887 were charged on the loan provided by Mr D Reed. Details are provided in part (e) of this note.

## (e) Transactions with other related parties

Other related parties include:

- The parent entity;
- Associates;
- Joint ventures in which the entity is a venturer;
- Subsidiaries;
- Key Management Personnel of Reed Resources Ltd;
- Former Key Management Personnel; and
- Other related parties.

### Transactions involving the parent entity

The Directors elected for wholly-owned Australian entities within the Group to be taxed as a single entity from 1 July 2003.

The parent entity has loaned funds to subsidiaries. The loans totalled \$61,923,451 at 30 June 2012 (2011: \$36,596,819). These loans are repayable on demand and interest free.

No other transactions occurred during the financial year between entities in the wholly owned Group.

### Transactions involving other related parties

Reed Resources Ltd has entered into arrangements with Trucking Nominees Pty Ltd, a Company associated with Mr D Reed, for the provision of offices and office equipment in West Perth and Kalgoorlie at cost plus 5%. The total amount for the year was \$103,793 (2011: \$249,130), being rent, service fees and minor property outgoings including rates. These agreements came to an end on 31 August 2011. In addition, Mr D Reed has personally provided short-term loans totalling \$1,260,025 (at a market rate of interest) to Reed Resources Ltd in the current period to fund working capital whilst the Company undertook a capital raising in April-May 2012. Interest and associated fees charged on the loan for the year totalled \$11,473 (2011: Nil). The loan was fully repaid as at reporting date.

During the period the Board resolved to provide a loan to Mr C Reed in the amount of \$150,000 at a commercial interest rate of 7.2%. The interest rate is subsequently adjusted in line with changes to the official cash rate announced by the Reserve Bank of Australia (RBA) from time to time. The facility is an interest only loan until March 2013 when it reverts to repayments of principal and interest and will be fully repaid by July 2014. Loan interest charged for the period totalled \$8,464. Additional amounts of \$10,260 were paid on behalf of Mr C Reed and are due to be repaid in the near future.

Mr P Collins has provided geological consulting services to the Company on an ad-hoc basis. However no services were provided by Mr P Collins in the current period (2011: \$12,538).

Reed Resources Ltd has a royalty agreement with MTAB Pty Ltd, a Company controlled by Mr D Reed, related to production on the Comet Vale Gold Project. There was no production during the year and consequently there were no royalty payments for the period (2011: \$18,701).

The above amounts were paid for services rendered in the ordinary course of business and on normal commercial terms and conditions.

### Existing agreements involving other related parties

As disclosed in the Company's prospectus dated 24 June 2002, the Company has contracted to pay royalty payments from the Mount Finnerty Project properties to a company controlled by Mr C Reed. To date mining has not been undertaken on these properties and accordingly no royalty payments have been paid to Mr C Reed.

# Notes to the Consolidated Financial Statements

## 32. Related party disclosures (continued)

### (f) Controlling entities

The parent entity in the group is Reed Resources Ltd a company incorporated in Australia.

## 33. Subsequent events

Subsequent to the end of the financial year the company engaged Credit Suisse to provide a corporate debt financing for \$19 million. Pursuant to this agreement Credit Suisse will provide the Company with a senior debt facility for \$19 million dollars and a hedging facility. Funds from this facility will be used by the Company to fund the development of the Meekatharra Gold Project. Formal documentation for the facility, based on a binding term sheet, is expected to be completed by the end of October 2012.

During the year the Group via its wholly owned subsidiary GMK Exploration Pty Ltd, entered into a transaction with Barclays Bank to purchase put options over 70,000 oz of gold. The put option contract expired on 19 September 2012 at which time a deferred option premium of \$3.048 million became due and payable. As the contract expired out-of-money the impact on the company's financial performance was a loss of \$3.048 million.

## 34. Notes to the cash flow statement

### a) Reconciliation of cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents includes cash on hand and in banks and investments in money market instruments, net of outstanding bank overdrafts. Cash and cash equivalents at the end of the financial year as shown in the Cash Flow Statement is reconciled to the related items in the statement of financial position as follows:

	2012 \$	2011 \$
Cash and cash equivalents	25,612,420	13,824,448
Cash and cash equivalents included in assets classified held for sale <sup>(i)</sup>	33,342	58,500
	25,645,762	13,882,948

(i) Associated with the Comet Vale Gold Project which is currently being marketed for sale. Prior period balance relates to Kalgoorlie Ore Treatment Pty Ltd. Refer to note 7 for additional information.

### (b) Funds not available for use

Restrictions exist on several term deposits with a total value of \$14,698,107. All term deposits are classified as financial assets except for \$64,683 that is now classified as assets held for sale.

One term deposit relates to an unconditional performance bond issued by the National Australia Bank in favour of the Minister for State Development and DBNGP (WA) Transmission Pty Ltd. A separate term deposit of \$8,700,000 is restricted in its use to ensure it serves as security for the bond.

There are two term deposits totalling \$2,868,035 that serve as security for environmental performance bonds required for the Comet Vale and Meekatharra Gold Project sites. Refer to note 7 for additional information on the financial asset classified as held for sale, and note 12 for discussion of all other financial assets.

During the year the Company via wholly owned subsidiary GMK Exploration Pty Ltd entered into a transaction with Barclays Bank to purchase put options over 70,000 oz of gold. The Company has placed \$3,035,072 on deposit as security for the deferred portion of the option premium. Refer to note 12 for additional information.

The Company has \$95,000 on deposit as security for a rental bond relating to its leased business premises.



### (c) Reconciliation of loss for the period to net cash flows from operating activities

	2012 \$	2011 \$
Loss for the period	(30,983,345)	(3,353,586)
Gain/(loss) on sale of non-current assets	319,221	(164,364)
Gain on disposal of discontinued operations	(568,562)	-
Loss on disposal of equity instruments	301,874	-
Loss on revaluation of other financial assets designated at fair value through profit and loss	380,384	-
Depreciation and amortization of non-current assets	249,929	488,445
Equity settled share-based payment	305,496	1,045,232
Impairment of non-current assets	23,558,139	74,356
(Increase) / decrease in current tax asset	286,923	126,797
Increase in deferred tax asset	-	(1,098,086)
(Increase) / decrease in assets:		
Current receivables	(239,546)	481,936
(Increase) / decrease in liabilities:		
Current payables	221,144	(191,539)
Other non-cash expenses	795,592	206,387
Net Cash used in operating activities	(5,372,751)	(2,384,422)

### (d) Non cash financing and investing activities

On 1 July 2011 the Company issued 2,505,300 fully paid ordinary shares at \$0.50 per share as part consideration for settlement of the Meekatharra Gold Project acquisition.

# Notes to the Consolidated Financial Statements

## 35. Financial instruments

### (a) Financial risk management objectives

The consolidated entity does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes.

### (b) Significant accounting policies

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset, financial liability and equity instrument are disclosed in Note 2 to the financial statements.

The following tables detail the exposure to interest rate risk:

2012	Weighted average effective interest rate %	Variable interest rate \$	Maturity Dates			Non interest bearing \$	Total \$
			Less than 1 Year \$	1-5 Years \$	More than 5 Years \$		

#### Financial assets:

Cash and cash equivalents <sup>(i)</sup>	2.72	-	25,644,252	-	-	1,510	25,645,762
Barrambie Gas term deposit <sup>(ii)</sup>	5.30	-	8,700,000	-	-	-	8,700,000
Bond term deposits <sup>(ii)</sup>	3.54	-	2,963,035	-	-	-	2,963,035
Trade and other receivables <sup>(iii)</sup>	-	-	-	-	-	1,292,126	1,292,126
Fair value-profit and loss <sup>(iv)</sup>	-	-	-	-	-	3,088,116	3,088,116
Other <sup>(v)</sup>	3.25	-	3,035,072	-	-	-	3,035,072

#### Financial liabilities:

Trade payables <sup>(iii)</sup>	-	-	-	-	-	3,279,400	3,279,400
Other financial liabilities <sup>(vi)</sup>	5.00	-	3,015,205	-	-	-	3,015,205

(i) Includes cash and bank balances of \$33,342 in a disposal group held for sale. Refer to note 7 for more information.

(ii) The balances represents two term deposits that are restricted in their use and are classified in the current reporting period other financial assets in addition to another deposit with a total value of \$64,683 that is classified as a held for sale asset. Refer to Note 7 for further details on assets held for sale. Additional information on all other term deposits is provided at note 12 and note 34 (b). The financial assets have contractual maturities of less than one year, however they are classified as non-current in the statement of financial position as they will be rolled-over for greater than twelve months as security for the matters discussed in the aforementioned notes.

(iii) Includes receivables of \$1,409 and trade creditors of \$3,014 classified as held for sale and disclosed at note 7.

(iv) Represents the fair value of put options acquired from Barclays Bank. Refer to note 12 (a) for details.

(v) Term deposit to secure the purchase of put options from Barclays Bank. Refer to note 12 (a) for details.

(vi) Deferred option premium for the purchase of put options from Barclays Bank. Refer to note 17 for details.

2011	Weighted average effective interest rate %	Variable interest rate \$	Maturity Dates			Non interest bearing \$	Total \$
			Less than 1 Year \$	1-5 Years \$	More than 5 Years \$		

**Financial assets:**

Cash and cash equivalents <sup>(i)</sup>	3.15	-	13,862,514	-	-	20,434	13,882,948
Barrambie Gas term deposit <sup>(ii)</sup>	5.50	-	8,700,000	-	-	-	8,700,000
Bond term deposits <sup>(ii)</sup>	5.46	-	3,088,634	-	-	-	3,088,634
Trade and other receivables <sup>(iii)</sup>	-	-	-	-	-	1,140,911	1,140,911
Meekatharra Gold Project deposits <sup>(iv)</sup>	-	-	-	-	-	28,431,001	28,431,001

**Financial liabilities:**

Trade payables <sup>(iii)</sup>	-	-	-	-	-	896,102	896,102
Other financial liabilities <sup>(v)</sup>	-	-	-	-	-	9,400,000	9,400,000

(i) Includes held for sale assets of \$58,500 as disclosed in note 7.

(ii) The balances represent term deposits that are restricted in their use and are classified as other financial assets except for term deposits with a total value of \$228,000 that are classified as held for sale assets and shown at note 7.

(iii) Includes receivables of \$22,623 and trade creditors of \$22,357 classified as held for sale and disclosed at note 7.

(iv) Comprised of acquisition costs and purchase price consideration paid or accrued for prior to settlement on 1 July 2011 and classified as other financial assets.

(v) Includes \$9.3 million purchase price consideration that was paid for the Meekatharra Gold Project at settlement on 1 July 2011.

# Notes to the Consolidated Financial Statements

## 35. Financial instruments (continued)

### (c) Credit risk management

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the consolidated entity. The consolidated entity has adopted a policy of only dealing with credit-worthy counterparties and obtaining sufficient collateral where appropriate, as a means of mitigating the risk of financial loss from defaults. The consolidated entity exposure and the credit ratings of its counterparties are continuously monitored and the aggregate value of transactions concluded is spread amongst approved counterparties.

The consolidated entity does not have any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics. The credit risk on liquid funds is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies.

### (d) Liquidity risk management

Ultimate responsibility for liquidity risk management rests with the Board of Directors, who have built an appropriate liquidity risk management framework for the management of the Group's short, medium and long-term funding and liquidity management requirements. The Group manages liquidity risk by maintaining

adequate reserves, banking facilities and reserve borrowing facilities by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

### (e) Fair value

The carrying amount of financial assets and financial liabilities recorded in the financial statements approximates their respective net fair values, other than intercompany loans from the Company to its subsidiaries determined in accordance with the accounting policies disclosed in Note 2 to the financial statements.

### (f) Commodity price risk

The Group is exposed to gold and other commodity price risk. These commodity prices can be volatile and are influenced by factors beyond the Group's control. During the year the Group via its wholly owned subsidiary GMK Exploration Pty Ltd, entered into a transaction with Barclays Bank to purchase put options over 70,000 oz of gold. The put options give the Company the right but not the obligation to sell gold at a price of \$1,560 per ounce on the 19th of September 2012. Refer to subsequent events note 33 for a description of the expiration of this contract and financial impact on the Group.

### (g) Capital management

The Board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. Given the stage of development of the Group, the Board's objective is to minimise debt and to raise funds as required through the issue of new shares. There were no changes in the Group's approach to capital management during the year. The Group is not subject to externally imposed capital requirements.

# Corporate Governance Statement

The Board of directors of Reed Resources Ltd (the “Company”) is responsible for the corporate governance of the Company, for setting corporate direction, defining policies and monitoring the business of the Company, to ensure the best interests of the Company are promoted and shareholder value is delivered.

This corporate governance statement outlines the key principles and practices of the Company which in the terms of the Company's Corporate Governance Charter (“Charter”), define the Company's system of governance.

The Company is committed to implementing sound standards of corporate governance. In determining what those standards should involve, the Company has had regard to the ASX Corporate Governance Council's Corporate Governance Principles and Recommendations 2nd Edition with 2010 amendments (“Recommendations”).

A copy of the Recommendations and the Company's Charter has been placed on the Company's website in the operations, corporate policies section [www.reedresources.com/corporate.php](http://www.reedresources.com/corporate.php).

## PRINCIPLE 1: LAY SOLID FOUNDATIONS FOR MANAGEMENT AND OVERSIGHT

### Recommendation 1.1 – Establish and disclose the functions reserved to the board and those delegated to senior executives.

The functions and responsibilities of the Board compared with those delegated to management are reflective of the Recommendations.

The Board is responsible for guiding and monitoring the Company on behalf of shareholders by whom they are elected and to whom they are accountable. The Board's primary responsibility is to oversee the development of strategies for the Company, setting and reviewing the Company's strategic objectives and monitoring the performance of the Company against those objectives.

The overall goals of the corporate governance process are to:

- deliver corporate and operational performance against objectives set;
- drive shareholder value;
- assure a prudential and ethical base to the Company's conduct and activities; and
- ensure compliance with the Company's legal and regulatory obligations.

Consistent with these goals, the Board assumes the following responsibilities:

- developing initiatives for profit and asset growth;
- reviewing the corporate, commercial and financial performance of the Company on a regular basis;
- acting on behalf of, and being accountable to, the Company's shareholders;
- identifying business risks and implementing actions to manage those risks; and
- developing and effecting management and corporate systems to assure quality sound corporate performance.

The Board has delegated authority for the operations and administration of the Company to the Chief Executive Officer. He is responsible for overseeing the overall efficient and effective operation of the exploration and mining related activities of the company, and for bringing material and other relevant matters to the attention of the Board in an accurate and timely manner.

### Recommendation 1.2 – Disclose the process for evaluating the performance of senior executives.

The Nominations and Remuneration Committee is charged in the terms of the Charter with periodic review of the job description and performance of the CEO according to agreed performance parameters.

# Corporate Governance Statement

## PRINCIPLE 1: LAY SOLID FOUNDATIONS FOR MANAGEMENT AND OVERSIGHT (continued)

In September 2011 the Company undertook its periodic evaluation and review of the Board. This was a self-evaluation facilitated and coordinated by the Chairman of the Nominations and Remuneration Committee. The evaluation comprised of:

1. areas of potential Board engagement;
2. overall level of Board engagement;
3. questions for Managing Director evaluation;
4. Director and Committee performance evaluation including Board evaluation, Board committee evaluation, and director personal reflections.

The outcomes of the evaluation were reported to the Board in November 2011 and agreed outcomes actioned thereafter. A further review will take place in the latter part of 2012.

Other senior executives were the subject of informal evaluations against both individual performance and overall business measures. These evaluations were undertaken by the CEO progressively and periodically, in consultation with the Nomination and Remuneration Committee and the Board.

Outcomes arising from these evaluations included identifying skill improvement needs, re-description of positions of employment, remuneration reviews and in some cases remedial action.

The Charter contains a section formally setting out the Company's Board and Management Performance Enhancement Policy.

### Recommendation 1.3 – Provide the information in the guide to reporting on Recommendations.

The Company is not aware of any departure from Recommendations 1.1 or 1.2. Performance evaluations for senior executives have taken place in the reporting period in accordance with the process disclosed.

## PRINCIPLE 2: STRUCTURE THE BOARD TO ADD VALUE

### Recommendation 2.1 – A majority of the Board should be independent directors.

The Board respects "independence" as critical to effective governance. The Board defines this to mean "independence of thought and decision making", and is satisfied that its Board composition meets these requirements.

For the majority of the year the Board comprised:

- 4 non-executive independent directors (Steven Cole, Peter Collins\*, Ian Junk and Vanessa Guthrie); and
- 2 executive directors (David John Reed and Chris Reed).
- Due to consulting work undertaken in prior years by Peter Collins for the Company, Peter might not satisfy the technical indicia of "independence" proposed in the Recommendations.

On 14 May 2012 Mr Luke Tonkin joined the Board as Managing Director as the Company prepares to bring its flagship Meekatharra Gold Project into production. Chris Reed remained as Executive Director with a specific focus on the business development of the Company's non-gold assets. Mr Tonkin's appointment followed a Board initiated skills assessment of its needs and further expanded the Company's management and operations experience to support the Meekatharra Gold Project's development.

In addition, on 28 June 2012 long standing director Mr Ian Junk retired from the Board to allow him more time to focus on his other increasingly demanding executive commitments. Mr Junk was appointed to the Board in November 2003. On 30 June 2012 David John Reed stepped down from his executive role and continued as a non-executive director and Chairman.



## Recommendation 2.2 – The chairperson should be an independent director.

The chairperson (David John Reed) was an executive director until 30 June 2012 and substantial shareholder of the company and as such does not pass the criteria of independence as outlined in the Recommendations. Effective 1 July 2012, Mr David Reed stepped back to a Non-Executive Chairman Role whilst continuing to maintain an active involvement with the Company.

## Recommendation 2.3 – The roles of chairperson and chief executive officer should not be exercised by the same individual.

The roles of the Chairperson and the Chief Executive Officer were not exercised by the same individual.

## Recommendation 2.4 – The Board should establish a nomination committee.

The Board has a Nomination and Remuneration Committee.

## Recommendation 2.5 – Disclose the process for evaluating the performance of the Board, its committees and individual directors.

The Nominations and Remuneration Committee is charged in the terms of the Charter with Board and Board Committee membership, succession planning and performance evaluation, as well as Board member induction, education and development.

The Company has adopted policies and procedures in the Charter concerning the evaluation and development of its directors, executives and Board committee. Procedures include an induction protocol and a performance management system for the Board and its directors. Each Board committee also formally reports to the Board annually on its operations in the context of its remit.

The evaluation process adopted includes a self-assessment questionnaire of each Board and Committee member, facilitated by the Chair of the Nomination and Remuneration Committee including a follow up qualitative interview and analysis, as well as a reporting process to each Director, the Nomination and Remuneration Committee and the Board. The questionnaire and interview focuses on individual, committee and overall Board performance and commentary.

The Company's Board and Management Performance Enhancement Policy also is incorporated in the Charter.

## Recommendation 2.6 – Provide the information indicated in Guide to reporting on Principle 2.

Contained in the Directors' Report section of this Annual Report are details of:

- the skills, experience and expertise relevant to the position of director held by each Director in office at the date of this Annual Report;
- the term of office held by each Director in office at the date of this Annual Report.

The terms of office, and their status as executive/nonexecutive/independent, for each director for the year ending 30 June 2012 were as follows:

David Reed	executive Chairman - 1 July 2011 to 30 June 2012 (continuing as Non-executive Chairman from 1 July 2012)
Luke Tonkin	Chief executive Officer and Managing Director - 14 May 2012 to 30 June 2012 (cont.)
Christopher Reed	Chief executive Officer and Managing Director – 1 July 2011 to 13 May 2012 executive Director - 14 May 2012 to 30 June 2012 (cont.)
Steven Cole	non-executive/independent – 1 July 2011 to 30 June 2012 (cont.)
Peter Collins	non-executive/independent - 1 July 2011 to 30 June 2012 (cont.)
Vanessa Guthrie	non-executive/independent – 1 July 2011 to 30 June 2012 (cont.)
Ian Junk	non-executive/independent – 1 July 2011 to 28 June 2012

# Corporate Governance Statement

## PRINCIPLE 2: STRUCTURE THE BOARD TO ADD VALUE (continued)

### Recommendation 2.6 – Provide the information indicated in Guide to reporting on Principle 2 (continued).

The Company has adopted the definition of “independence” as set out in the response to Recommendation 2.1 above, in the above analysis.

The Company’s Charter empowers a director to take independent professional advice at the expense of the Company.

With respect to the mix of skills and diversity that the Board is looking to achieve in its membership, the Board undertakes a skills matrix analysis of desired skills relevant to the Company’s projects and operations in comparison to the skills and experience of its Directors. The Board undertakes periodic evaluation and performance review processes. The Company has adopted a diversity policy – refer recommendation 3.3 below. Based on these principles the Board identifies its Director succession requirements.

Members of the Board’s Nominations and Remuneration Committee, and their attendance at meetings of that committee, were as follows (a total of 2 meetings were held):

Director*	Number of Mtgs Eligible to Attend	Number of Mtgs Attended
Steven Cole (Chairman)	3	3
Peter Lionel Fleury Collins	3	3
Ian Courtney Junk (until 28 June 2012)	3	3

\* David John Reed and Dr Vanessa Guthrie were appointed to the Nominations and Remuneration Committee on 23 August 2012

In accordance with the process for Board, Board Committee and director evaluation as described in the Charter such an evaluation and review has been considered and was undertaken in September 2011 and has been scheduled to be repeated in the latter part of 2012.

The Company departed from the Recommendations in that:

- (a) the Company adopts a varied definition of “independence” than in the Recommendations; and
- (b) the chairperson held an executive role until 30 June 2012 and is not an independent director.

In explanation of the reasons for these departures the Company advises:

- it is satisfied with the level of independence of thought and decision making being contributed by all its nonexecutive directors;
- through the appointment of Steven Cole, an independent nonexecutive director with recognised corporate governance skills, as Deputy Chairman, extra governance oversight is brought to bear to Board proceedings notwithstanding the Chairman was executive;

## PRINCIPLE 3: PROMOTE ETHICAL AND RESPONSIBLE DECISION MAKING

Recommendation 3.1: Establish a code of conduct and disclose the code, or a summary as to:

3.1.1 the practices necessary to maintain confidence in the company’s integrity;

3.1.2 the practices necessary to take into account legal obligations and reasonable expectations of stakeholders;

### 3.1.3 the responsibility and accountability of individuals for reporting and investigating reports of unethical practices.

The Company has established a formal code of conduct in the Charter to guide the Directors, the CEO, the CFO (or equivalent) and other key executives with respect to the practices necessary to maintain confidence in the Company's integrity, the practices necessary to take into account legal obligations and reasonable expectations of stakeholders, and the responsibility and accountability of individuals for reporting and investigating reports of unethical practices.

The Company's policy concerning trading in Company securities by Directors, officers and employees is set out in the Charter which has been placed on the Company's website. This policy was updated on 21 December 2010 to comply with Listing Rule 12.9 which came into effect on 1 January 2011.

### Recommendation 3.2: Companies should establish a policy concerning diversity and disclose the policy or a summary of that policy.

The Company has developed and adopted a diversity policy, which has been placed on the Company's website.

### Recommendation 3.3: Companies should disclose the measurable objectives for achieving gender diversity

The Board and executive established the following strategies, initiatives and programs:

#### 3.3.1 Phase 1 – Strategies

- (a) The development and adoption of the Policy.
- (b) The Group's governance charter embodying the Policy within its terms.
- (c) The assignment of responsibility for the Policy and its administration, monitoring and review.

#### 3.3.2 Phase 2 – Initiatives and Programs

##### (a) At Board / Board Committee level:

- (i) Review the Board / Director selection and evaluation processes to ensure that:
  - (A) diversity is embedded as a relevant attribute;
  - (B) any skill / gap analysis matrix utilised includes due regard for the attribute of Diversity; and
  - (C) a clear statement exists as to the mix of skills and diversity that the Board is looking to achieve in membership of the Board
- (ii) When addressing Board succession planning, ensure that:
  - (A) the Policy is respected;
  - (B) efforts are made to identify prospective appointees who have Diversity attributes;
  - (C) efforts are made for any short list of prospective appointees to include at least one male and at least one female candidate.
- (iii) When setting performance and remuneration KPI's for achievement by the CEO and the senior executive team under their employment contracts, ensure that the following are comprised within such KPI's:
  - (A) the development of strategies, initiatives and programs towards the Principle; and
  - (B) attainment of measureable objectives towards the Principle, including gender diversity.

# Corporate Governance Statement

## PRINCIPLE 3: PROMOTE ETHICAL AND RESPONSIBLE DECISION MAKING (continued)

Recommendation 3.1: Establish a code of conduct and disclose the code, or a summary as to: (continued)

### 3.3.2 Phase 2 – Initiatives and Programs (continued)

#### (b) At executive and Management Level

- (i) Review the Group's HR policies and processes to ensure that:
  - (A) they are "inclusive" in nature and responsive to the Policy;
  - (B) they do not expressly or implicitly operate in a manner contrary to the Policy;
  - (C) equal opportunity status applies to all positions within the Group, except where there is legitimate cause in the best interests of the Group and its personnel, to warrant otherwise; and
  - (D) any incidents of exception referred to in paragraph (C) are reported to the Company Secretary for verification (and on-referral as appropriate) having regard to the Policy.
- (ii) Review the Group's physical environments and cultural practices to ensure that:
  - (A) they are "inclusive" in nature and responsive to the Policy;
  - (B) they do not expressly or implicitly operate in a manner contrary to the Policy.
- (iii) Generally ensure in the Group's recruitment practices that:
  - (A) the Policy is respected;
  - (B) efforts are made for any short list of prospective appointees to include at least one male and at least one female candidate.

#### (c) Generally – Development Programs

- (i) The Group commits to the career development of those of its personnel who aspire to develop their skills and abilities to take on more senior and responsible roles within the Group.
- (ii) A standing program will be developed by management, with provisional budgetary funding approved from time to time by the Board, to achieve this objective.
- (iii) A particular aim of this initiative is to improve the internal succession 'pipeline' of personnel, especially gender diverse personnel, towards more senior and responsible roles within the Group.

### 3.3.3 Measurable objectives, targets and KPI's (refer paragraph 3 of Policy)

Strategies	By When	Status (✓ indicates objective, target and KPI met)
3.3.1 (a)	31 October 2010	✓
3.3.1 (b)	31 December 2010	✓
3.3.1 (c)	31 December 2010	✓
Initiatives / Program		
3.3.2 (a)(i)(A)	31 March 2011	✓
3.3.2 (a)(i)(B)	31 March 2011	✓
3.3.2 (a)(i)(C)	31 March 2011	✓
3.3.2 (a)(ii)	Ongoing	✓
3.3.2 (a)(iii)	30 June 2011 and ongoing	outstanding
3.3.2 (b)(i)	31 March 2011	✓
3.3.2 (b)(ii)	30 June 2011	✓
3.3.2 (b)(iii)	Ongoing	✓
3.3.2 (c)(i)	Ongoing	✓
3.3.2 (c)(ii)	30 June 2011	✓
<b>Specific Gender Diversity Target</b>		
(1) At Board Level At least one of the next 2 Board appointments desirably should be female with appropriate skills and attributes.	(1) When it is appropriate to expand or refresh the Board.	✓ Dr Vanessa Guthrie joined the Board on 17 June 2011.
(2) At executive level At least one of the next 2 executive appointments desirably should be female with appropriate skills and attributes.	(2) When it is appropriate to expand or refresh the executive team.	✓
(3) Generally Subject to the qualifying note under the Strategic, Initiatives, Programs – Measurable Objectives, Targets and KPI's, of the policy, not less than 33% of new appointments should be male and not less than 33% of new appointments should be female.	(3) Annually by 30 June each year.	✓ As at 30 June 2012 the group had made 51 appointments, 6 female and 45 male. The differential in the number of female appointees against the target is on account of the exception in the qualifying note under item 2 (c) of the policy.

The proportion of:-

- women on the Board is 16.67%
- women in senior executive positions is 0%
- women employees in the group is 15%

Copies of the Company's current Board Members Code of Conduct and Group Code of Conduct/Values and the Company's Share Trading Policy and Diversity Policy are publicly available on the Company's website.

# Corporate Governance Statement

## PRINCIPLE 4: SAFEGUARD INTEGRITY IN FINANCIAL REPORTING

### Recommendation 4.1: The Board should establish an Audit Committee.

The Board has had a combined Audit and Risk Management Committee for the entire reporting period.

### Recommendation 4.2: Structure the Audit Committee so that it consists of:

- only nonexecutive directors
- a majority of independent directors
- an independent Chairperson, who is not chairperson of the Board;
- at least three members.

The Company's Audit and Risk Management Committee has at least 3 members all being nonexecutive directors (Steven Cole, Peter Collins, Ian Junk and Vanessa Guthrie), all of whom, including the Chairman (Steven Cole), are independent. Ian Junk retired as a director on 28 June 2012. From 23 August 2012 David John Reed was also appointed to the Audit and Risk Committee.

### Recommendation 4.3: The Audit Committee should have a formal charter.

The Company's Audit and Risk Management Committee has a formal charter as set out in the Charter.

### Recommendation 4.4: Provide the information indicated in Guide to reporting on Principle 4.

Members of the Board's Audit and Risk Management Committee, and their attendance at meetings of that Committee were as follows (a total of 4 meetings were held):

Director*	Number of Mtgs Eligible to Attend	Number of Mtgs Attended
Steven Cole (Chairman)	4	4
Peter Lionel Fleury Collins	4	3
Ian Courtney Junk (until 28 June 2012)	4	4
Vanessa Guthrie	4	3

The qualifications of the Directors on the Audit and Risk Management Committee appear in the Directors' Report section of this Annual Report.

The Company is not aware of any departures from the Recommendations under Principle 4.

The Company's Audit and Risk Management Committee charter and information on procedures for the selection and appointment of the external auditor, and for the rotation of external audit engagement partners, are all set out in the Charter which is publicly available on the Company's website.

## PRINCIPLE 5: MAKE TIMELY AND BALANCED DISCLOSURE

### Recommendation 5.1: Establish written policies designed to ensure compliance with ASX Listing Rule disclosure requirements and to ensure accountability at a senior executive level for that compliance and disclose those policies or a summary of them.

The Company has established written policies and procedures designed to ensure compliance with ASX Listing Rule disclosure requirements and to ensure accountability at senior executive level for the compliance.



## **Recommendation 5.2: Provide the information indicated in Guide to reporting on Principle 5.**

The Company is not aware of any departure from Recommendations 5.1 or 5.2.

The Company's current written policies and procedures on ASX Listing Rule disclosure requirements are all set out under the heading "Release of Price Sensitive Information Policy" in the Charter which is publicly available on the Company's website.

## **PRINCIPLE 6: RESPECT THE RIGHTS OF SHAREHOLDERS**

### **Recommendation 6.1: Design and disclose a communications policy for promoting effective communication with shareholders and encouraging their participation at general meetings.**

The Charter contains a section formally setting out the Company's communications strategy with its stakeholders including the effective use of electronic communications.

### **Recommendation 6.2: Provide the information indicated in Guide to reporting on Principle 6.**

Details of how the Company will communicate with its shareholders publicly is set out under the heading "Communications with Stakeholders" which is publicly available on the Company's website.

The Company is not aware of any departure from Recommendations 6.1 or 6.2.

## **PRINCIPLE 7: RECOGNISE AND MANAGE RISK**

### **Recommendation 7.1: Companies should establish policies for the oversight and management of material business risks and disclose a summary of those policies.**

The Charter includes a formal policy on risk oversight and management. The Board also has established the Audit and Risk Management Committee of the Board.

The Board and executive through interactive workshop sessions have implemented a system for identifying, assessing, monitoring and managing material risks throughout the organisation, including internal compliance and control systems, and procedures based on AS/NZ ISO 31000:2009. The Company with the assistance of professional consultants undertook a Formal Business Risk Review in January 2012.

Details of the Company's policy on these matters and any amendments in due course are set out under the heading "Risk Management Policy" in the Charter which is publicly available on the Company's website.

### **Recommendation 7.2: The Board to require management to design and implement the risk management and internal control system to manage the Company's material business risks, and report to it on whether those risks are being managed effectively. Board to disclose that management has reported to it as to the effectiveness of the Company's management of its material business risks.**

An Audit and Risk Management Committee has been established as set out in the Charter with preliminary responsibility for establishment and maintaining effective risk management and internal control systems.

The Board, including through the Audit and Risk Management Committee has required management to progress matters and report to it in the terms of this Recommendation.

Further, the Board discloses that management has reported to it as to the effectiveness of the Company's management of its material business risks, including the risk treatment actions taken to date to minimise the risks.

# Corporate Governance Statement

## PRINCIPLE 7: RECOGNISE AND MANAGE RISK (continued)

**Recommendation 7.3:** Board to disclose whether it has received assurance from the CEO (or equivalent) and the CFO (or equivalent) that the declaration provided in accordance with S.295A of the Corporations Act is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks.

The Company's CEO and CFO (or equivalent) provided the Board assurance in compliance with this Recommendation that the declaration provided in accordance with S.295A of the Corporations Act was founded on a sound system of risk management and internal control and that system was operating effectively in all material respects in relation to financial reporting risks.

**Recommendation 7.4:** Provide the information indicated in Guide to reporting on Principle 7.

The Company is not aware of any departure from Recommendations 7.1, 7.2 or 7.3.

A summary of the Company's policies on risk oversight and management of material business risks is publicly available under the heading "Risk Management Policy" in the Charter on the Company's website.

## PRINCIPLE 8: REMUNERATE FAIRLY AND RESPONSIBLY

**Recommendation 8.1:** The Board should establish a remuneration committee.

The Board has established a combined Nomination and Remuneration Committee. Refer reporting on Recommendation 2.6 above.

The remit and responsibilities of the Nominations and Remuneration Committee in respect of remuneration are set out in the Charter.

**Recommendation 8.2:** Clearly distinguish the structure of non-executive directors' remuneration from that of executive directors and senior executives.

The structure of non-executive remuneration is clearly distinguishable from that of executive directors and senior executives.

The Board's policy for determining the nature and amount of remuneration for Board members and senior executives of the economic entity was as follows:

- Executives were to receive a remuneration package consisting of:
  - Fixed Base Salary (based on factors such as skills, experience, value to the Company and length of service), superannuation and non-monetary benefits, as appropriate.
  - Short term incentives in the form of a cash bonus incentive, applied to a maximum percentage of the base salary and structured against relative satisfaction (at the reasonable discretion of the Board) of certain corporate and personally related key performance indicators of the executive.
  - Long term incentives – the grant of Performance Rights in the Company, with value capped to a maximum percentage of Fixed Base Salary, vesting progressively on an annualised basis while the executive remains engaged, with the degree of vesting structured relatively against the company's relative Total Shareholder Return (TSR) performance against a comparator group of companies

The Nomination and Remuneration Committee (on reference from, and in consultation with, the CEO) reviews executive packages from time to time by reference to the economic entity's performance, executive performance and comparable information from industry benchmarks.

- The maximum remuneration of nonexecutive directors is the subject of Shareholder resolution in accordance with the Company's Constitution, the Corporations Act and the ASX Listing rules, as applicable. The apportionment of non-executive director remuneration within that maximum is made by the Board having regard to the inputs and value to the Company of the respective contributions by each nonexecutive director. The Board may also award additional remuneration to nonexecutive directors called upon to perform extra services or make special exertions on behalf of the Company. No additional remuneration was awarded for the year ended 30 June 2012. Details of these are set out in the Remuneration Report within the Directors' Report.
- Greater details of the remuneration arrangements for Directors, Officers and senior executives are contained in the Remuneration Report comprised in the Directors' Report forming part of this Annual Report.

## Recommendation 8.3: Provide the information indicated in guide to reporting on Principle 8

Remuneration Committee (names of members and attendance at meetings)

Refer to the response to Recommendation 2.6 above concerning the Company's Nomination and Remuneration Committee.

### Non-Executive Director Retirement Benefits

Non-executive directors are entitled to statutory superannuation. There are no other schemes for retirement benefits for nonexecutive directors.

### Information Publicly Available

The Charter contains a section formally setting out the charter of the Company's Nominations and Remuneration Committee. Details are publicly available on the Company's website.

EXECUTIVE SUMMARY OF COMPLIANCE WITH RECOMMENDATIONS			
Recommendation #	Compliant	Non-Compliant	If not, why not?
1	✓	-	N/A
2	-	Partial	Refer response to Recommendation 2.6 above.
3	✓	-	N/A
4	✓	-	N/A
5	✓	-	N/A
6	✓	-	N/A
7	✓	-	N/A
8	✓	-	N/A

# Additional Stock Exchange Information

## As at 30 September 2012

The shareholder information set out below was applicable as at 31 August 2012.

### Distribution of ordinary shares:

Analysis of number of equity security holders by size of holding:

Range	Total holders	Units	% of Issued Capital
1 – 1,000	368	124,368	0.03
1,001 – 5,000	806	2,534,132	0.55
5,001 – 10,000	745	6,141,581	1.32
10,001 – 100,000	1907	68,682,092	14.80
100,001 – 9,999,999,999	423	386,629,900	83.31
<b>Rounding</b>			-0.01
<b>Total</b>	4,249	464,112,073	100.00
<b>Unmarketable Parcels</b>	634	577,706	0.12

### Top 20 holders of ordinary shares:

Rank	Name	Units	% of Units
1.	J P MORGAN NOMINEES AUSTRALIA LIMITED	80,537,592	17.35
2.	NATIONAL NOMINEES LIMITED	26,876,631	5.79
3.	PERSHING AUSTRALIA NOMINEES PTY LTD BLUE OCEAN EQUITIES A/C>	24,000,000	5.17
4.	HSBC CUSTODY NOMINEES (AUSTRALIA) LTD	21,507,709	4.63
5.	TRUCKING NOMINEES PTY LTD <D J REED SUPER FUND A/C>	14,115,034	3.04
6.	AMP LIFE LIMITED	12,005,550	2.59
7.	MELAID HOLDINGS PTY LTD	11,662,046	2.51
8.	MR KENNETH JOSEPH HALL <HALL PARK A/C>	10,000,000	2.15
9.	MR DAVID JOHN REED	8,052,768	1.74
10.	BNP PARIBAS NOMS PTY LTD <MASTER CUST DRP>	5,525,672	1.19
11.	ADVANCE CONCEPT HOLDINGS PTY LTD	5,000,000	1.08
12.	TERAN NOMINEES PTY LTD	4,109,310	0.89
13.	J P MORGAN NOMINEES AUSTRALIA LIMITED <CASH INCOME A/C>	3,783,847	0.82
14.	BOND STREET CUSTODIANS LIMITED <JATRAN – v04614 A/C>	3,372,559	0.73
15.	CITICORP NOMINEES PTY LTD	3,371,182	0.73
16.	LINFOOT ONE SUPER PTY LTD <LINFOOT SUPER PLAN NO 1 A/C>	3,160,250	0.68
17.	BNP PARIBAS NOMS PTY LTD <MASTER CUST DRP>	2,961,617	0.64
18.	ABN AMRO CLEARING SYDNEY NOMINEES PTY LTD <CUSTODIAN A/C>	2,672,745	0.58
19.	COROM PTY LTD	2,527,034	0.54
20.	MRS JUDITH MARY REED	2,487,226	0.54

## Substantial Holders

Substantial holders in the Company are set out below:

Ordinary Shares	Number Held	Percentage
M&G Investment Management Limited	67,000,000	14.48%
D J Reed	26,997,338	6.12%
Metals X Limited	24,000,000	5.17%
SG Hiscock & Company Limited	23,247,105	5.01%

## Unlisted Options

The number of unlisted options with an exercise price of 85 cents maturing on 31 December 2012 over fully paid ordinary shares is 1,800,000 options and the number of holders of options is 5.

The number of unlisted options with an exercise price of \$1.20 maturing on 30 June 2013 over fully paid ordinary shares is 1,850,000 options and the number of holders of options is 8.

The number of unlisted options with an exercise price of \$1.00 maturing on 1 July 2013 over fully paid ordinary shares is 3,000,000 options and the number of holders of options is 8.

The number of unlisted options with an exercise price of 80 cents maturing on 31 December 2013 over fully paid ordinary shares is 2,450,000 options and the number of holders of options is 8.

The number of unlisted options with an exercise price of \$1.00 maturing on 1 July 2014 over fully paid ordinary shares is 500,000 options and the number of holders of options is 1.

## Voting Rights

The voting rights attaching to ordinary shares are set out below:

On a show of hands every member present at a meeting in person or by proxy shall have one vote and upon a poll each share shall have one vote.

The unlisted Option Holders may attend and speak at general meetings of the Company, however, they do not have an entitlement to vote upon the business before the meeting either by show of hands or by poll.

## Other

The name of the Company's Joint Company Secretaries are Mr Darren Wates and Mr Jason Carone.

The address of the principal registered office in Australia is:

Level 1, 672 Murray Street, West Perth, Western Australia 6005.

Telephone: (08) 9322 1182

Facsimile: (08) 9321 0556

Website: [www.reedresources.com](http://www.reedresources.com)

Registers of Securities are held at the following addresses:

Level 1, 672 Murray Street, West Perth, Western Australia 6005.

Quotation has been granted for all ordinary shares of the Company on all Member Exchanges of the Australian Stock Exchange Limited.

# Additional Stock Exchange Information

as at 28 September 2012

## MEEKATHARRA PROJECT

### Aladdin-Caledonia-Three Sisters-Bailey Island

M51/0012	M51/0031	M51/0033	M51/0062	M51/0096	M51/0203
M51/0320	M51/0321	M51/0793	M51/0794	M51/0795	M51/0819
M51/0820					

### Bluebird / South Junction

M51/0132	M51/0393	M51/0491	M51/0539	
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### Bluebird-Yaloginda

L51/0043	M51/0027	M51/0028	M51/0035	M51/0091	M51/0161
M51/0180	M51/0187	M51/0190	M51/0209	M51/0211	M51/0280
M51/0281	M51/0325	M51/0385	M51/0386	M51/0409	M51/0418
M51/0419	M51/0433	M51/0441	M51/0471	M51/0485	M51/0489
M51/0500	M51/0502	M51/0516	M51/0528	M51/0560	M51/0561
M51/0679	M51/0738	M51/0805	P51/1606	P51/1607	P51/1723
P51/1732	P51/1750	P51/1755	P51/1760	P51/1820	P51/1904
P51/1907	P51/1908	P51/1909	P51/1910	P51/1992	P51/2185
P51/2189	M51/0557(a)	M51/0586(a)	M51/0587(a)	M51/0613(a)	M51/0811(a)
M51/0628(a)	M51/0640(a)	M51/0677(a)	M51/0678(a)	M51/0680(a)	M51/0871(a)
M51/0718(a)	M51/0737(a)				

### Burnakura

M51/0422	M51/0423	M51/0424	M51/0468	M51/0469	
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### Chunderloo/Wanganui

L51/0082	M51/0079	M51/0637(a)	M51/0638(a)	M51/0639(a)	
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### Highway

M51/0256	M51/0257	M51/0503	
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### Kurara East

E51/0814	L51/0030	L51/0051	M51/0235	M51/0381	M51/0454
M51/0455	M51/0456	P51/2037	P51/2038	P51/2039	P51/2040
M51/0675(a)	M51/0746(a)	M51/0781(a)	M51/0806(a)	M51/0807(a)	M51/0824(a)
M51/0825(a)					

## MEEKATHARRA PROJECT

### Meekatharra

L51/0056	M51/0438	L51/0067	M51/0199	M51/0200	M51/0521
M51/0437	P51/1801	M51/0439	M51/0440	M51/0504	P51/1859
P51/1764	P51/1861	P51/1808	P51/1809	P51/1836	P51/1867
P51/1860	P51/1871	P51/1862	P51/1863	P51/1865	P51/1879
P51/1869	P51/1881	P51/1875	P51/1876	P51/1878	P51/1885
P51/1880	P51/1887	P51/1882	P51/1883	P51/1884	P51/1891
P51/1886	P51/1893	P51/1888	P51/1889	P51/1890	M51/0667(a)
P51/1892	M51/0669(a)	P51/1894	M51/653(a)	M51/0654(a)	M51/0673(a)
M51/0668(a)	M51/0688(a)	M51/0670(a)	M51/0671(a)	M51/0672(a)	

### Nannine

G51/0009	L51/0018	L51/0033	L51/0034	L51/0079	M51/0006
M51/0051	M51/0053	M51/0075	M51/0334	M51/0374	M51/0447
M51/0462	M51/0463	M51/0472	M51/0482	M51/0486	M51/0496
M51/0523	M51/0524	P51/1581	P51/1582	P51/1583	P51/1628
P51/1637	P51/1638	P51/1639	P51/1640	P51/1641	P51/1642
P51/1646	P51/1647	P51/1648	P51/1649	P51/1650	P51/1656
P51/1657	P51/1658	P51/1788	P51/1789	P51/1795	P51/1796
P51/1797	P51/1798	P51/1799	P51/1818	P51/1822	P51/1823
P51/1824	P51/1825	P51/1990	P51/2024	P51/2036	P51/2056
P51/2057	P51/2058	P51/2059	P51/2061	P51/2062	M51/0568(a)
M51/0569(a)	M51/0570(a)	M51/0571(a)	M51/0572(a)	M51/0573(a)	M51/0575(a)
M51/0576(a)	M51/0581(a)	M51/0582(a)	M51/0644(a)	M51/0645(a)	M51/0652(a)
M51/0666(a)	M51/0674(a)	M51/0740(a)	M51/0758(a)	M51/0780(a)	M51/0782(a)
M51/0783(a)					



# Additional Stock Exchange Information

as at 28 September 2012

## MEEKATHARRA PROJECT (continued)

### Norie

E51/1496	M51/0039	M51/0477	M51/0492	M51/0493	M51/0494	M51/0495
M51/0501	M51/0525	M51/0526	P51/1717	P51/1718	P51/1719	P51/2082
P51/1720	P51/1721	P51/1991	P51/2081	M51/0584(a)	M51/0784(a)	

### Polelle

E51/0259	E51/0615	E51/1484	L51/0035	M51/0427	M51/0459	M51/0465
M51/0484	M51/0605	M51/0611	M51/0612	M51/0643	M51/0717	M51/0802(a)
M51/0797	M51/0803	P51/1925	P51/2327	M51/0483(a)	M51/0801(a)	M51/0834(a)
M51/0796(a)	M51/0798(a)	M51/0799(a)	M51/0800(a)	M51/0823(a)	M51/0830(a)	
M51/0809(a)	M51/0810(a)	M51/0822(a)				

### Reedys

E20/0189	E20/0440	E20/0489	E51/1487	G51/0013	G51/0014	G51/0015
G51/0017	G51/0026	L20/0008	L20/0010	L51/0029	L51/0031	
M20/0012	M20/0045	M20/0068	M20/0069	M20/0077	M20/0212	
M20/0214	M20/0219	M20/0443	M20/0444	M20/0445	M20/0496	
M51/0092	M51/0233	M51/0649	M20/0420(a)	M20/0421(a)		
M20/0437(a)	M20/0438(a)	M20/0476(a)	M20/0477(a)	M51/0778(a)		

### SE Meekatharra

L51/0041	L51/0055	L51/0071	L51/0072	L51/0073	L51/0077	P51/2326
M51/0445	M51/0446	M51/0487	M51/0488	M51/0490	P51/1987	M51/0741(a)
M51/0849(a)						

### Stakewell

L20/0017
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### South Quinns

E20/0690
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### Tough Go

L20/0018	M20/0073	M51/0254	M51/0762
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### Turn Of The Tide

E51/0348	L51/0078	L51/0081	M20/0070	M20/0071	M20/0107	M20/0249
M20/0309	M51/0236	M51/0237	M51/0757(a)	M51/0788(a)		

## BARRAMBIE PROJECT

E57/769	E57/770	E57/819	M57/173	G57/5	G57/6	G57/7
G57/8	L57/29	L57/30	L20/49	L20/55		

## COMET VALE

E29/603	E29/727	E29/762	M29/035	M29/052	M29/085	M29/185
M29/186	M29/197	M29/198	M29/199	M29/200	M29/201	M29/232
M29/233	M29/235	M29/321	E29/787	L29/67		

## MOUNT FINNERTY

E15/836	E15/1123	E15/1172	E16/260	E16/261	E16/272	E16/308
E16/341	E16/305*	E16/330*	E16/375	E16/376	E16/378	E16/380
E16/384**	M15/978	M15/1371	M15/1752	M15/1785	M15/1787	M16/506
M16/507	M16/511	M16/522	P15/4445	L15/309	P15/4818	P15/4819

## MOUNT MARION

E15/1190	E15/1191	M15/999	M15/1000	L15/315	L15/316	L15/317
L15/321						

(a)- mining tenement applications

\* - registered holder is Barranco Resources NL, Reed Resources Ltd has option to purchase 100%

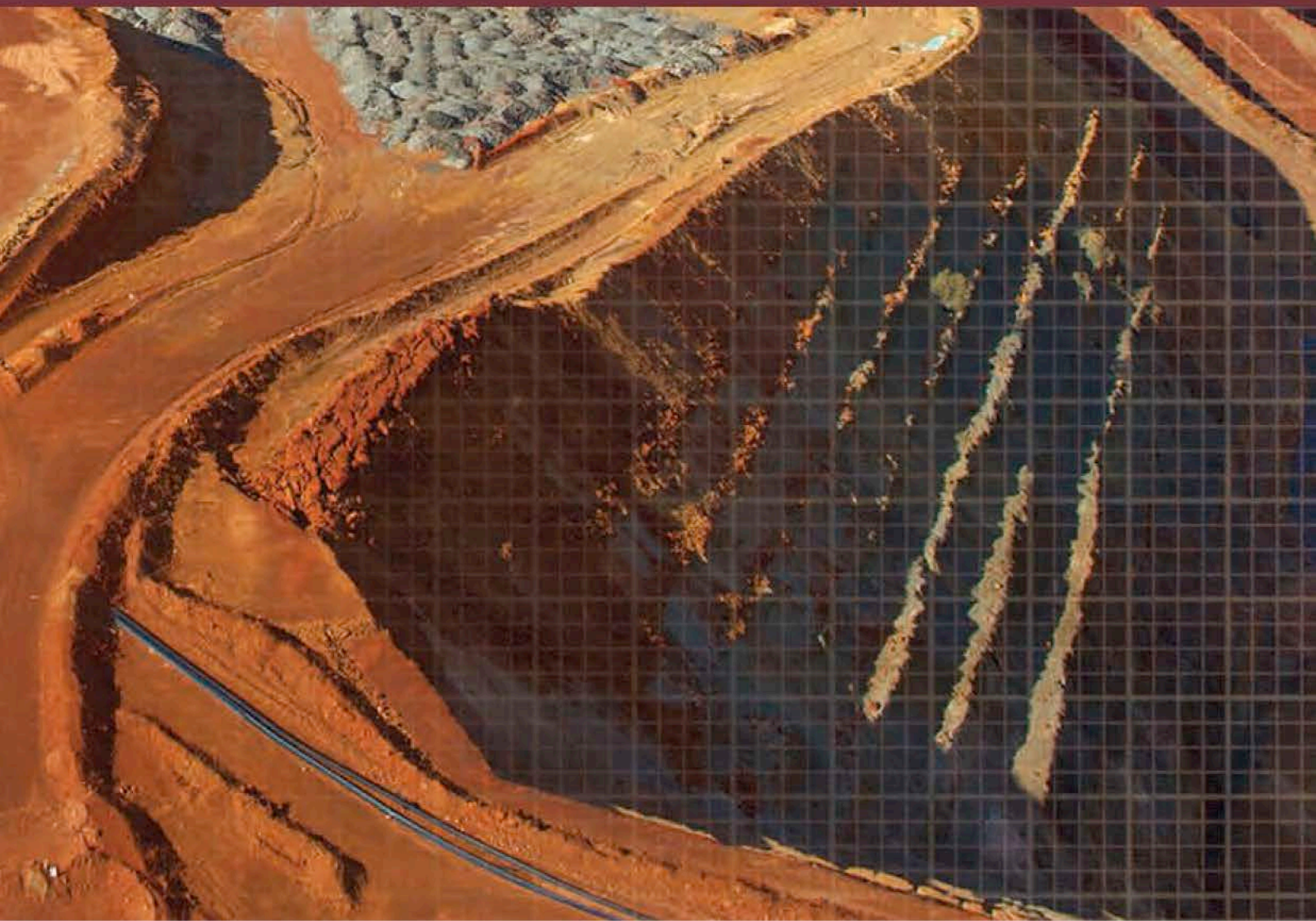
\*\* - registered holder is Cliffs Asia Pacific Iron Ore Pty Ltd, Reed Resources Ltd has 20% interest in iron ore rights.

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