

26 October 2007

Dear Shareholder,

It is my pleasure to update you on your Company's activities. In my opinion, developments in your Company's activities over the last year have set the stage for an exciting future. The Sand Queen Gold Mine Joint Venture has operated continuously through the year and although production has not met our expectations to date, with some 13 overseas mine workers contracted to start work early in the New Year, we are confident that we will rapidly achieve our targeted 10,000 oz p.a. of gold production.

The main focus of the Company has been the Definitive Feasibility Study on our Barrambie Vanadium Project, which is on schedule for completion in June 2008, with first production planned for early 2011. Results to date confirm that the deposit is the highest grade in Australia and produces a superior concentrate and final product at excellent recoveries, this augurs well for it to be the lowest cost producer in Australia. To give you an idea of the work carried out on the deposit in the last 12 months, we have drilled 413 RC holes for 29,493 metres, 19 diamond holes for 1,416 metres and 7 Calweld holes for 171 metres (1m diameter for metallurgical testwork).

Portman have earned an 80% interest in the Mt Finnerty Iron Ore Joint Venture and will complete a comprehensive geophysical and drilling programme over the next few months. Resource delineation drilling of existing direct shipping grade iron ore occurrences (FIN9), drill testing of new enriched banded iron targets (FIN10 & 11), new detrital and concealed iron targets, could see the target potential significantly increase.

Western Areas are earning 65% of the nickel rights over designated areas at Mt Finnerty. A RAB drilling programme is currently underway to be followed by electromagnetic survey work to further refine targets for to RC drilling early in the New Year. Results have been highly encouraging to date and we feel confident that we may participate in the nickel mining industry within 12 months.



Gold exploration at Comet Vale has discovered the shallow Princess Grace lode, analogous to the Sand George lodes (250m to West) and an RC drilling programme is to commence in November on virgin gold-copper targets on leases East of the Sand Queen. We are also formulating a programme to test 15 gold targets within the 500 km<sup>2</sup> of tenure at Mt Finnerty.

Following the Annual Meeting we should have in excess of \$16m in working capital to finalise our feasibility studies and progress other projects within the Company. The market capitalisation of your Company has doubled, as has the share price over the last 12 months and I feel this growth will continue for a number of years offering excellent returns to our shareholders as our projects develop.

In closing I must thank my fellow Directors and Employees of your Company for their excellent contribution over the last 12 months.

Yours faithfully,

A handwritten signature in blue ink, appearing to read 'David Reed', with a stylized flourish at the end.

David Reed  
**EXECUTIVE CHAIRMAN**



# ANNUAL FINANCIAL REPORT



07

# CORPORATE DIRECTORY

## Directors

David Reed	(Executive Chairman)
Christopher Reed	(Executive Director)
Peter Collins	(Non-executive Director)
Ian Junk	(Non-executive Director)

## Company Secretary

Christopher Reed

## Registered Office

97 Outram St  
West Perth WA 6005

## Contact Details

Telephone	(+618) 9322 1182	Facsimile	(+618) 9321 0556
Website	www.reedresources.com	Email	chris@reedresources.com

## Stock Exchange Listing

Reed Resources Ltd are listed on the Australian Stock Exchange (Home Branch - Perth) ASX Code: RDR

## 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

## Bankers

National Bank Australia

## Solicitors

Allens Arthur Robinson  
Level 37, QVI  
250 St Georges Terrace  
Perth WA 6000

## Share Registry

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

## Annual General Meeting

Monday, 26 November 2007 at 3.00pm  
The Cottesloe Hotel  
104 Marine Parade, Cottesloe



# **ANNUAL FINANCIAL REPORT**

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# CORPORATE GOVERNANCE STATEMENT

## INTRODUCTION

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 it is conducted appropriately and in the best interests of the Company and its shareholders.

This corporate governance statement outlines the key principles and practices of the Company which together with adopted policies and company charter define the Company's system of governance.

The Company's corporate governance framework is consistent with the principles of good corporate governance and corresponding best practice recommendations as published by the ASX Corporate Governance Council except where noted to the contrary in this statement, with explanation given as to the reason for any non-conformance. Copies of the Company's policies, charter and corporate governance statement are available on the corporate governance section of the Company's website at [www.reedresources.com/](http://www.reedresources.com/).

The Company is committed to reviewing and amending its corporate governance policies as appropriate to reflect the activities and growth of the Company, current legislation and good governance practice.

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

Recognise and publish the respective roles and responsibilities of board and management.

Recommendation 1.1: Formalise and disclose the functions reserved to the board and those delegated to management.

### Role of the Board

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.

## **CORPORATE GOVERNANCE STATEMENT (CONT'D)**

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.

The Company is committed to the circulation of relevant materials to directors in a timely manner to facilitate directors' participation in Board discussions on a fully informed basis.

### **PRINCIPLE 2: STRUCTURE THE BOARD TO ADD VALUE**

Have a board of an effective composition, size and commitment to adequately discharge its responsibilities and duties.

Recommendation 2.1: A majority of the board should be independent directors.

#### **Composition of the Board**

The Company's Board has two non-executive and independent directors, and two executive directors including the chairman, all of whom held the position during the past year. One third of the directors are subject to retirement (subject to opportunity for re-election by shareholders in general meeting) by rotation at annual general meetings and in compliance with conditions as stipulated in the Corporations Act.

Election of Board members is substantially the province of the Company's shareholders in general meeting. However, subject thereto, the Company commits to the following principles:

- a Board comprising directors with a blend of skills, experience and attributes appropriate for the Company and its business; and
- the principal criterion for the appointment of new directors being their ability to add value to the Company and its business.

#### **Nature of departure**

The Board does not have a majority of independent directors.

#### **Explanation for departure:**

The Company is relatively small and its business operations are not sophisticated. The Board comprises only four directors. The Board believes its current membership base to be sufficient to optimise the Company's performance in a cost efficient manner without the need for additional director input and associated cost. As the Company's operations grow, it is accepted that it may become desirable to appoint another non-executive and independent director.

Recommendation 2.2: The chairperson should be an independent director.

Nature of departure: The chairperson (David John Reed) is an executive director and substantial shareholder of the company and as such does not pass the criteria of independence as outlined in box 2.1 of the ASX Corporate Governance Council Principles of Good Corporate Governance and Best Practice Recommendations.

## CORPORATE GOVERNANCE STATEMENT (CONT'D)

Explanation for departure: The Board considers that at present, the role of David Reed as executive chairperson of the company remains in the best interests of the company. David has a unique understanding of the Company's mining tenements and operations, as well as holding a unique profile in the Western Australian gold mining industry. Due to the present, relatively small nature of the Company's business operations, and the availability of David's services, cost benefit analysis weighs against the utility of an independent chairperson. The Board is mindful of the recommendation that the chairperson should be an independent director; and accordingly, the Board and its Nomination and Remuneration Committee will periodically review the role of the chairperson in the context of the recommendation.

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

The roles of chairperson (David John Reed) and chief executive officer (Christopher John Reed) are not exercised by the same person.

Recommendation 2.4: The board should establish a nomination committee.

### Nomination and Remuneration Committee

Since 13 June 2006, the Board adopted a Nomination and Remuneration Committee Charter; a copy of which is available on the Company's website. This combined Committee is responsible for overseeing the Company's remuneration and compensation plans, policies and practices on behalf of the Board and shareholders.

The Nomination component of the Committee assists the Board in fulfilling its responsibilities to shareholders with regard to:

- identifying the necessary and desirable competencies of Board members;
- assessing the extent to which the competencies are represented on the Board; and
- the selection and appointment process for directors.

In endeavouring to ensure that the Board has an appropriate mix of skills and experience, the committee will consider directors who have a demonstrated record of high levels of integrity and performance and improving shareholder returns, and who can apply those skills and experience to the benefit of the Company.

The Remuneration component of the Committee assists the Board in ensuring 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.

## CORPORATE GOVERNANCE STATEMENT (CONT'D)

Recommendation 2.5: Provide the information set out in the Guide to reporting on Principle 2

### Directors skills, experience and expertise

The skills, experience and expertise relevant to the position of director held by each director in office at the date of the annual report.

#### David John Reed, OAM, FCPA, age 61

Position with Company: Executive Chairman

Term of Office: Appointed 20 December 2001

Independent: No

Company Board Committee Membership: Nomination and Remuneration Committee

Current External Directorships: None

Skills, Experience and Expertise: Mr David Reed is a Fellow member of CPA Australia, and graduated in accountancy in 1965. He has 40 years experience in stockbroking including 22 years based in Kalgoorlie. In 1985 he became chairman of stock-broking firm Eyres Reed Ltd in Perth until its sale to CIBC World Markets in 1997. He has extensive public company experience having sat as chairman of several listed exploration companies. He has a long history in the gold mining industry, including chairman of Fund Raising for the Australian Prospectors and Miners Hall of Fame. He is also a Founder and Session Chairman of the Diggers and Dealers Forum in Kalgoorlie, and a past Secretary of the amalgamated Prospectors and Leaseholders Association.

#### Christopher John Reed, BComm, GradCertMinEcon, ASA, MAusIMM, age 34

Position with Company: Executive Director/Chief Executive Officer/Secretary

Term of Office: Appointed 20 December 2001

Independent: No

Company Board Committee Membership: None

Current External Directorships: None

Skills, Experience and Expertise: Mr Chris Reed, graduated with a Bachelor of Commerce from the University of Notre Dame. He holds a Graduate Certificate in Mineral Economics from the WA School of Mines, is a Member of the Australasian Institute of Mining and Metallurgy and is an Associate Member of CPA Australia. He has 14 years experience in the mineral exploration and mining industry.

## **CORPORATE GOVERNANCE STATEMENT (CONT'D)**

### **Peter Lionel Fleury Collins, BSc(Hons), PhD, MAIG, age 57**

Position with Company: Non-Executive Director

Term of Office: Appointed 20 December 2001

Independent: Yes

Company Board Committee Membership: Nomination and Remuneration Committee

Current External Directorships: None

Skills, Experience and Expertise: Dr Peter Collins graduated with a Bachelor of Science with honours from the University of Tasmania, where he also gained his Doctor of Philosophy. He has 25 years experience as a geologist in Tasmania and Western Australia. He has been an economic geologist and tin-tungsten commodity specialist with the Tasmanian Geological Survey. He has lectured in geology at Curtin University of Technology since 1987 and has been widely active in the investigation of mineral deposits in WA. Dr Collins was responsible for the planning and management of the exploration programme that discovered the Sand George deposit at Comet Vale.

### **Ian Courtney Junk, BEng (Hons), MAusIMM, age 38**

Position with Company: Non-Executive Director

Term of Office: Appointed 1 December 2003

Independent: Yes

Company Board Committee Membership: Nomination and Remuneration Committee

Current External Directorships: CBR-TSX, BMC-TSX, Committee Bay Resources, Brilliant Mining Corp

Skills, Experience and Expertise: Mr Ian Junk, graduated with a Bachelor of Engineering with honours from the WA School of Mines and holds a First Class Mine Managers Certificate. Ian is a highly respected mining engineer with considerable experience in narrow vein underground mining and project development. Ian and his brother Leigh were chosen as national finalists in the 2003 Ernst & Young - Young Entrepreneur of the Year for their successful implementation of innovative mining methods at the Miitel nickel mine. Ian is a Member of the Australasian Institute of Mining and Metallurgy.

### **Director independence**

The names of the directors considered by the board to constitute independent directors and company's materiality thresholds.

Directors are expected to bring independent views and judgement to the Board's deliberations. Since 13 June 2006, the Company has adopted a policy in regard to director independence substantially in accordance with the ASX Corporate Governance Council's Principles of Good Corporate Governance and Best Practice Recommendations, a copy of which is available on the Company website.



## CORPORATE GOVERNANCE STATEMENT (CONT'D)

The directors considered by the Board to be independent are the non-executive directors, Ian Courtney Junk and Peter Lionel Fleury Collins.

The Board assesses director independence at least on an annual basis, and otherwise when changing circumstances otherwise warrant, including, depending on disclosures from time to time made by individual directors. Directors are considered to be independent if they are independent of management, have no material business, dependency or other relationship with the Company that could materially impede their objectivity or independent judgement, and are thus able to exercise true independence of mind in the interests of the Company. If the Board determines that a director's independent status is lost, it will immediately disclose this to the market.

### Independent Professional Advice

A statement as to whether there is a procedure agreed by the board for directors to take independent professional advice at the expense of the company.

It is part of the corporate governance policies agreed to by the Board that in order to fulfill their responsibilities, and subject to the chairman's prior approval (not to be unreasonably withheld), directors, at the Company's expense, have the right to obtain independent professional advice on issues that may arise in the course of their duties.

### Term of Office of each Director

The term of office held by each director in office at the date of the annual report.

Director	Office Held	Term of Office Held
David John Reed	Executive Chairman	since 20 December 2001
Christopher John Reed	Executive Director/Chief Executive Officer	since 20 December 2001
	Company Secretary	since 20 December 2001
Peter Lionel Fleury Collins	Non-executive Director	since 20 December 2001
Ian Courtney Junk	Non-executive Director	since 1 December 2003

### Nomination and Remuneration Committee

The names of members of the nomination committee and their attendance at meetings of the committee.

The Nomination and Remuneration Committee met once during the 2006-2007 financial year. Attendance of each member was as follows:

Director	No. of meetings attended
David Reed - (Committee Chair) Executive Chairman	1/1
Peter Collins – Non-executive Director	1/1
Ian Junk – Non-executive Director	1/1

## **CORPORATE GOVERNANCE STATEMENT (CONT'D)**

### **PRINCIPLE 3: PROMOTE ETHICAL AND RESPONSIBLE DECISION-MAKING**

#### **Actively promote ethical and responsible decision-making.**

Recommendation 3.1: Establish a code of conduct to guide the directors, the chief executive officer (or equivalent), the chief financial officer (or equivalent) and any other key executives as to:

- 3.1.1 the practices necessary to maintain confidence in the company's integrity
- 3.1.2 the responsibility and accountability of individuals for reporting and investigating reports of unethical practices.

#### ***Nature of departure***

The Board presently has not adopted a formal code of conduct.

#### ***Explanation for departure***

The Board is committed to the establishment and maintenance of appropriate ethical standards to underpin the Company's operations and corporate practices. Having regard to the relatively small number of personnel engaged in the Company's operations, and the ability of the Board to intimately interact with those people to instil ethical standards, the utility of a formal code of conduct was, until recently, considered not to be essential. With the continued growth of the corporation from a gold explorer to a gold producer, a formal code of ethics and conduct is now considered to be of future benefit. The Board is currently in the course of preparing a formal code of ethics and conduct for all directors, officers and employees of the company.

Recommendation 3.2: Disclose the policy concerning trading in company securities by directors, officers and employees.

#### **Share trading policy**

Since 13 June 2006, the Company has adopted a formal policy on the trading of its shares by its directors, officers and employees. The policy prohibits directors, officers and employees from engaging in short-term trading of any the Company's securities, or buying or selling the Company's shares, if they possess unpublished, price-sensitive information. In addition, directors and senior management must not buy or sell the Company's shares in the period between the end of the half or full financial year and the release of the results for the relevant period. Directors and senior management must also receive approval from the chairman, or company secretary, before buying or selling Company shares.

A copy of the Company's Share Trading Policy can be found in the corporate governance section of our website.

Recommendation 3.3: Provide the information indicated in Guide to reporting on Principle 3.

There is no further information to be provided.

### **PRINCIPLE 4: SAFEGUARD INTEGRITY IN FINANCIAL REPORTING**

Have a structure to independently verify and safeguard the integrity of the company's financial reporting.

Recommendation 4.1: Require the chief executive officer (or equivalent) and the chief financial officer (or equivalent) to state in writing to the board that the company's financial reports present a true and fair view, in all material respects, of the company's financial condition and operational result and are in accordance with relevant accounting standards.

## **CORPORATE GOVERNANCE STATEMENT (CONT'D)**

The chief executive officer provides such letters of assurance to the Board for each half-year and full-year results.

Recommendation 4.2: The board should establish an audit committee.

### ***Nature of departure***

The Board does not have a formal audit committee.

### ***Explanation for departure***

The Company presently does not have a separately constituted audit committee as it is not presently of a size, or its affairs of such complexity, to warrant such a committee. All matters capable of delegation to such a committee are presently dealt with by the full Board. The Board as a whole will investigate and recommend candidates for appointment as external auditors of the Company and from time to time will review the scope, performance and fees of its external auditors to ensure the appropriate processes are in place to support the Board in fulfilling responsibilities relating to:

- reporting of financial information to users of financial reports;
- application of accounting policies;
- financial management; and
- internal financial control systems.

Recommendation 4.3: Structure the audit committee so that it consists of:

- only non-executive directors
- a majority of independent directors
- an independent chairperson, who is not chairperson of the board
- at least three members

### ***Notice of departure***

The Board does not have a formal audit committee.

### ***Explanation for departure***

See explanation in recommendation 4.2 above.

Recommendation 4.4: The audit committee should have a formal charter.

### ***Notice of departure***

The board does not have a formal audit committee.

### ***Explanation for departure***

See explanation in recommendation 4.2 above.

## CORPORATE GOVERNANCE STATEMENT (CONT'D)

Recommendation 4.5: Provide the information indicated in Guide to reporting on Principle 4.

### Qualifications of Audit Committee Members

Details of the names and qualifications of those appointed to the audit committee, or, where an audit committee has not been formed, those who fulfil the functions of an audit committee.

The people, and their qualifications, who fulfil the functions of an audit committee are as follows:

Member	Qualifications
<b>David John Reed</b> – Executive Chairman	Diploma in Accounting, Fellow CPA
<b>Christopher John Reed</b> – Chief Executive Officer	BComm, Graduate Certificate Mining Economics
<b>Peter Lionel Fleury Collins</b> – Non-executive Director	BSc (Hons), PhD (Geology)
<b>Ian Courtney Junk</b> – Non-executive Director	BEng (Hons)

### Audit Committee

The number of meetings of the audit committee and the names of the attendees.

Although no formal audit committee has been established, there were 2 meetings of the full Board at which functions commonly dealt with by an audit committee were addressed during the 2006-2007 financial year. Attendance of each Board member at those meetings is as follows:

Director	No. of meetings attended
<b>David John Reed</b> – (Committee Chair) Executive Chairman	2/2
<b>Christopher John Reed</b> – Chief Executive Officer	2/2
<b>Peter Lionel Fleury Collins</b> – Non-executive Director	2/2
<b>Ian Courtney Junk</b> – Non-executive Director	2/2

## PRINCIPLE 5: MAKE TIMELY AND BALANCED DISCLOSURE

Promote timely and balanced disclosure of all material matters concerning the company.

Recommendation 5.1: Establish written policies and procedures designed to ensure compliance with ASX Listing Rule disclosure requirements and to ensure accountability at a senior management level for that compliance.

### Disclosure policy

The Company is committed to providing best practice continuous disclosure and, therefore, has comprehensive policies and procedures designed to ensure compliance with continuous and periodic disclosure obligations under the Corporations Act and the ASX Listing Rules. Since 13 June 2006, the Board has adopted a formal Continuous Disclosure Policy, a copy of which is available on the Company's website.

Continuous disclosure is included as an agenda item at all meetings of the Board. Any issue that arises which may need to be disclosed is to be immediately reported to the disclosure officer, which is Mr Christopher Reed as Company Secretary. The disclosure officer has primary responsibility for administration the Company's disclosure policy. While the disclosure officer is responsible for administering this policy, only the Chairman can authorise the release of any statement to the market.

## **CORPORATE GOVERNANCE STATEMENT (CONT'D)**

All information disclosed to the ASX is posted on the Company's web-site immediately after it is disclosed to the ASX. The Company makes all market announcements, media briefings, details of shareholders meetings, press releases and financial reports available on the Company's web-site.

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

There is no further information to be provided.

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

Respect the rights of shareholders and facilitate the effective exercise of those rights

Recommendation 6.1: Design and disclose a communications strategy to promote effective communication with shareholders and encourage effective participation at general meetings.

#### **Shareholder communication**

The Company places considerable importance on timely and effective communication with our shareholders and the market.

We use internet-based information systems to improve communication with our shareholders and the investment community. Examples include electronic posting of company announcements on our website (usually within one hour of lodgement with the ASX), and notifying our shareholders of ASX announcements and Company-related news and updates via email.

Recommendation 6.2: Request the external auditor to attend the annual general meeting and be available to answer shareholder questions about the conduct of the audit and the preparation and content of the auditor's report.

The company's external auditor, Deloitte, attends all annual general meetings and is available to answer shareholder questions.

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

Establish a sound system of risk oversight and management and internal control

Recommendation 7.1: The board or appropriate board committee should establish policies on risk oversight and management.

#### **Identification and Management of Risk**

The Company and Board recognize the importance of identifying and controlling risks to ensure that they do not have a negative impact on the Company. On 13 June 2006 the Board formally adopted a Risk Management Policy which sets out a policy framework for establishing a system of risk oversight, management and internal control in order to identify, assess, monitor and manage risk. It is anticipated that internal initiatives will be monitored, implemented and managed under these developing initiatives from time to time.

The Board as a whole is responsible for efficient and effective risk assessment and risk management. Management of risks will be discussed by the Board at periodic strategic planning meetings. In addition, key operational risks and their management, will be recurring items for deliberation at Board Meetings.

Recommendation 7.2: The chief executive officer (or equivalent) and the chief financial officer (or equivalent) should state to the board in writing that:

## CORPORATE GOVERNANCE STATEMENT (CONT'D)

- 7.2.1 the statement given in accordance with best practice recommendation 4.1 (the integrity of financial statements) is founded on a sound system of risk management and internal compliance and control which implements the policies adopted by the board
- 7.2.2 the company's risk management and internal compliance and control system is operating efficiently and effectively in all material respects.

The chief executive officer discharging his combined function of chief executive officer and chief financial officer provides such written assurance to the Board.

Recommendation 7.3: Provide the information in Guide to reporting on Principle 7.

### Risk Management Policy

Description of the company's risk management policy and internal compliance and control system.

The following sets forth the key areas of risk management perceived to be relevant to the Company and which is anticipated will be embraced within the policy framework now committed to in the terms of the Risk Management Policy adopted on 15 June 2006.

The risk profile of the Company includes both financial and non-financial factors. In addressing the Company's risk management policy and internal compliance and control systems, the Board receives and considers reports, presentations and representations from senior management, and key executives which are used in the process of identifying, monitoring and managing material risks. The Board considers whether there are any failures of risk management, internal control or compliance matters and assesses the impact of identified risks on the Company.

The risk profile of the Company includes risk management initiatives for mitigation of risks that may negatively impact on the Company's goals and objectives. Risk factors identified include \$US/\$AUD currency movements, fuel pricing, gold commodity prices, occupational and environmental issues, and operational and management efficiency.

The company's aim is to mitigate or manage these risk through a range of risk initiatives that include retaining competent management and staff, maintaining an experienced and multi-discipline board that can work effectively together; a tenement portfolio that includes a range of active exploration and development stage projects, financial and internal audits, and continued development and commitment to corporate governance practices.

Since 13 June 2006, the Board has adopted a high-level Risk Management Policy (with a view to rollout a formal set of initiatives under that policy in the 2007-2008 financial year. It is anticipated that internal initiatives will be monitored, implemented and managed under these developing initiatives from time to time).

A copy of the company's present Risk Management Policy, which is subject to the Board's periodic review, is available on the Company's website.

### PRINCIPLE 8: ENCOURAGE ENHANCED PERFORMANCE

Fairly review and actively encourage enhanced board and management effectiveness

Recommendation 8.1: Disclose the process for performance evaluation of the board, its committees and individual directors, and key executives.



## **CORPORATE GOVERNANCE STATEMENT (CONT'D)**

### **Board and board committee performance evaluation**

Each year the directors evaluate both the collective performance of the Board and that of individual members. Similarly, a process of annual performance evaluation is conducted for the Board committees.

Following the creation of a separate Nomination and Remuneration Committee and Charter on 13 June 2006, the Committee is responsible for assessing that the framework and the process used for conducting evaluations are appropriate and for making recommendations to the Board in relation to the performance of the chief executive officer and other key executives.

### **PRINCIPLE 9: REMUNERATE FAIRLY AND RESPONSIBLY**

Ensure that the level and composition of remuneration is sufficient and reasonable and that its relationship to corporate and individual performance is defined.

Recommendation 9.1: Provide disclosure in relation to the company's remuneration policies to enable investors to understand (i) the costs and benefits of those policies and (ii) the link between remuneration paid to directors and key executives and corporate performance.

#### **Directors' Remuneration Arrangements**

The remuneration of an executive director will be decided by the Nomination and Remuneration Committee.

The maximum aggregate remuneration of non-executive directors is the subject of shareholder resolution in accordance with the Company's Constitution, the Corporations Act and the ASX Listing Rules, as applicable.

Director remuneration within that maximum will be made by the Board having regard to the inputs and value to the Company of the respective contributions of each non-executive director. The Board may award additional remuneration to non-executive directors called upon to perform extra services or make special exertions on behalf of the Company.

The Company's 2007 remuneration report is located on page 26 of the 2007 Annual Report.

Recommendation 9.2: The board should establish a remuneration committee.

The Board has a Nomination and Remuneration Committee, as outlined in recommendation 2.4 above.

Recommendation 9.3: Clearly distinguish the structure of non-executive directors' remuneration from that of executives.

#### **Nature of departure**

In addition to their directors emoluments, the company's Non-executive Directors are eligible to receive options under the company's long-term incentive plan, which approach is not in compliance with the guidelines for non-executive director remuneration as outlined in box 9.3 of the ASX Corporate Governance Council Principles of Good Corporate Governance and Best Practice Recommendations.

## **CORPORATE GOVERNANCE STATEMENT (CONT'D)**

### ***Explanation for departure***

All non-executive directors are remunerated by way of annual fees which are set out in the Remuneration Report of the 2007 Annual Report, the maximum aggregate level of which fees has been approved by shareholders in general meeting. However, in order to attract and maintain high-calibre, non-executive directors, the Board, in recognition of each of the non-executive directors contribution to the Company's progress to date, and to further incentivise their ongoing performance and commitment to the Company granted (with the approval of the shareholders at the 2006 Annual General Meeting) 500,000 new options to acquire fully paid ordinary shares of the Company, to each of the Company's non-executive directors. Details of these options are further set out in the 2007 Annual Report.

Recommendation 9.4: Ensure that payment of equity-based executive remuneration is made in accordance with thresholds set in plans approved by shareholders.

At the 2006 Annual General Meeting, approval was granted for the remuneration arrangements of both executive and non-executive directors, including the issue of options to non-executive directors (as described in recommendation 9.3 above), and, the issue to the chief executive officer of 1,000,000 new options to acquire fully paid ordinary shares of the Company, as part of the company's long-term incentive plan. Further details of these options and all executive and non-executive directors are provided in 2007 Annual Report. The Remuneration Report will also be tabled at the 2007 Annual General meeting for adoption by the Company.

Recommendation 9.5: Provide the information indicated in the Guide to reporting on Principle 9.

### **Remuneration Policy Disclosure**

Disclose the company's remuneration policies referred to in best practice recommendations 9.1 and box 9.1.

The Nomination and Remuneration Committee is responsible for setting the Company's remuneration policy. In determining such policy remuneration, the Committee is mandated to take into account all factors which it deems necessary to ensure that members of the executive management of the Company are motivated to pursue the long-term growth and success of the Company within an appropriate control framework so that there is a clear relationship between key executive performance and remuneration.

Further information is provided in the Remuneration Report on page 26 of the Annual Report.

### **Remuneration Committee**

The names of members of the remuneration committee and their attendance at meetings of the committee.

See Recommendation 2.5 above.

### **Retirement and other statutory superannuation schemes for Non-executive Directors**

The existence and terms of any schemes for retirement benefits, other than statutory superannuation, for non-executive directors.

The Company does not provide any scheme for retirement or other benefits to non-executive directors other than statutory superannuation.

## **CORPORATE GOVERNANCE STATEMENT (CONT'D)**

Principle 10: Recognise the legitimate interests of stakeholders

Recognise legal and other obligations to all legitimate stakeholders

Recommendation 10.1: Establish and disclose a code of conduct to guide compliance with legal and other obligations to legitimate stakeholders.

### ***Nature of departure***

The Company presently has not adopted a formal code of conduct.

### ***Explanation for departure***

The Board is committed to the establishment and maintenance of appropriate ethical standards to underpin the Company's operations and corporate practices including obligations to external stakeholders. With the continued growth of the corporation from a gold explorer to a gold producer, a formal code of ethics and conduct is now considered to be of future benefit. The Board is currently in the process of preparing a formal code of ethics and conduct for all directors, officers and employees of the company which will also cover obligations to all legitimate stakeholders.

## DIRECTORS' REPORT

The directors of Reed Resources Ltd submit herewith the annual financial report of the company for the financial year ended 30 June 2007. In order to comply with the provisions of the Corporations Act 2001, the directors report as follows:

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

Directors Name	Particulars
<b>David J Reed</b>	Executive Chairman
<b>Christopher J Reed</b>	Executive Director/Chief Executive Officer/Company Secretary
<b>Peter LF Collins</b>	Non-Executive Director
<b>Ian C Junk</b>	Non-Executive Director

Further information on the directors is contained in the corporate governance statement on page 2.

### Principal activities

The consolidated entity's principal activities during the period consisted of exploration for gold and other minerals, and the development of a gold mining operation.

### Review of operations

The consolidated loss after income tax for the year attributable to members of Reed Resources Ltd was \$2,423,092.

Reed Resources Ltd raised \$2,000,000 from the issue of 4,761,905 ordinary fully-paid shares at 42 cents per share on 26 March 2007. Reed Resources Ltd raised \$5,000,000 from the issue of 11,904,762 ordinary fully-paid shares at 42 cents per share, pursuant to a Shareholder Purchase Plan on 16 and 28 May 2007. The company has invested \$3,121,448 in capitalised exploration expenditure and development costs in the year ended 30 June 2007.

## COMETVALE PROJECT

### ***Sand Queen Gold Mine***

### ***Production Joint Venture***

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

During the year Kingsrose Mining Pty Ltd, our Joint Venture Operator, continued underground operations at the Sand Queen mine and a second parcel of development ore was toll-treated in March 2007.

The Sand George lodes are being developed on both the 2 and 3 Levels, utilising the Sand Queen Main Shaft for access, with most ore production from stopes on the 2 Level. During the year the 2 Level was advanced 355m, defining the Sand George lodes over more than 180m of strike. Development on the 3 Level was advanced 394 metres, intersecting the Sand George lode in late June. Kingsrose hoisted 8,171 tonnes of ore and 6,421 tonnes of mineralised waste during the year, and must be commended on the outstanding standard of work completed.

The second milling campaign in March 2007 treated 4,161 tonnes of combined development and stope ore mined from the southern end of the Sand Queen deposit. A total of 1,026 ounces of gold and 66 ounces of silver have been recovered of which 493 ounces of gold has been credited to Reed. The gravity circuit recovered about 65% of the gold, and the total gold recovery was in excess of 97% (calculated from the metallurgical balance) for a reconciled head grade of 7.67 g/t Au.

## DIRECTORS' REPORT (CONT'D)

The cash cost per ounce was A\$456, and the average price received was A\$817. "Cash costs" include all expenditures by Reed, directly incurred on mining and milling, plus overheads and royalties. The cash cost is expected to decrease as the proportion of stope ore to development ore increases as mining of the Sand George lodes reaches a more advanced stage.

The next milling campaign is scheduled for early September 2007 and then bi-monthly for the next three and a half years. The size of each campaign is expected to increase as mining of the Sand George lodes increases to full production. Kingsrose Mining Pty Ltd is continuing to evaluate widening of a planned ventilation shaft at the south end of the Sand George lodes to a new production shaft, which would enable increasing the hoisting capacity and resultant production levels well above current levels.

### Mineral Resources (Sand Queen Mine)

The Mineral Resource inventory for the Sand Queen mine (Table 1) includes Indicated Resources of 190,000 tonnes at 12.1 g/t Au (74,400 ounces of gold) within the Sand George lodes and between Sand George and the south end of the old Sand Queen workings (referred to as Sand King). Inferred Resources are in areas of lode peripheral to the Indicated Resources and along strike to the south and at depth beneath the Sand George (SG1 & SG2) lodes.

Table 1. Mineral Resource inventory for gold lodes at the Sand Queen mine, Comet Vale (at a cut-off grade of 5 g/t Au).

Resource Category/ Lode	Tonnes	Grade (g/t Au)	Contained Gold (ounces)
Indicated Resources			
Sand George SG1 lode	78,000	11.4	28,800
Sand George SG2 lode	68,000	13.0	28,500
Sand King (between Sand George and Sand Queen south)	44,400	12.0	17,100
Sub-total	190,400	12.1	74,400
Inferred Resources			
Sand George SG1 lode	11,400	9.4	3,460
Sand George SG2 lode	10,200	14.8	4,900
Sand George south extension and deep lodes	128,000	11.9	49,400
Sand King (between Sand George and Sand Queen south)	20,100	7.4	4,750
Sub-total	169,700	10.9	62,500
TOTAL	360,100	11.8	136,000

All tonnage, grade and ounce values have been rounded down to three significant figures. Slight errors may occur due to this rounding of values.

## **DIRECTORS' REPORT (CONT'D)**

### **Sand Prince West Gold Deposit**

#### **(100% RDR)**

An infill grade control and resource extension drilling program at the Sand Prince West deposit resulted in a substantial increase in the combined Mineral Resource to 121,150 tonnes at a grade of 2.39 g/t Au for 9,310 ounces of gold, using a 1 g/t Au cut-off (Table 2). At a higher cut-off grade (2 g/t Au), the combined resource is estimated to contain 67,440 tonnes at a grade of 3.15 g/t Au, for an estimated 6,820 ounces of gold. About half of the contained gold is in a Measured Resource (Table 2). Further drilling is required to upgrade the Indicated and Inferred Resources to a Measured Resource status.

### **Princess Grace Gold Deposit**

#### **(100% RDR)**

During the year the Company discovered the Princess Grace lode structure, where primary gold mineralisation is within stacked en echelon quartz veins that are adjacent to porphyry intrusives, similar to that seen at the Sand George deposit. The Princess Grace deposit has been intersected over approximately 250 m along strike and is open to the north and south, and down dip, at depth. Higher grades appear to be in the thickest parts of the quartz vein(s) and show a shallow plunge to the north-northeast, similar to what is seen at the adjacent Sand Prince West deposit. There is minimal weathering of the basalt-dolerite host rock, which is covered by a thin overburden of transported regolith.

Resource estimation by Cube Consulting Pty Ltd has established a combined Indicated and Inferred Mineral Resource of 106,000 tonnes @ 2.7 g/t Au for 9,000 ounces of gold (using a 1 g/t Au lower cut) for the Princess Grace lode (Table 2). The Mineral Resource is to a vertical depth of 50 metres and is over 175 metres of strike length, and remains open at depth.



## DIRECTORS' REPORT (CONT'D)

Table 2 Mineral Resource estimates for potential open pit mining of gold deposits at Sand Prince West, Princess Grace and Coonega.

Resource Category	Tonnes	Grade g/t Au	Contained gold ounces
Sand Prince West (1 g/t Au lower cut, no upper cut required)			
Measured	53,000	2.7	4,600
Indicated	46,000	2.2	3,200
Inferred	21,900	2.1	1,500
<b>Total</b>	<b>121,000</b>	<b>2.4</b>	<b>9,300</b>
Princess Grace (1 g/t Au lower cut, no upper cut required)			
Indicated	93,000	2.8	8,400
Inferred	13,000	1.6	600
<b>Total</b>	<b>106,000</b>	<b>2.2</b>	<b>9,000</b>
Coonega (1 g/t Au lower cut, 12 g/t Au upper cut)			
Inferred	106,700	2.2	7,500
<b>Total</b>	<b>106,700</b>	<b>2.2</b>	<b>7,500</b>
Combined Resources (1 g/t Au lower cut)			
Measured	53,000	2.7	4,600
Indicated	139,100	2.6	11,600
Inferred	141,700	2.1	9,600
<b>Total</b>	<b>333,800</b>	<b>2.4</b>	<b>25,800</b>

Mineral Resources have been calculated using Ordinary Kriging constrained by wireframe models. All tonnage, grade and ounce values have been rounded down to three significant figures; slight errors may occur due to rounding of values.

### Open Pit Study

The Sand Prince West and Princess Grace deposits, with a combined Measured and Indicated Resource of 192,000 t @ 2.6 g/t Au for 16,200 ounces of gold (Table 2) could be exploited by shallow conventional open pit mining and low-cost treatment by vat-leaching. This method was used to successfully treat over 150,000 tonnes of low-grade tailings from the Sand Queen Mine in the 1980s and 1990s.

Initial results from metallurgical test work on two-metre column-leaching of combined Sand Prince West-Princess Grace mineralisation using tap water and Sand Queen mine water exceeded 87 % gold recovery after 14 days, with low to moderate reagent consumption consistent with the potential for low-cost extraction.

### Nickel Laterite Exploration

#### **(100% Reed, Heron Resources right to earn 70% Ni rights in M29/186)**

During the year, the Comet Vale Nickel Laterite Joint Venture with Heron Resources Limited ("Heron") (ASX:HRR) commenced. Under the agreement, Heron is required to sole-fund exploration expenditure of at least \$300,000 to earn 70% interest in the nickel/cobalt laterites within three years from the grant of M29/186. Heron is to sole-fund the next \$100,000 of expenditure at which point Reed can elect to either contribute or revert to a 20% interest free carried until a decision to mine. The interest of a diluting party converts to a 1.75% net smelter return royalty if its interest falls below 10%. Reed retains a 100% interest in the gold/copper/silver rights in respect of the joint venture tenements.

## DIRECTORS' REPORT (CONT'D)

The project tenements include 3 strike kilometres of the prospective Walter Williams Formation, which is the source geological formation for all known significant nickel/cobalt laterite mineralisation in the Menzies - Cawse nickel laterite province.

### Regional Exploration

Regional exploration continued with 1:2,000 scale geological mapping of the well-exposed areas to the east of the Goldfields Highway. Integration of this mapping with detailed low-level airborne geophysical survey data (25m line spacing, 15m flying height) and a gravity survey has resulted in a number of targets with potential for gold-silver, gold-copper and nickel-copper sulphide mineralisation. Surface rock-chip sampling of outcropping quartz reefs and mineralised shear zones, some gossanous, within komatiitic rocks has returned highly anomalous gold and copper assays (up to 113 g/t Au, 10.1 % Cu) at a number of these targets. An RC drilling program to test the subsurface expression of some of the mineralised structures is planned for late 2007.

### MOUNT FINNERTY PROJECT

**(100% Reed, Portman 80% Fe rights, Western Areas earning 65% Ni rights)**

Key developments at the Mt Finnerty project have been the signing of a joint venture agreement with Western Areas NL ("Western Areas") (ASX:WSA) to explore for nickel sulphides and following completion by Portman Iron Ore Limited, a subsidiary of Portman Limited ("Portman") (ASX:PMM), of its earn-in requirement, Reed and Portman are proceeding to form the Mount Finnerty Iron Ore Joint Venture.

#### Mount Finnerty Iron Ore Joint Venture

During the year Portman Iron Ore Limited completed seven holes of RC drilling for 465 m at the FIN7 prospect. This target consists of goethite-hematite enriched iron formation over a strike length of 700 metres and up to 30 metres wide. Previous surface sampling returned values up to 65 % Fe. Portman is targeting deposits of 5-10 Mt of iron ore within trucking distance of its 8 Mtpa Koolyanobbing operation.

Drilling was undertaken along lines spaced 200 metres apart to test the lateral and depth extent of surface iron enrichment. The RC drill holes intersected variably lateritised and enriched banded iron formation (BIF) and clays, which may represent deeply weathered mafic and ultramafic rocks. Assays of ironstone intercepts at FIN7 has confirmed continuity of mineralization at depth but it is not of sufficient grade (Table 3) to plan further work at this stage.

Table 3 RC drill hole intercepts of iron-enriched BIF at FIN7 prospect, Mt Finnerty project.

Hole ID	From (m)	To (m)	Intercept (m)	Fe %	SiO2 %	Al2O3 %	P %	S %	LOI %
MFRC033	19	31	12	57.1	4.9	4.7	0.066	0.11	8.1
MFRC034	26	40	14	54.7	8.5	5.2	0.045	0.131	7.4

Portman also completed a review of Reed's airborne geophysical survey data. This resulted in the interpretation of a number palaeochannels, which are potential targets for detrital iron ore deposits (channel iron deposits) within the palaeochannels. An initial phase of drilling to test the palaeochannels is scheduled for the latter half of 2007.

During the year the Company received notification from Portman, that it has completed its earn-in requirement and is proceeding to form the Mount Finnerty Iron Ore Joint Venture. Under the agreement, Portman was required to sole-fund exploration expenditure of at least \$300,000 within three years to earn 80% of the iron ore rights, at which point Reed can and has elected to retain its 20%. Reed retains a 100% interest in the non-iron rights in respect of the joint venture tenements.

## **DIRECTORS' REPORT (CONT'D)**

### **Western Areas Nickel Joint Venture**

During the year the Company entered in to an agreement with Western Areas to undertake exploration for nickel sulphide mineralization associated with two ultramafic sequences along the western and eastern flanks of the greenstone belt.

The main terms of the agreement are:

- Western Areas can earn an initial 51% interest in the nickel rights to the tenements by \$1.5 million expenditure within a 3 year period.
- Western Areas can earn an additional 14% interest by further expenditure of \$1.5 million on the tenements
- Western Areas can withdraw from the agreement at any time after reaching a minimum expenditure of \$200,000 on the tenements.
- Western Areas and Reed will negotiate the terms of a formal joint venture agreement to exploit and nickel deposits discovered on the tenements

This agreement, with such a successful and progressive nickel producer and explorer, confirms the Board's view that the Mt Finnerty project covers one of the most under-explored, fertile greenstone belts in the Eastern Goldfields.

### **Nickel sulphide exploration**

A review of Reed's previous nickel sulphide exploration, including geological mapping and initial RC and RAB drilling program, and re-interpretation of aeromagnetic survey data has confirmed the presence of a coherent sequence of spinifex-textured komatiitic ultramafic flows along the western flank of the greenstone belt. Three target areas have been identified, but initial work will focus on the two southern targets. At the southernmost target area there is approximately 6 km of strike length of untested, intact basal contact of a high magnesian ultramafic formation (Western Ultramafic Unit - WUM) that can be effectively prospected by soil geochemistry.

Exploration of the other areas and of a central ultramafic unit and eastern ultramafic sequence is complicated by variable but extensive laterite cover. These areas will require bedrock drilling in the initial to better elucidate the ultramafic stratigraphy.

Exploration by Western Areas to date has been focused on selected areas of the western ultramafic sequence in order to gain early success. This work has identified four highly anomalous soil geochemical anomalies that are coincident with the basal ultramafic/basalt contact, spread over 10 km of strike. These areas will be further refined by infill soil sampling and ground geophysical surveys prior being tested by drilling.

### **BARRAMBIE VANADIUM PROJECT**

#### **(100% Reed)**

During the year, the Company commenced a Feasibility Study (FS) to determine the viability of mining and constructing and operating a plant to produce vanadium pentoxide. The Feasibility Study is proceeding as a staged program with Phase 1 comprising resource drilling, assessment of ore types and feed options, metallurgical testwork (with a focus on optimising the beneficiation process), preliminary environmental assessment, infrastructure studies and process water appraisal. In this way the up-front expenditure is minimised during the early stages of the Feasibility Study until the process flowsheet is fixed and the project economics are considered sufficiently sound to warrant progressing to the more engineering intensive and costly Phase 2 program.

## **DIRECTORS' REPORT (CONT'D)**

### **Project management**

Mr Lyall Beaney has been seconded from Sinclair Knight Merz (SKM) to replace Mr Ken Hellsten as project manager. The study team comprises SKM (study management and controls, engineering and infrastructure), Snowden Group (resource and mining studies), METS (process design and review), Aquaterra (water, environmental studies and approvals) with geological and field support by Reed Resources.

### **Resource definition drilling results**

A total of 262 RC drill holes were completed in the quarter for a total of 18,630 metres of drilling, in preparation for estimation of mineral resources and ore reserves.

The assay results confirm the exceptional tenor of the vanadiferous magnetite-ilmenite mineralisation. The average grade of all high-grade intercepts (assays greater than 0.6% V<sub>2</sub>O<sub>5</sub> continuous within each intercept) is 0.90 % V<sub>2</sub>O<sub>5</sub> for the Central Bands and 0.80 % V<sub>2</sub>O<sub>5</sub> for the Eastern Band.

Drilling has confirmed continuity of the thick massive Eastern Band and numerous narrow massive bands within the Central Bands.

### **Test work results**

A large diameter (0.9m diameter) Calweld drilling rig completed 7 holes for approximately 172 metres of drilling across the deposit to provide bulk samples for metallurgical test work. Holes were drilled to the base of complete oxidation (~30 metres) to provide representative bulk samples from a range of depths within both the Central and Eastern Bands. A total of approximately 500 tonnes of material was collected.

Separate bulk samples from the Eastern Band and Central Bands have been milled to less than 150 µm and passed through magnetic separation and table (gravity) tests. Material from the magnetic separation and gravity test work will undergo further grinding and high intensity magnetic separation to identify a preferred beneficiation route for production of a final concentrate.

The suitability of each concentrate as feed for salt roasting test work will then be determined for further beneficiation test work.

### **Other Projects**

During the year the Company applied for an exploration licence over an area along the northern contact (~35 km) of the Bell Rock Range intrusion, in the West Musgrave region of WA. The licence is in the expedited procedure for grant in the September quarter and the Company is continuing discussions with the Ngaanyatjarra Land Council for an access agreement.

### **Corporate**

#### **Placement and Shareholder Purchase Plan**

During the quarter placed 4,761,904 shares at \$0.42 (42 cents) per share to raise \$2.0 million before costs to RAB Special Situations (Master) Fund to subscribe for. The placement was arranged by Transocean Securities Pty Ltd.

The Board of Directors also determined to make an offer to eligible shareholders, pursuant to a Share Purchase Plan (SPP), to subscribe for additional fully paid ordinary shares in the Company worth up to \$5,000 per eligible shareholder. The offer was limited in aggregate to \$5,000,000, being 11,904,762 shares at \$0.42 (42 cents) per share and was fully underwritten by Transocean.

## DIRECTORS' REPORT (CONT'D)

The company encourages shareholders and interested parties to visit our website ([www.reedresources.com](http://www.reedresources.com)) to register to receive announcements electronically.

### Further information

Further, more detailed information on the Company's activities during the year is available in the Company's quarterly reports to the Australian Stock Exchange

### Changes in state of affairs

There was no significant change in the state of affairs of the consolidated entity during the financial year.

### Subsequent events

On 8 August the Company announced the initial estimate of Mineral Resources and the results of first pass test work as part of its feasibility study of the Barrambie Vanadium Project, both sets of results confirm the exceptional quality of the Barrambie deposit.

### Metallurgical Results

The results below relate to the beneficiation testwork, previous test work conducted as part of the Pre-Feasibility Study ("PFS") recovered 36% of the original mass of ore from the Eastern Band into a concentrate. The current test work program is being performed by SGS on bulk samples from both the Central and Eastern Bands, separately. All ore samples were ground to P80 150µm before single-pass testing.

Gravity concentrates produced from a Wilfley table gave the following results:

Test	Recovery mass %	V2O5 mass %
Eastern (PFS)	36.1	1.37
Eastern	19.89	1.24
Central	30.31	1.72

Magnetic concentrates produced from a high-intensity, rare earth drum at 6,000 Gauss gave the following results:

Test	Recovery mass %	V2O5 mass %
Eastern (PFS)	36.1	1.37
Eastern	45.73	1.30
Central	63.75	1.68

### Mineral Resource Estimate

Snowden Mining Industry Consultants ("Snowden") has completed an initial Mineral Resource estimate for the Barrambie deposit. The resource has been estimated over a strike length of 5 km between 7535 mN and 12600 mN (local grid). This is equivalent to about 40% of the interpreted total strike length of about 11 km of vanadiferous-titaniferous magnetite mineralisation within Mining Lease M57/173. Most of the resource is over a 2.4 km strike length within the Bay-Cove area between 9700 mN and 12110 mN (local grid).

## **DIRECTORS' REPORT (CONT'D)**

Drill holes in the southern 2 km of strike length, referred to as the Gulf area, are not sufficiently close-spaced for most of this area to be included in the resource estimate. The deposit remains open to the north and south, and at depth.

The total Indicated and Inferred Mineral Resource is estimated at 23.6 Mt at 0.82% V<sub>2</sub>O<sub>5</sub>, 17.9% TiO<sub>2</sub> and 48.5% Fe<sub>2</sub>O<sub>3</sub> at a block cut-off grade of 0.5% V<sub>2</sub>O<sub>5</sub>, within a broader resource envelope of 79.8 Mt at 0.50% V<sub>2</sub>O<sub>5</sub>, 10.4% TiO<sub>2</sub>, 33.0% Fe<sub>2</sub>O<sub>3</sub> at a block cut-off grade of 0.3% V<sub>2</sub>O<sub>5</sub>. The higher cut-off grade appears to best represent the higher-grade massive magnetite bands that will be the target for any selective mining of the deposit. This is also the highest grade of any of the major vanadiferous magnetite deposits in Western Australia.

The estimated resource grade is consistent with the company's aim of achieving a head grade of about 0.8% V<sub>2</sub>O<sub>5</sub> as feed for a processing plant.

### **Future developments**

Disclosure of information regarding likely developments in the operations of the consolidated entity in future financial years and the expected results of those operations is likely to result in unreasonable prejudice to the consolidated entity. Accordingly, this information has not been disclosed in this report.

### **Environmental regulations**

The Company is aware of its environmental obligations with regards to its exploration, development and production activities and ensures that it complies with all regulations when carrying out such work. No known environmental breaches have occurred in relation to the consolidated entity's operations.

### **Dividends**

In respect of the financial year ended 30 June 2007, the company has not paid an interim dividend and no final dividend is recommended. In respect of the financial year ended 2006, the company did not pay an interim dividend and no final dividend was recommended.



## DIRECTORS' REPORT (CONT'D)

### Share options

#### Share options granted to directors and executives

During and since the end of the financial year an aggregate 2,700,000 share options were granted to the following directors and executives of the company and the consolidated entity as part of their remuneration:

Directors and executives	Number of options granted	Issuing entity	Number of ordinary shares under option
Christopher Reed	1,000,000	Reed Resources Ltd	1,000,000
Peter Collins	500,000	Reed Resources Ltd	500,000
Ian Junk	500,000	Reed Resources Ltd	500,000
David Potter	500,000	Reed Resources Ltd	500,000
Claudio Sheriff-Zegers	200,000	Reed Resources Ltd	200,000

#### Shares under option or issued on exercise of options

Details of unissued shares or interests under option as at the date of this report are:

Issuing entity	Number of shares under option	Class of shares	Exercise price of option	Expiry date of options
Reed Resources Ltd	2,000,000	Ordinary	\$0.35	31/12/2008
Reed Resources Ltd	1,000,000	Ordinary	\$0.50	1/7/2010
Reed Resources Ltd	2,700,000	Ordinary	\$0.75	30/12/2011

The holders of these options do not have the right, by virtue of the option, to participate in any share issue or interest issue of any other body corporate or registered scheme.

Details of shares or interests issued during or since the end of the financial year as a result of exercise of an option are:

Issuing entity	Number of shares issued	Class of shares	Amount paid for shares	Amount unpaid on shares
Reed Resources Ltd	250,000	Ordinary	\$87,500	\$Nil

#### Indemnification of officers and auditors

During the financial year, the company paid a premium in respect of a contract insuring the directors of the company (as named above), the company secretary and all executive officers of the company and of any related body corporate against a liability incurred as a director, secretary or executive officer to the extent permitted by 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.

## DIRECTORS' REPORT (CONT'D)

### 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, 7 board meetings, 1 nomination and remuneration committee meetings and 2 audit committee meetings were held.

Directors	Board of directors		Nomination & remuneration committee		Audit committee	
	Held	Attended	Held	Attended	Held	Attended
David Reed	7	6	1	1	2	2
Christopher Reed	7	7	1	0	2	2
Peter Collins	7	5	1	1	2	2
Ian Junk	7	6	1	1	2	2

### 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.

Directors	Fully paid ordinary shares Number	Share options Number	Convertible notes Number
David Reed	22,939,715	-	-
Christopher Reed	1,823,800	3,000,000	-
Peter Collins	285,705	1,000,000	-
Ian Junk	1,035,700	750,000	-

### Remuneration report

#### Director and executive details

The following persons acted as directors of the company during or since the end of the financial year:

- David Reed - Executive Chairman
- Christopher Reed - Executive Director/Chief Executive Officer/Company Secretary
- Peter Collins - Non-executive Director
- Ian Junk - Non-executive Director

The highest remunerated company executives for the financial year were:

- Christopher Reed - Executive Director/Chief Executive Officer/Company Secretary
- David Potter - Manager (geology)
- Peter Collins - Non-executive Director
- Ian Junk - Non-executive Director
- David Reed - Executive Chairman

## DIRECTORS' REPORT (CONT'D)

The five highest remunerated group executives for the financial year were:

- Christopher Reed - Executive Director/Chief Executive Officer/Company Secretary
- David Potter - Manager (geology)
- Peter Collins - Non-executive Director
- Ian Junk - Non-executive Director
- David Reed - Executive Chairman

### Remuneration policy for directors and executives

The Company's policy is to remunerate fairly and in line with companies of similar size, operations and in the same industry. Individual remuneration decisions are made by the board of directors taking into account the following factors:

- The responsibility of the role;
- Experience of the employee;
- Past performance and future expectations;
- Industry trends and conditions.

In order to retain and attract executives of sufficient calibre to facilitate the efficient and effective management of the company's operations, the board of directors seeks the advice of external advisers in connection with the structure of remuneration packages. None of the Company's remuneration packages are linked directly to the Company's profitability or other measure of performance.

The Executive Officers of the Company are employed under Service Agreements which have been in existence since April 2002. The Service Agreements are all identical in their contents and only differ in remuneration levels. The service contracts have a duration of three years and renew automatically unless terminated by either the Company by giving twelve months notice to the individual; or by the individual by giving six months notice to the Company. The level of remuneration is not dependent on the satisfaction of any performance condition.

Non-executive Directors are remunerated by fees determined by the Board within the aggregate Directors' fee pool limit of \$100,000 approved by shareholders in April 2002. The pool limit is not at present fully utilised. In setting the fees, account is taken of the responsibilities inherent in the stewardship of the Company and the demands made of Directors in the discharge of their responsibilities.

Remuneration packages contain the following key elements:

- a) Short-term benefits - salary, superannuation and non-monetary benefits including the provision a motor vehicle;
- b) Share based payments - share options granted under the executive share option plan as disclosed in note 8 to the financial statements.

## DIRECTORS' REPORT (CONT'D)

### Director and executive remuneration

The directors and the two identified company executives and group executives received the following amounts as compensation for their services as directors and executives of the company and/or the Group during the year:

	Short-term employee benefits				Post-employment benefits	Other long-term employee benefits	Share-based payment	Total	% consisting of options
2007	Salary & fees \$	Bonus \$	Non-mone-tary \$	Other \$	Super-annuation \$		Options & right \$		
Directors:									
David Reed	100,000	-	-	-	9,000	--	-	109,000	0.00
Christopher Reed	156,494	-	-	-	14,084	--	190,000	360,578	52.69
Peter Collins	40,000	-	-	-	3,600	--	95,000	138,600	68.54
Ian Junk	16,667	-	-	-	27,399	--	95,000	139,066	68.31
Executives:									
David Potter	120,000	-	-	-	10,800	--	95,000	225,800	42.07
Claudio Sheriff-Zegers	75,000	-	-	-	6,750	--	38,000	119,750	31.73

### Value of options issued to directors and executives

The following table summarises the value of options granted, exercised or lapsed during the annual reporting period to the identified directors and executives:

	Value of options granted at the grant date (i) \$	Value of options exercised at the exercise date (ii) \$	Value of options lapsed at the date of lapse	Total \$
<b>Directors:</b>				
David Reed	-	-	-	-
Christopher Reed	190,000	-	-	190,000
Peter Collins	95,000	-	-	95,000
Ian Junk	95,000	37,500	-	132,500
Executives:				
David Potter	95,000	-	-	95,000
Claudio Sheriff-Zegers	38,000	-	-	38,000

- (i) The value of options granted during the period is recognised in compensation over the vesting period of the grant, in accordance with Australian accounting standards.
- (ii) Only options granted in previous financial years were exercised during the financial year.
- (iii) Options were issued during the financial year ended 30 June 2007 to directors and executives had an exercise price of \$0.75 exercisable at any time on or before 31 December 2011.

## **DIRECTORS' REPORT (CONT'D)**

### **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.

### **Non-audit services**

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 FI: Professional Independence.

Details of amounts paid or payable to the auditor for non-audit services provided during the year by the auditor are outlined in note 9 to the financial statements.

### **Auditor's independence declaration**

The auditor's independence declaration is included on page 30 of the annual 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

Christopher Reed

Director

West Perth, WA, 26 September 2007

# AUDITORS INDEPENDENCE DECLARATION

# Deloitte.

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

Woodside Plaza  
Level 14  
240 St Georges Terrace  
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Board of Directors  
Reed Resources Ltd  
97 Ontram Street  
West Perth WA 6000

26 September 2007

Dear Board Members

## Reed Resources Ltd

In accordance with section 307C of the Corporations Act 2001, I am pleased to provide the following declaration of independence to the directors of Reed Resources Ltd.

As lead audit partner for the audit of the consolidated financial statements of Reed Resources Ltd for the financial year ended 30 June 2007, I declare that to the best of my knowledge and belief, there have been no contraventions of:

- (i) the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and
- (ii) any applicable code of professional conduct in relation to the audit.

Yours sincerely



**DELOITTE TOUCHE TOHMATSU**



**Mark Gover**  
Partner  
Chartered Accountants

Member of  
Deloitte Touche Tohmatsu

Liability limited by a scheme approved under Professional Standards Legislation.

# INDEPENDANT AUDITOR'S REPORT

## Deloitte.

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

We have audited the accompanying financial report of Reed Resources Ltd, which comprises the balance sheet as at 30 June 2007, and the income statement, cash flow statement and statement of changes in equity for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year as set out on pages 33 to 70.

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

The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In Note 3, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that compliance with the Australian equivalents to International Financial Reporting Standards ensures that the consolidated financial statements and notes, 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. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

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

Member of  
Deloitte Touche Tohmatsu

Liability limited by a scheme approved under Professional Standards Legislation.

# INDEPENDANT AUDITOR'S REPORT

## Deloitte.

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

### *Auditor's Independence Declaration*

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

### *Auditor's Opinion*

In our opinion:

- (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 company's and consolidated entity's financial position as at 30 June 2007 and of their performance for the year ended on that date; and
  - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*; and
- (b) the consolidated financial statements and notes also comply with International Financial Reporting Standards as disclosed in Note 3.



DELOITTE TOUCHE TOHMATSU



**Mark Gover**

Partner

Chartered Accountants

Perth, 26 September 2007



## **DIRECTORS' DECLARATION**

The directors declare that:

- (a) in the directors' opinion, there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable;
- (b) in the directors' opinion, the attached financial statements and notes thereto are in accordance with the Corporations Act 2001, including compliance with accounting standards and giving a true and fair view of the financial position and performance of the company and the consolidated entity; and
- (c) 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

Christopher Reed

Director

West Perth, WA, 26 September 2007

## **FINANCIAL STATEMENTS**

# INCOME STATEMENT

## FOR THE FINANCIAL YEAR ENDED 30 JUNE 2007

	Note	Consolidated		Company	
		2007 \$	2006 \$	2007 \$	2006 \$
<b>Revenue</b>	5	402,864	257,348	402,864	257,348
Cost of sales	5	(310,951)	(51,872)	(310,951)	(51,872)
<b>Gross profit</b>		91,913	205,476	91,913	205,476
Other income	5	91,584	71,631	91,584	71,631
Employment expenses		(1,143,482)	(617,575)	(1,143,482)	(617,575)
Occupancy expenses		(108,702)	(88,590)	(108,702)	(88,590)
Administration expenses		(788,790)	(819,028)	(788,790)	(819,028)
Finance costs		(30,218)	-	(30,218)	-
Impairment of non-current assets		(1,055,650)	(115,735)	(613,181)	(102,632)
Other expenses		(61,742)	(166,308)	(61,742)	(166,308)
<b>Loss before income tax</b>		(3,005,087)	(1,530,129)	(2,562,618)	(1,517,026)
Income tax benefit	6	581,995	543,947	686,110	424,367
<b>Loss for the period</b>		(2,423,092)	(986,182)	(1,876,508)	(1,092,659)
<b>Earnings per share</b>					
Basic (cents per share)	18	(2.93)	(1.33)		
Diluted (cents per share)	18	(2.93)	(1.33)		

Notes to the financial statements are included on pages 40 to 72

# **BALANCE SHEET**

## **AS AT 30 JUNE 2007**

	Note	Consolidated		Company	
		2007 \$	2006 \$	2007 \$	2006 \$
<b>Current assets</b>					
Cash and cash equivalents	27	4,378,926	1,612,963	4,378,926	1,612,963
Trade and other receivables	10	290,319	142,800	1,484,819	1,240,365
Current tax assets	6	87,491	-	87,491	-
<b>Total current assets</b>		4,756,736	1,755,763	5,951,236	2,853,328
<b>Non-current assets</b>					
Exploration & development expenditure	13	12,378,338	10,406,794	11,047,862	8,730,785
Other financial assets	11	-	-	621,578	621,578
Property, plant and equipment	12	299,080	271,057	299,080	271,057
Deferred tax assets	6	1,847,621	1,462,966	1,822,523	1,333,752
<b>Total non-current assets</b>		14,525,039	12,140,817	13,791,043	10,957,172
<b>Total assets</b>		19,281,775	13,896,580	19,742,279	13,810,500
<b>Current liabilities</b>					
Trade and other payables	14	815,134	217,867	815,134	217,867
Borrowings	21	15,625	-	15,625	-
<b>Total current liabilities</b>		830,759	217,867	830,759	217,867
<b>Non-current liabilities</b>					
Borrowings	21	25,985	-	25,985	-
<b>Total non-current liabilities</b>		25,985	-	25,985	-
<b>Total liabilities</b>		856,744	217,867	856,744	217,867
<b>Net assets</b>		18,425,031	13,678,713	18,885,535	13,592,633
<b>Equity</b>					
Issued capital	15	22,728,236	16,203,679	22,728,236	16,203,679
Accumulated losses	17	(5,046,205)	(2,623,113)	(4,585,701)	(2,709,193)
Reserves	16	743,000	98,147	743,000	98,147
<b>Total equity</b>		18,425,031	13,678,713	18,885,535	13,592,633

Notes to the financial statements are included on pages 40 to 72.

# STATEMENT OF CHANGES IN EQUITY

## FOR THE FINANCIAL YEAR ENDED 30 JUNE 2007

### Consolidated

	Issued capital \$	Equity settled benefits reserve \$	Accumulated losses \$	Total attributable to equity holders of the entity \$
Balance at 1/7/05	13,981,179	18,147	(1,636,931)	12,362,395
Loss for the period	-	-	(986,182)	(986,182)
<b>Total recognised income and expense</b>	-	-	(986,182)	(986,182)
Recognition of share-based payments	-	80,000	-	80,000
Issue of share capital	2,285,000	-	-	2,285,000
Share issue costs	(62,500)	-	-	(62,500)
<b>Balance at 30/6/06</b>	16,203,679	98,147	(2,623,113)	13,678,713
Balance at 1/7/06	16,203,679	98,147	(2,623,113)	13,678,713
Loss for the period	-	-	(2,423,092)	(2,423,092)
<b>Total recognised income and expense</b>	-	-	(2,423,092)	(2,423,092)
Recognition of share-based payments	-	663,000	-	663,000
Issue of share capital	7,000,000	-	-	7,000,000
Transfer from equity settled benefits reserve	18,147	(18,147)	-	-
Issue of shares under share option plan	87,500	-	-	87,500
Share issue costs	(581,090)	-	-	(581,090)
<b>Balance at 30/6/07</b>	22,728,236	743,000	(5,046,205)	18,425,031

### Company

	Issued capital \$	Equity settled benefits reserve \$	Accumulated losses \$	Total attributable to equity holders of the entity \$
Balance at 1/7/05	13,981,179	18,147	(1,616,534)	12,382,792
Loss for the period	-	-	(1,092,659)	(1,092,659)
<b>Total recognised income and expense</b>	-	-	(1,092,659)	(1,092,659)
Recognition of share-based payments	-	80,000	-	80,000
Issue of share capital	2,285,000	-	-	2,285,000
Share issue costs	(62,500)	-	-	(62,500)
<b>Balance at 30/6/06</b>	16,203,679	98,147	(2,709,193)	13,592,633
Balance at 1/7/06	16,203,679	98,147	(2,709,193)	13,592,633
Loss for the period	-	-	(1,876,508)	(1,876,508)
<b>Total recognised income and expense</b>	-	-	(1,876,508)	(1,876,508)
Recognition of share-based payments	-	663,000	-	663,000
Issue of share capital	7,000,000	-	-	7,000,000
Transfer from equity settled benefits reserve	18,147	(18,147)	-	-
Issue of shares under share option plan	87,500	-	-	87,500
Share issue costs	(581,090)	-	-	(581,090)
<b>Balance at 30/6/07</b>	22,728,236	743,000	(4,585,701)	18,885,535

Notes to the financial statements are included on pages 40 to 72.

# CASH FLOW STATEMENT

## FOR THE FINANCIAL YEAR ENDED 30 JUNE 2007

Note	Consolidated		Company	
	2007 \$	2006 \$	2007 \$	2006 \$
<b>Cash flows from operating activities</b>				
Receipts from customers	402,864	257,348	402,864	257,348
Payments to suppliers and employees	(1,785,012)	(1,503,015)	(1,785,012)	(1,503,015)
Interest received	92,307	70,132	92,307	70,132
Income tax refund	110,036	-	110,036	-
Net cash provided by/(used in) operating activities	27	(1,179,805)	(1,175,535)	(1,179,805)
<b>Cash flows from investing activities</b>				
Exploration and development costs paid	(2,665,863)	(1,767,632)	(2,568,928)	(1,110,698)
Amounts advanced to related parties	-	-	(96,935)	(656,934)
Payment for property, plant & equipment	(91,386)	(19,976)	(91,386)	(19,976)
Net cash (used in)/provided by investing activities	(2,757,249)	(1,787,608)	(2,757,249)	(1,787,608)
<b>Cash flows from financing activities</b>				
Proceeds from issues of shares	7,087,500	2,285,000	7,087,500	2,285,000
Payment for share issue costs	(426,092)	(62,500)	(426,092)	(62,500)
Proceeds from borrowings	41,609	-	41,609	-
Net cash provided by financing activities	6,703,017	2,222,500	6,703,017	2,222,500
<b>Net increase (decrease) in cash and cash equivalents</b>	2,765,963	(740,643)	2,765,963	(740,643)
<b>Cash and cash equivalents at the beginning of the financial year</b>	1,612,963	2,353,606	1,612,963	2,353,606
<b>Cash and cash equivalents at the end of the financial year</b>	27	4,378,926	1,612,963	4,378,926

Notes to the financial statements are included on pages 40 to 72.

# **NOTES TO THE FINANCIAL STATEMENTS**

## **FOR THE FINANCIAL YEAR ENDED 30 JUNE 2007**

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# NOTES TO THE FINANCIAL STATEMENTS (CONT) FOR THE FINANCIAL YEAR ENDED 30 JUNE 2007

## 1. General information

Reed Resources Ltd is a listed public company, incorporated in Australia and operating in West Perth.

Reed Resources Ltd's registered office and its principal place of business are as follows:

Registered office

Principal place of business

97 Outram St, West Perth, WA, 6005

97 Outram St, West Perth, WA, 6005

## 2. Adoption of new and revised Accounting Standards

In the current year, the Group has adopted all of the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board (the AASB) that are relevant to its operations and effective for the current annual reporting period. The adoption of these Standards and Interpretations has had no material financial impact on the financial statements of the company or the Group.

At the date of authorisation of the financial report, the following Standards and Interpretations were in issue but not yet effective:

AASB 7 'Financial Instruments: Disclosures' and consequential amendments to other accounting standards resulting from its issue	Effective for annual reporting periods beginning on or after 1 January 2007
AASB 101 'Presentation of Financial Statements' - revised standard	Effective for annual reporting periods beginning on or after 1 January 2007
Interpretation 10 'Interim Financial Reporting and Impairment'	Effective for annual reporting periods beginning on or after 1 November 2006.
AASB 8 'Operating Segments' and consequential amendments to other accounting standards resulting from its issue	Effective for annual reporting periods beginning on or after 1 January 2009
AASB 123 'Borrowing Costs' revised	Effective for annual reporting periods beginning on or after 1 January 2009
AASB 2007-4 'Amendments to Australian Accounting Standards arising from ED 151 and Other Amendments'	Effective for annual reporting periods beginning on or after 1 July 2007
AASB 2007-7 'Amendments to Australian Accounting Standards - June 2007'	Effective for annual reporting periods beginning on or after 1 July 2007
Interpretation 11 'AASB 2 - Group and Treasury Share Transactions'	Effective for annual reporting periods beginning on or after 1 March 2007
Interpretation 12 'Service Concession Arrangements'	Effective for annual reporting periods beginning on or after 1 January 2008
Interpretation 13 'Customer Loyalty Programmes'	Effective for annual reporting periods beginning on or after 1 July 2008
Interpretation 14 'Limit on a defined benefit asset, Minimum Funding Requirements and their Interaction'	Effective for annual reporting periods beginning on or after 1 January 2008

The directors anticipate that the adoption of these Standards and Interpretations in future periods will have no material financial impact on the financial statements of the company or the Group. The issue of Interpretation 7, Interpretation 8 and Interpretation 9 do not affect the Group's present policies and operations. The circumstances addressed by Interpretation 10, which prohibits the reversal of certain impairment losses, do not affect either the company's or the Group's previously reported results and accordingly, there will be no impact to these financial statements on adoption of the Interpretation.



## **NOTES TO THE FINANCIAL STATEMENTS (CONT)**

### **FOR THE FINANCIAL YEAR ENDED 30 JUNE 2007**

These Standards and Interpretations will be first applied in the financial report of the Group that relates to the annual reporting period beginning after the effective date of each pronouncement, which will be the company's annual reporting period beginning on 1 July 2007.

### **3. 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 report includes the separate financial statements of the company and the consolidated financial statements of the Group.

Accounting Standards include Australian equivalents to International Financial Reporting Standards ('A-IFRS'). Compliance with A-IFRS ensures that the financial statements and notes of the company and the Group comply with International Financial Reporting Standards ('IFRS'). The parent entity financial statements and notes also comply with IFRS except for the disclosure requirements in IAS 32 'Financial Instruments: Disclosure and Presentation' as the Australian equivalent Accounting Standard, AASB 132 'Financial Instruments: Disclosure and Presentation' does not require such disclosures to be presented by the parent entity where its separate financial statements are presented together with the consolidated financial statements of the group.

The financial statements were authorised for issue by the directors on 26 September 2007.

#### ***Basis of preparation***

The financial report has been prepared on the basis of historical cost. Cost is based on the fair values of the consideration given in exchange for assets. All amounts are presented in Australian dollars, unless otherwise noted.

The 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.

# NOTES TO THE FINANCIAL STATEMENTS (CONT)

## FOR THE FINANCIAL YEAR ENDED 30 JUNE 2007

### 3. Significant accounting policies (cont)

#### **Basis of preparation (cont)**

- (c) Financial instruments issued by the company

##### *Debt and equity instruments*

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

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

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

##### *Interest and dividends*

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

- (d) Goods and services tax

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

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

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

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

- (e) Impairment of assets

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

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

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

## NOTES TO THE FINANCIAL STATEMENTS (CONT) FOR THE FINANCIAL YEAR ENDED 30 JUNE 2007

### 3. Significant accounting policies (cont)

#### *Basis of preparation (cont)*

(e) Impairment of assets (cont)

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

(f) Income tax

*Current tax*

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

*Deferred tax*

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

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.

## **NOTES TO THE FINANCIAL STATEMENTS (CONT)**

### **FOR THE FINANCIAL YEAR ENDED 30 JUNE 2007**

#### **3. Significant accounting policies (cont)**

##### ***Basis of preparation (cont)***

(f) Income tax (cont)

*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.

Entities within the tax consolidated group have entered into a tax-sharing agreement with the head entity. Under the terms of this agreement, Reed Resources Ltd and each of the entities in the consolidated group will agree to pay a tax equivalent payment to or from the head entity, based on the adjusted accounting profit or loss.

(g) Exploration and evaluation expenditure

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

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

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

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

## NOTES TO THE FINANCIAL STATEMENTS (CONT) FOR THE FINANCIAL YEAR ENDED 30 JUNE 2007

### 3. Significant accounting policies (cont)

#### Basis of preparation (cont)

- (g) Exploration and evaluation expenditure (cont)

##### *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 affect unit-of-production calculations are dealt with on a prospective basis.

- (h) Payables

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

- (i) Principles of consolidation

The consolidated financial statements are prepared by combining the financial statements of all the entities that comprise the consolidated entity, being the company (the parent entity) and its subsidiaries as defined in Accounting Standard AASB 127 'Consolidated and Separate Financial Statements'. A list of subsidiaries appears in note 23 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.

- (j) 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, cost is determined by discounting the amounts payable in the future to their present value as at the date of acquisition.

Depreciation is calculated on a straight line 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 is 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

## **NOTES TO THE FINANCIAL STATEMENTS (CONT)**

### **FOR THE FINANCIAL YEAR ENDED 30 JUNE 2007**

#### **3. Significant accounting policies (cont)**

##### ***Basis of preparation (cont)***

(k) Provisions

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

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

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

(l) Revenue recognition

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.

(m) 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.

(n) 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.

## NOTES TO THE FINANCIAL STATEMENTS (CONT)

### FOR THE FINANCIAL YEAR ENDED 30 JUNE 2007

#### 3. Significant accounting policies (cont)

##### *Basis of preparation (cont)*

(o) Financial assets

Subsequent to initial recognition, investments in subsidiaries are measured at cost in the company 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

##### *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 is recognised by applying the effective interest rate.

##### *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.

(p) 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.

##### *Group as lessee*

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.

# NOTES TO THE FINANCIAL STATEMENTS (CONT)

## FOR THE FINANCIAL YEAR ENDED 30 JUNE 2007

### 3. Significant accounting policies (cont)

#### **Basis of preparation (cont)**

- (p) Leased assets (cont)

##### *Group as lessee (cont)*

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 lease 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 are incurred.

### 4. Critical accounting judgements and key sources of estimation uncertainty

In the application of the Group's accounting policies, which are described in note 3, 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.

#### **Critical Judgements in Applying the Entity's Accounting Policies**

The following are the critical judgements 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) Impairment of Inter Company Loans

The Company made loans and advances to its subsidiaries as detailed in Note 10 to the financial statements. These loans and advances were established to fund exploration and resource development in the subsidiary. The recovery of these loans and advances is entirely dependent upon returns from the successful development of mining operations or from surpluses from the sale of either the subsidiary companies or their projects.

- (b) 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.



## NOTES TO THE FINANCIAL STATEMENTS (CONT)

### FOR THE FINANCIAL YEAR ENDED 30 JUNE 2007

#### 4. Critical accounting judgements and key sources of estimation uncertainty

##### Key areas of estimation uncertainty

There are no 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.

#### 5. Loss for the year

	Consolidated		Company	
	2007	2006	2007	2006
	\$	\$	\$	\$
<b>(a) Revenue</b>				
Revenue from operations consisted of the following items:				
Revenue from the sale of goods	402,864	257,348	402,864	257,348
Interest revenue	91,584	64,755	91,584	64,755
Other	-	6,876	-	6,876
	494,448	328,979	494,448	328,979
<b>(b) Loss before income tax</b>				
Loss before income tax has been arrived at after charging the following expenses:				
Finance costs:				
Borrowing costs	(30,218)	-	(30,218)	-
Cost of goods sold	(310,951)	(51,872)	(310,951)	(51,872)
Depreciation of non-current assets	(63,363)	(81,745)	(63,363)	(81,745)
Employee benefit expense				
Share-based payments:				
Equity settled share-based payments	(513,000)	(80,000)	(513,000)	(80,000)
Defined contribution plans	(47,406)	(46,689)	(47,406)	(46,689)
Other employee benefits	(583,076)	(490,886)	(583,076)	(490,886)
	(1,143,482)	(617,575)	(1,143,482)	(617,575)

# NOTES TO THE FINANCIAL STATEMENTS (CONT)

## FOR THE FINANCIAL YEAR ENDED 30 JUNE 2007

### 6. Income taxes

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

##### Tax income comprises:

Current tax income	87,491	-
Adjustments recognised in the current year in relation to the current tax of prior years	109,849	-
Deferred tax expense relating to the origination and reversal of temporary differences	384,655	543,947
Total tax income	581,995	543,947

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

Profit/(loss) from operations	(3,005,087)	(1,530,129)
Income tax income calculated at 30%	901,526	459,039
Effect of expenses that are not deductible in determining taxable profit	(1,333,899)	(108,287)
Effect of research and development tax off-set	109,849	-
Adjustments recognised in the current year in relation to the current tax of prior years	(206,308)	-
Deferred tax expense/(income) relating to the origination and reversal of temporary differences	1,110,827	193,195
	581,995	543,947

#### (b) Deferred tax balances

##### Deferred tax assets comprise:

Tax losses - revenue	4,775,488	3,433,770
Deferred tax liabilities comprise:		
Temporary differences - capitalised expenditure	2,927,866	1,970,804

#### (c) Current tax balances

##### Current tax assets comprise:

Tax refund receivable	87,491	-
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Consolidated		Company	
2007	2006	2007	2006
\$	\$	\$	\$
87,491	-	87,491	-
109,849	-	109,849	-
384,655	543,947	488,770	424,367
581,995	543,947	686,110	424,367
(3,005,087)	(1,530,129)	(2,562,618)	(1,517,026)
901,526	459,039	768,785	455,107
(1,333,899)	(108,287)	(1,177,808)	(104,356)
109,849	-	109,849	-
(206,308)	-	(87,880)	-
1,110,827	193,195	1,073,164	73,616
581,995	543,947	686,110	424,367
4,775,488	3,433,770	4,416,707	3,112,651
2,927,866	1,970,804	2,594,183	1,778,899
87,491	-	87,491	-

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

# NOTES TO THE FINANCIAL STATEMENTS (CONT)

## FOR THE FINANCIAL YEAR ENDED 30 JUNE 2007

### 6. Income taxes (cont'd)

Taxable and deductible temporary differences arise from the following:

2007

#### Consolidated

	Opening balance \$	Charged to income \$	Closing balance \$
<b>Gross deferred tax liabilities:</b>			
Capitalised expenditure	1,970,804	957,062	2,927,866
<b>Gross deferred tax assets:</b>			
Tax losses - revenue	3,433,770	1,341,717	4,775,487
	1,462,966	384,655	1,847,621

2006

#### Consolidated

	Opening balance \$	Charged to income \$	Closing balance \$
<b>Gross deferred tax liabilities:</b>			
Capitalised expenditure	1,581,567	389,237	1,970,804
<b>Gross deferred tax assets:</b>			
Tax losses - revenue	2,500,586	933,184	3,433,770
	919,019	543,947	1,462,966

2007

#### Company

	Opening balance \$	Charged to income \$	Closing balance \$
<b>Gross deferred tax liabilities:</b>			
Capitalised expenditure	1,778,897	815,286	2,594,183
<b>Gross deferred tax assets:</b>			
Tax losses - revenue	3,112,649	1,304,057	4,416,706
	1,333,752	488,771	1,822,523

2006

#### Company

	Opening balance \$	Charged to income \$	Closing balance \$
<b>Gross deferred tax liabilities:</b>			
Capitalised expenditure	1,466,423	312,474	1,778,897
<b>Gross deferred tax assets:</b>			
Tax losses - revenue	2,375,810	736,839	3,112,649
	909,387	424,365	1,333,752

### 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 23.

Entities within the tax-consolidated group have entered into a tax-sharing agreement with the head entity. Under the terms of this agreement, Reed Resources Limited and each of the entities in the tax consolidated group will agree to pay a tax equivalent payment to or from the head entity, based on the adjusted accounting profit or loss.

## NOTES TO THE FINANCIAL STATEMENTS (CONT) FOR THE FINANCIAL YEAR ENDED 30 JUNE 2007

### 7. Key management personnel compensation

The key management personnel of Reed Resources Ltd during the year were:

- David Reed (Executive Chairman)
- Christopher Reed (Executive Director and Company Secretary)
- Peter Collins (Non-executive Director)
- Ian Junk (Non-executive Director)
- David Potter (Manager - geology)
- Claudio Sheriff-Zegers (Geologist)

### Key management personnel compensation

The aggregate compensation made to key management personnel of the company and the Group is set out below:

	Consolidated		Company	
	2007 \$	2006 \$	2007 \$	2006 \$
Short-term employee benefits	508,161	441,032	508,161	441,032
Post-employment benefits	71,633	42,618	71,633	42,618
Share-based payment	513,000	80,000	513,000	80,000
	1,092,794	563,650	1,092,794	563,650

The compensation of each member of the key management personnel of the Group is set out below:

(a) Key management personnel compensation

Non-executive Directors are compensated by fees determined by the Board within the aggregate Directors' fee pool limit of \$100,000 approved by shareholders in April 2002. The pool limit is not at present fully utilised. In setting the fees, account is taken of the responsibilities inherent in the stewardship of the Company and the demands made of Directors in the discharge of their responsibilities. Advice is taken from independent consultancy sources to ensure remuneration accords with market practice.

The executive directors of the Company are employed under Service Agreements which have been in existence since April 2002. The Service Agreements are all identical in their contents and only differ in remuneration levels. The service contracts have a duration of three years and renew automatically unless terminated by either the Company by giving twelve months notice to the individual; or by the individual by giving six months notice to the Company. The level of compensation is not dependent on the satisfaction of any performance condition.

The key management personnel of the Company are employed under Service Agreements which have been in existence since August 2004. These were updated by a letter of variation in July 2006. The compensation under the service contract is reviewable every 12 months at the discretion of the Company and it is renewed automatically unless terminated by either the Company by giving three months notice to the individual; or by the individual by giving three months notice to the Company. The level of compensation is not dependent on the satisfaction of any performance condition. Share-based payments include options issued under the executive share option plan. The issue of options is not dependent on the satisfaction of any specific performance condition. The exercise price of the options is set at a level that demands a high level of performance if it is to be achieved.

## NOTES TO THE FINANCIAL STATEMENTS (CONT) FOR THE FINANCIAL YEAR ENDED 30 JUNE 2007

### 7. Key management personnel compensation (cont)

Key management personnel compensation

2007	Short-term benefits			Post-employment			Share-based payments			Total
	Salary	Bonus	Non-monetary	Super-annuation	Prescribed benefits	Other	Equity settled options	Cash settled	Other	
David Reed	100,000	-	-	9,000	-	-	-	-	-	109,000
Christopher Reed (i)	156,494	-	-	14,084	-	-	190,000	-	-	360,578
Peter Collins (i)	40,000	-	-	3,600	-	-	95,000	-	-	138,600
Ian Junk (i)	16,667	-	-	27,399	-	-	95,000	-	-	139,066
David Potter (i)	120,000	-	-	10,800	-	-	95,000	-	-	225,800
Claudio Sheriff-Zegers (i)	75,000	-	-	6,750	-	-	38,000	-	-	119,750
Total	508,161	-	-	71,633	-	-	513,000	-	-	1,092,794

- (i) Mr D Potter and other executives were granted share options under the employee share option plan on 2/8/06. Mr C Reed and other executives were granted share options under the employee share option plan on 13/12/06. Further details of the options granted are contained in notes 8 and 25 to the financial statements.

## NOTES TO THE FINANCIAL STATEMENTS (CONT) FOR THE FINANCIAL YEAR ENDED 30 JUNE 2007

### 7. Key management personnel compensation (cont)

Key management personnel compensation

2007	Short-term benefits			Post-employment			Share-based payments			Total
	Salary	Bonus	Non-monetary	Super-annuation	Prescribed benefits	Other	Equity settled options	Cash settled	Other	
David Reed	100,000	-	-	9,000	-	-	-	-	-	109,000
Christopher Reed (i)	135,407	-	-	15,112	-	-	80,000	-	-	230,519
Peter Collins (i)	30,000	-	-	2,700	-	-	-	-	-	32,700
Ian Junk (i)	30,000	-	-	2,700	-	-	-	-	-	32,700
David Potter (i)	113,750	-	-	10,237	-	-	-	-	-	123,987
Claudio Sheriff-Zegers (i)	31,875	-	-	2,689	-	-	-	-	-	34,744
Total	441,032	-	-	42,618	-	-	80,000	-	-	563,650

- (i) Mr C Reed was granted share options under the employee share option plan on 20/7/05. Further details of the options granted are contained in notes 8 and 25 to the financial statements.

## NOTES TO THE FINANCIAL STATEMENTS (CONT)

### FOR THE FINANCIAL YEAR ENDED 30 JUNE 2007

#### 8. Share based payments

##### *Executive share option plan*

Reed Resources Ltd has an ownership based remuneration scheme for executives (including executive directors). In accordance with the provisions of the scheme, as approved by shareholders at an extraordinary general meeting, options were issued during the financial year ended 30 June 2007 to executives with an exercise price of \$0.75 exercisable at any time on or before 31 December 2011. The number of options granted was calculated by the board after considering the experience of grantee, the current market price and current market practice. Options vest at the date of their issue.

As at 30 June 2007 the Company had issued 5,700,000 share options (30 June 2006: 3,250,000). Share options carry no rights to dividends and no voting rights

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

Options series	Number	Grant date	Expiry date	Exercise price \$	Fair value at grant date \$
Issued 3 August 2004	2,000,000	3/8/2004	31/12/2008	\$0.35	\$0.07
Issued 11 January 2005	250,000	11/1/2005	31/12/2008	\$0.35	\$0.07
Issued 20 July 2005	1,000,000	20/7/2005	1/7/2010	\$0.50	\$0.08
Issued 2 August 2006	700,000	2/8/2006	30/12/2011	\$0.75	\$0.19
Issued 13 December 2006	2,000,000	13/12/2006	30/12/2011	\$0.75	\$0.19

The weighted average fair value of the share options granted during the financial year is \$0.19 (2006: \$0.08). The values attributed to the equity options were calculated using the Black Scholes model based on the following input. Expected volatility is based on the historical share price volatility over the past 4 years.

Inputs into the model	Option series				
	3 August 2004	11 January 2005	20 July 2005	2 August 2006	13 December 2006
Grant date share price	\$0.23	\$0.22	\$0.27	\$0.50	\$0.52
Exercise price	\$0.35	\$0.35	\$0.50	\$0.75	\$0.75
Expected volatility	60%	60%	74%	77%	77%
Option life	4.5 years	4.5 years	5 years	5 years	5 years
Dividend yield	-	-	-	-	-
Risk-free interest rate	5.63%	5.63%	5.34%	5.68%	5.68%

## NOTES TO THE FINANCIAL STATEMENTS (CONT)

### FOR THE FINANCIAL YEAR ENDED 30 JUNE 2007

#### 8. Share based payments (cont)

##### Executive share option plan (cont)

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

	2007		2006	
	Number of options	Weighted average exercise price \$	Number of options	Weighted average exercise price \$
Balance at beginning of the financial year	3,250,000	\$0.40	2,250,000	\$0.35
Granted during the financial year as compensation	2,700,000	\$0.75	1,000,000	\$0.50
Exercised during the financial year (i)	(250,000)	\$0.35	-	-
Balance at end of the financial year (ii)	5,700,000	\$0.57	3,250,000	\$0.40

(i) Exercised during the financial year

The following share options granted under the employee share option plan were exercised during the financial year:

2007 Options series	Number exercised	Exercise date	Share price at exercise date
Issued 11 January 2005	250,000	22/9/2006	\$0.50

(ii) Balance at end of the financial year

The share options outstanding at the end of the financial year had an exercise price of \$0.57 (2006: \$0.40), and a weighted average remaining contractual life of 1,162 days (2006: 1,081 days).

##### Share based payments

During the year Reed Resources Ltd made share based payments to suppliers for the provision of services. Options were issued during the financial year ended 30 June 2007 to Transocean Securities Pty Ltd as part of its capital raising fee. The number of options granted was calculated by the board after considering the market value of the services received. The options vest at the date of their issue.

As at 30 June 2007 the Company had issued 2,000,000 share options (30 June 2006: nil). Share options carry no rights to dividends and no voting rights.

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

Options series	Number	Grant date	Expiry date	Exercise price \$	Fair value at grant date \$
Issued 24 May 2007	2,000,000	24/5/2007	31/05/2009	\$0.60	\$0.075



# NOTES TO THE FINANCIAL STATEMENTS (CONT)

## FOR THE FINANCIAL YEAR ENDED 30 JUNE 2007

### 9. Remuneration of auditors

	Consolidated		Company	
	2007 \$	2006 \$	2007 \$	2006 \$
Auditor of the parent entity (Deloitte Touche Tohmatsu)				
Audit or review of the financial report	44,190	40,175	44,190	40,175
Due diligence report	-	38,500	-	38,500
Risk management services	5,325	-	5,325	-
Taxation services	-	7,430	-	7,430
	49,515	86,105	49,515	86,105
	290,319	142,800	1,484,819	1,240,365

### 10. Current trade and other receivables

Trade receivables	93,691	93,691	93,691	93,691
Other receivables	14,095	14,446	14,095	14,446
Amounts receivable from wholly owned subsidiary	-	-	1,194,500	1,097,565
Goods and services tax (GST) recoverable	182,533	34,663	182,533	34,663

### 11. Other non-current financial assets

Shares in controlled entities (at cost)	-	-	621,578	621,578
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# NOTES TO THE FINANCIAL STATEMENTS (CONT)

## FOR THE FINANCIAL YEAR ENDED 30 JUNE 2007

### 12. Property, plant and equipment

	Consolidated			
	Buildings at cost \$	Furniture & Fittings at cost \$	Plant and equip- ment at cost \$	Total \$
<b>Gross carrying amount</b>				
Balance at 1 July 2005	27,900	88,555	359,611	476,066
Additions	-	19,976	-	19,976
<b>Balance at 1 July 2006</b>	27,900	108,531	359,611	496,042
Additions	-	29,125	62,261	91,386
<b>Balance at 30 June 2007</b>	27,900	137,656	421,872	587,428
<b>Accumulated depreciation</b>				
Balance at 1 July 2005	1,807	14,810	126,623	143,240
Depreciation expense	1,566	31,521	48,658	81,745
<b>Balance at 1 July 2006</b>	3,373	46,331	175,281	224,985
Depreciation expense	1,472	28,057	33,834	63,363
<b>Balance at 30 June 2007</b>	4,845	74,388	209,115	288,348
<b>Net book value</b>				
As at 30 June 2006	24,527	62,200	184,329	271,057
As at 30 June 2007	23,055	63,268	212,757	299,080
<b>Gross carrying amount</b>				
Balance at 1 July 2005	27,900	88,555	359,611	476,066
Additions	-	19,976	-	19,976
<b>Balance at 1 July 2006</b>	27,900	108,531	359,611	496,042
Additions	-	29,125	62,261	91,386
<b>Balance at 30 June 2007</b>	27,900	137,656	421,872	587,428
<b>Accumulated depreciation</b>				
Balance at 1 July 2005	1,807	14,810	126,623	143,240
Depreciation expense	1,566	31,521	48,658	81,745
<b>Balance at 1 July 2006</b>	3,373	46,331	175,281	224,985
Depreciation expense	1,472	28,057	33,834	63,363
<b>Balance at 30 June 2007</b>	4,845	74,388	209,115	288,348
<b>Net book value</b>				
As at 30 June 2006	24,527	62,200	184,329	271,057
As at 30 June 2007	23,055	63,268	212,757	299,080

# NOTES TO THE FINANCIAL STATEMENTS (CONT)

## FOR THE FINANCIAL YEAR ENDED 30 JUNE 2007

### 13. Exploration and development expenditure

#### Consolidated

#### Gross carrying amount

##### Balance at 1 July 2005

Additions

##### Balance at 1 July 2006

Transferred from capitalised exploration

Additions

##### Balance at 30 June 2007

#### Accumulated amortisation and impairment

##### Balance at 1 July 2005

Amortisation expense (i)

Impairment losses charged to profit

##### Balance at 1 July 2006

Amortisation expense (i)

Impairment losses charged to profit

##### Balance at 30 June 2007

#### Net book value

As at 30 June 2006

As at 30 June 2007

#### Company

#### Gross carrying amount

##### Balance at 1 July 2005

Additions

##### Balance at 1 July 2006

Transferred from capitalised exploration

Additions

##### Balance at 30 June 2007

#### Accumulated amortisation and impairment

##### Balance at 1 July 2005

Amortisation expense (i)

Impairment losses charged to profit

##### Balance at 1 July 2006

Amortisation expense (i)

Impairment losses charged to profit

##### Balance at 30 June 2007

Net book value

As at 30 June 2006

As at 30 June 2007

	Capitalised develop- ment \$	Capitalised exploration \$	Total \$
<b>Gross carrying amount</b>			
<b>Balance at 1 July 2005</b>	1,764,267	7,049,724	8,813,991
Additions	325,625	1,434,786	1,760,411
<b>Balance at 1 July 2006</b>	2,089,892	8,484,510	10,574,402
Transferred from capitalised exploration	3,999,336	(3,999,336)	-
Additions	-	3,121,448	3,121,448
<b>Balance at 30 June 2007</b>	6,089,228	7,606,622	13,695,850
<b>Accumulated amortisation and impairment</b>			
<b>Balance at 1 July 2005</b>	-	-	-
Amortisation expense (i)	51,872	-	51,872
Impairment losses charged to profit	-	115,735	115,735
<b>Balance at 1 July 2006</b>	51,872	115,735	167,607
Amortisation expense (i)	94,255	-	94,255
Impairment losses charged to profit	-	1,055,650	1,055,650
<b>Balance at 30 June 2007</b>	146,127	1,171,385	1,317,512
<b>Net book value</b>			
As at 30 June 2006	2,038,020	8,368,774	10,406,794
As at 30 June 2007	5,943,101	6,435,237	12,378,338
<b>Company</b>			
<b>Gross carrying amount</b>			
<b>Balance at 1 July 2005</b>	1,758,717	6,022,951	7,781,668
Additions	325,625	777,996	1,103,621
<b>Balance at 1 July 2006</b>	2,084,342	6,800,947	8,885,289
Transferred from capitalised exploration	3,999,336	(3,999,336)	-
Additions	-	3,024,513	3,024,513
<b>Balance at 30 June 2007</b>	6,083,678	5,826,124	11,909,802
<b>Accumulated amortisation and impairment</b>			
<b>Balance at 1 July 2005</b>	-	-	-
Amortisation expense (i)	51,872	-	51,872
Impairment losses charged to profit	-	102,632	102,632
<b>Balance at 1 July 2006</b>	51,872	102,632	154,504
Amortisation expense (i)	94,255	-	94,255
Impairment losses charged to profit	-	613,181	613,181
<b>Balance at 30 June 2007</b>	146,127	715,813	861,940
<b>Net book value</b>			
As at 30 June 2006	2,032,470	6,698,315	8,730,785
As at 30 June 2007	5,937,551	5,110,311	11,047,862

(i) Amortisation expense is included in the line item 'cost of sales'.

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

## NOTES TO THE FINANCIAL STATEMENTS (CONT)

### FOR THE FINANCIAL YEAR ENDED 30 JUNE 2007

#### 14. Current trade and other payables

	2007 \$	2006 \$	2007 \$	2006 \$
Trade payables and accruals	815,134	217,867	815,134	217,867

The average credit period on purchases is 2 months. 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.

#### 15. Issued capital

	Consolidated		Company	
	2007 \$	2006 \$	2007 \$	2006 \$
97,016,667 fully paid ordinary shares (2006: 80,100,000)	22,728,236	16,203,679	22,728,236	16,203,679

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.

	2007		2006	
	No.	\$	No.	\$
<b>Fully paid ordinary shares</b>				
Balance at beginning of financial year	80,100,000	16,203,679	70,000,000	13,981,179
Issue of shares for cash	16,666,667	7,000,000	10,000,000	2,250,000
Share issue costs	-	(581,090)	-	(62,500)
Transfer from equity settled benefit reserve	-	18,147	-	-
Issue of shares under option plan	250,000	87,500	100,000	35,000
Balance at end of financial year	97,016,667	22,728,236	80,100,000	16,203,679

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

#### Share options

In accordance with the provisions of the executive share option plan, as at 30 June 2006, executives had options over 3,250,000 ordinary shares in aggregate, with 2,250,000 of those options expiring 31/12/2008 and the remainder expiring on 1/7/2010. As at 30 June 2007, executives have options over 5,700,000 ordinary shares (all of which are vested) in aggregate, with 2,000,000 of those options expiring on 31/12/2008, 1,000,000 expiring 1/7/2010 and the remainder expiring on 30/12/2011. During the year 2,000,000 options were issued to non-employees as payment for services rendered. As at 30 June 2007, 2,300,000 (2006: 300,000) options were held by non-employees.

Share options carry no rights to dividends and no voting rights. Further details of the executive share option plan are contained in note 8 to the financial statements.

## NOTES TO THE FINANCIAL STATEMENTS (CONT) FOR THE FINANCIAL YEAR ENDED 30 JUNE 2007

### 16. Reserves

	Consolidated		Company	
	2007	2006	2007	2006
	\$	\$	\$	\$
<b>Equity-settled benefits reserve</b>				
Balance at beginning of financial year	98,147	18,147	98,147	18,147
Transfer to issued capital	(18,147)	-	(18,147)	-
Share-based payment	663,000	80,000	663,000	80,000
Balance at end of financial year	743,000	98,147	743,000	98,147

The equity-settled benefits reserve arises on the grant of share options for the provision of services and to executives and senior employees under the employee share option plan. Amounts are transferred out of the reserve and into issued capital when the options are exercised. Further information about share-based payments to employees is made in note 25 to the financial statements.

### 17. Accumulated losses

	Consolidated		Company	
	2007	2006	2007	2006
	\$	\$	\$	\$
Balance at beginning of financial year	(2,623,113)	(1,636,931)	(2,709,193)	(1,616,534)
Net loss attributable to members of the parent entity	(2,423,092)	(986,182)	(1,876,508)	(1,092,659)
Balance at end of financial year	(5,046,205)	(2,623,113)	(4,585,701)	(2,709,193)

### 18. Earnings per share

	2007	2006
	Cents per share	Cents per share
Basic earnings per share:	(2.93)	(1.33)
Diluted earnings per share:	(2.93)	(1.33)

#### Basic earnings per share

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

	2007	2006
	Cents per share	Cents per share
Earnings (a)	(2,423,092)	(986,182)
	2007	2006
	No.	No.
Weighted average number of ordinary shares for the purposes of basic earnings per share	82,562,525	73,903,014

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

## NOTES TO THE FINANCIAL STATEMENTS (CONT) FOR THE FINANCIAL YEAR ENDED 30 JUNE 2007

### 18. Earnings per share (cont)

#### *Diluted earnings per share*

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

	<b>2007</b>	<b>2006</b>
	<b>\$</b>	<b>\$</b>
Earnings (a)	(2,423,092)	(986,182)
	<b>2007</b>	<b>2006</b>
	<b>No.</b>	<b>No.</b>
Weighted average number of ordinary shares for the purposes of diluted earnings per share (b), (c)	85,920,059	77,398,219

- (a) Earnings used in the calculation of diluted earnings per share reconciles to net profit in the income statement as follows:

	<b>2007</b>	<b>2006</b>
	<b>\$</b>	<b>\$</b>
Net loss	(2,423,092)	(986,182)
Earnings used in the calculation of diluted EPS	(2,423,092)	(986,182)

- (b) The weighted average number of ordinary shares for the purposes of diluted earnings per share reconciles to the weighted average number of ordinary shares used in the calculation of basic earnings per share as follows:

	<b>Consolidated</b>	
	<b>2007</b>	<b>2006</b>
	<b>\$</b>	<b>\$</b>
Weighted average number of ordinary shares used in the calculation of basic EPS	82,562,525	73,903,014

- (c) The following potential ordinary shares are not dilutive and are therefore excluded in the weighted average number of ordinary shares for the purposes of diluted earnings per share:

	<b>2007</b>	<b>2006</b>
	<b>No.</b>	<b>No.</b>
Options issued 3 August 2004	2,300,000	2,400,000
Options issued 11 January 2005	-	150,000
Options issues 20 July 2005	1,000,000	1,000,000
Options issues 2 August 2006	700,000	-
Options issues 13 December 2006	2,000,000	-
Options issues 24 May 2007	2,000,000	-
	<b>8,000,000</b>	<b>3,550,000</b>

## NOTES TO THE FINANCIAL STATEMENTS (CONT)

### FOR THE FINANCIAL YEAR ENDED 30 JUNE 2007

#### 19. Commitments for expenditure

(a) Capital expenditure commitments

The consolidated entity does not have any capital commitments at reporting date.

(b) Lease commitments

Finance lease liabilities and non-cancellable operating lease commitments are disclosed in note 20 to the financial statements.

#### 20. Leases

##### Finance leases

###### Leasing arrangements

The finance lease relates to a motor vehicle with a lease term of three years. The consolidated entity has an option to purchase the motor vehicle at the conclusion of the lease agreement.

###### Finance lease liabilities

	Minimum future lease payments				Present value of minimum future lease payments			
	Consolidated		Consolidated		Consolidated		Consolidated	
	2007	2006	2007	2006	2007	2006	2007	2006
	\$	\$	\$	\$	\$	\$	\$	\$
No later than 1 year	18,476	-	18,476	-	15,625	-	15,625	-
Later than 1 year and not later than 5 years	27,714	-	27,714	-	25,985	-	25,985	-
Minimum lease payments*	46,190	-	46,190	-	41,610	-	41,610	-
Less future finance charges	4,580	-	4,580	-	-	-	-	-
Present value of minimum lease payments	41,610	-	41,610	-	41,610	-	41,610	-

\* Minimum future lease payments includes the aggregate of all lease payments and any guaranteed residual.

##### Operating leases

###### Leasing arrangements

2 operating leases relate to commercial premises with lease terms of two years commencing 1 January 2007 with options to extend for a further two years. These operating lease contracts contain annual market value review clauses. The consolidated entity does not have an option to purchase the leased assets at the expiry of the leases. A further operating lease relates to a motor vehicle with a lease term of 5 years commencing 23 September 2005. The consolidated entity has an option to purchase the vehicle at the expiry of the lease.

	Consolidated		Company	
	2007	2006	2007	2006
	\$	\$	\$	\$
Non-cancellable operating lease payments				
Not longer than 1 year	135,908	57,908	135,908	57,908
Longer than 1 year and not longer than 5 years	119,643	74,651	119,643	74,651
	255,551	132,559	255,551	132,559

# NOTES TO THE FINANCIAL STATEMENTS (CONT)

## FOR THE FINANCIAL YEAR ENDED 30 JUNE 2007

### 21. Borrowings

	Consolidated		Company	
	2007 \$	2006 \$	2007 \$	2006 \$
<b>Secured - at amortised cost</b>				
<i>Current</i>				
Hire purchase	15,625	-	15,625	-
<i>Non-current</i>				
Hire purchase	25,985	-	25,985	-
	41,610	-	41,610	-

The loan is secured by the assets to which it relates. The interest rate is fixed at 8.25% pa.

### 22. Jointly controlled operations and assets

Name of entity	Principal activity	Output interest	
		2007 %	2006 %
Reed Resources Ltd	Gold production	50	50

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:

	Consolidated	
	2007 \$	2006 \$
<b>Non-current Assets</b>		
Exploration and development expenditure	5,506,123	5,475,205
<b>Total non-current assets</b>	5,506,123	5,475,205
<b>Total assets</b>	5,506,123	5,475,205

There are no contingent liabilities or capital commitments arising from the Group's interests in joint ventures.

### 23. Subsidiaries

Name of entity	Country of incorporation	Ownership interest	
		2007 %	2006 %
<b>Parent entity</b>			
Reed Resources Ltd	Australia	-	-
<b>Subsidiaries</b>			
Mount Finnerty Pty Ltd	Australia	100	100

These companies are members of a tax consolidated group. Reed Resources is the head entity of the tax consolidated group.



## NOTES TO THE FINANCIAL STATEMENTS (CONT)

### FOR THE FINANCIAL YEAR ENDED 30 JUNE 2007

#### 24. Segment information

The consolidated entity operates in one business and one geographical segment, being mineral resource exploration, development and production carried out in Western Australia.

#### 25. Related party disclosures

- (a) Equity interests in related parties

##### **Equity interests in subsidiaries**

Details of the percentage of ordinary shares held in subsidiaries are disclosed in note 23 to the financial statements.

- (b) Key management personnel remuneration

Details of key management personnel remuneration are disclosed in note 7 to the financial statements.

- (c) Key management personnel equity holdings

Fully paid ordinary shares of Reed Resources Ltd

2007	Balance@ 1/7/06	Granted as remune- ration	Received on exercise of options	Net other change	Balance@ 30/6/07	Balance held nominally
	No.	No.	No.	No.	No.	No.
David Reed	20,604,115	-	-	2,335,600	22,939,715	-
Christopher Reed	2,230,000	-	-	(406,200)	1,823,800	-
Peter Collins	285,705	-	-	-	285,705	-
Ian Junk	1,175,000	-	250,000	(389,300)	1,035,700	-
David Potter	109,700	-	-	-	109,700	-
Claudio Sheriff-Zegers	-	-	-	12,200	12,200	-
	24,404,520	-	250,000	1,552,300	26,206,820	-

2006	Balance@ 1/7/06	Granted as remune- ration	Received on exercise of options	Net other change	Balance@ 30/6/07	Balance held nominally
	No.	No.	No.	No.	No.	No.
David Reed	18,604,115	-	-	2,000,000	20,604,115	-
Christopher Reed	2,180,000	-	-	50,000	2,230,000	-
Peter Collins	285,705	-	-	-	285,705	-
Ian Junk	250,000	-	-	925,000	1,175,000	-
David Potter	102,200	-	-	7,500	109,700	-
	21,422,020	-	-	2,982,500	24,404,520	-

## NOTES TO THE FINANCIAL STATEMENTS (CONT) FOR THE FINANCIAL YEAR ENDED 30 JUNE 2007

### 25. Related party disclosures (cont)

(c) Key management personnel equity holdings

Executive share options of Reed Resources Ltd

2007	Bal @ 1/7/06	Granted as remuneration	Exercised	Bal @ 30/6/07	Bal vested @ 30/6/07	Vested but not exercisable	Vested and exercisable	Options vested during year
	No.	No.	No.	No.	No.	No.	No.	No.
Christopher Reed	2,000,000	1,000,000	-	3,000,000	3,000,000	-	3,000,000	1,000,000
Peter Collins	500,000	500,000	-	1,000,000	1,000,000	-	1,000,000	500,000
Ian Junk	500,000	500,000	250,000	750,000	750,000	-	750,000	500,000
David Potter	250,000	500,000	-	750,000	750,000	500,000	250,000	500,000
Claudio Sheriff-Zegers	-	200,000	-	200,000	200,000	200,000	-	200,000
	3,250,000	2,700,000	250,000	5,700,000	5,700,000	700,000	5,000,000	2,700,000

2006	Bal @ 1/7/05	Granted as remuneration	Exercised	Bal @ 30/6/06	Bal vested @ 30/6/06	Vested but not exercisable	Vested and exercisable	Options vested during year
	No.	No.	No.	No.	No.	No.	No.	No.
Christopher Reed	1,000,000	1,000,000	-	2,000,000	2,000,000	2,000,000	-	1,000,000
Peter Collins	500,000	-	-	500,000	500,000	500,000	-	-
Ian Junk	500,000	-	-	500,000	500,000	500,000	-	-
David Potter	250,000	-	-	250,000	250,000	250,000	-	-
	2,250,000	1,000,000	-	3,250,000	3,250,000	3,250,000	-	1,000,000

All share options issued during the financial year were made in accordance with the provisions of the executive share option plan.

Further details of the executive share option plan and of share options granted during the financial year is contained in notes 7 and 8 to the financial statements.

# NOTES TO THE FINANCIAL STATEMENTS (CONT)

## FOR THE FINANCIAL YEAR ENDED 30 JUNE 2007

### 25. Related party disclosures (cont)

(d) Other transactions with key management personnel

The profit 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:

	Consolidated	
	2007 \$	2006 \$
Service fees	36,865	40,406
Rent	102,900	85,200
Royalties	8,226	5,032
Total recognised as expenses	147,991	130,638

(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 its subsidiary. The loan totaled \$1,194,500 at 30 June 2007 (\$1,097,565 at 30 June 2006)

There were no other transactions that 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 \$139,765 (2006: \$125,606).

Mr P Collins provides geological consulting services to the Company. The total amount for the year was \$12,025 (2006: \$16,524).

Reed Resources Ltd has a royalty agreement with MTAB Pty Ltd which is a company controlled by David Reed and Christopher Reed.

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

(f) Controlling entities

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

## NOTES TO THE FINANCIAL STATEMENTS (CONT)

### FOR THE FINANCIAL YEAR ENDED 30 JUNE 2007

#### 26. Subsequent events

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

#### 27. 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 balance sheet as follows:

	Consolidated		Company	
	2007	2006	2007	2006
	\$	\$	\$	\$
Cash and cash equivalents	4,378,926	1,612,963	4,378,926	1,612,963

##### (b) Cash balances not available for use

Cash restrictions exist on \$68,233 of the cash balance as at 30 June 2007. The cash restrictions relates to unconditional performance bonds issued by National Australia Bank in favour of the Minister of State Development. A term deposit of \$68,233 has been restricted in its use to ensure it serves as a guarantee.

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

	Consolidated		Company	
	2007	2006	2007	2006
	\$	\$	\$	\$
Loss for the period	(2,423,092)	(986,182)	(1,876,508)	(1,092,659)
Depreciation of non-current assets	63,363	81,745	63,363	81,745
Amortisation of non-current assets	94,253	51,872	94,253	51,872
Equity settled share-based payment	513,000	80,000	513,000	80,000
R and D tax offset received	109,850	-	109,850	-
Impairment of non-current assets	1,055,650	115,735	613,181	102,632
Increase/(decrease) in deferred tax balances	(581,995)	(543,947)	(686,110)	(424,367)
(Increase)/decrease in assets:				
Current receivables	537	(124,704)	537	(124,704)
Increase/(decrease) in liabilities:				
Current payables	(11,371)	146,207	(11,371)	146,207
Other non-cash expenses	-	3,739	-	3,739
Net cash from operating activities	(1,179,805)	(1,175,535)	(1,179,805)	(1,175,535)

## NOTES TO THE FINANCIAL STATEMENTS (CONT)

### FOR THE FINANCIAL YEAR ENDED 30 JUNE 2007

#### 28. 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 3 to the financial statements.

#### Maturity profile of financial instruments

The following table details the consolidated entity's exposure to interest rate risk as at 30 June 2007:

2007	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		
<b>2007</b>							
<b>Financial Assets</b>							
Cash and cash equivalents	5.3	-	4,378,923	-	-	3	4,378,926
Trade and other receivables	-	-	-	-	-	290,319	290,319
<b>Financial liabilities:</b>							
Trade payables	-	-	-	-	-	830,759	830,759

The following table details the consolidated entity's exposure to interest rate risk as at 30 June 2006:

<b>2006</b>							
<b>Financial assets:</b>							
Cash and cash equivalents	4.0	-	1,612,960	-	-	3	1,612,963
Trade and other receivables	-	-	-	-	-	142,800	142,800
<b>Financial liabilities:</b>							
Trade payables	-	-	-	-	-	217,867	217,867

## NOTES TO THE FINANCIAL STATEMENTS (CONT) FOR THE FINANCIAL YEAR ENDED 30 JUNE 2007

### 28. Financial instruments (cont)

#### (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 creditworthy 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 are 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 has 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) Net fair value

The carrying amount of financial assets and financial liabilities recorded in the financial statements represents their respective net fair values, determined in accordance with the accounting policies disclosed in Note 3 to the financial statements.

### Additional stock exchange information as at 31 July 2007

The shareholder information set out below was applicable as at 31 July 2007.

#### ***Distribution of equity securities:***

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

Range	Total Holders	Units	% Issued Capital
1 - 1,000	126	21,697	0.02
1,001 - 5,000	199	643,839	0.66
5,001 - 10,000	182	1,577,715	1.63
10,001 - 100,000	624	20,377,030	21.00
100,001 - 9,999,999,999	131	74,396,386	76.68
Rounding	-	-	0.01
<b>Total</b>	<b>1,262</b>	<b>97,016,667</b>	<b>100.00</b>

## NOTES TO THE FINANCIAL STATEMENTS (CONT) FOR THE FINANCIAL YEAR ENDED 30 JUNE 2007

### Additional stock exchange information as at 31 July 2007 (cont)

#### Top 20 holders of ordinary shares:

Rank	Name	Units	% of Issued Capital
1	TRUCKING NOMINEES PTY LTD <D J REED SUPER FUND A/C>	10,211,900	10.53
2	MR DAVID JOHN REED	8,904,015	9.18
3	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	6,592,982	6.80
4	TRANSOCEAN NOMINEES PTY LTD	2,232,057	2.30
5	JK ASSIMINA LTD <THE JASMINE KAILIS S/F A/C>	2,020,000	2.08
6	PETER BOWMAN NOMINEES PTY LTD <BOWMAN SUPER FUND A/C>	2,000,000	2.06
7	ROCK SECURITIES LIMITED	2,000,000	2.06
8	TERAN NOMINEES PTY LTD	2,000,000	2.06
9	MR TIMOTHY CHARLES REED <ENTERPRISE A/C>	1,650,000	1.70
10	ROBMOB PTY LTD <ROBINSON SUPER FUND ACCOUNT>	1,411,900	1.46
11	MR CHRISTOPHER JOHN REED	1,341,287	1.38
12	RONDEUR PTY LTD	1,200,000	1.24
13	SPLICER NOMINEES PTY LTD	1,111,900	1.15
14	V & A INVESTMENTS PTY LTD <LOMMA HOMES SUPER FUND A/C>	800,000	0.82
15	TRUCKING NOMINEES PTY LTD	711,900	0.73
16	MR SIMON RAYNAUD + MRS ESTELLE RAYNAUD	700,000	0.72
17	MR ROBERT STANLEY LINFOOT <THE LINFOOT S/F NO 2 A/C>	661,900	0.68
18	FORTY TRADERS LIMITED	655,900	0.68
19	PRIAC INVESTMENTS PTY LIMITED <PRICE ACKLING S/FUND A/C>	650,000	0.67
20	RS LINFOOT INVESTMENTS PTY LTD	641,900	0.66
		47,497,641	48.96

#### Substantial holders

Substantial holders in the company are set out below:

Ordinary Shares	Number	Percentage
D J REED	19,939,715	20.55%
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	6,592,982	6.80%

#### 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.

## **NOTES TO THE FINANCIAL STATEMENTS (CONT) FOR THE FINANCIAL YEAR ENDED 30 JUNE 2007**

### **Additional stock exchange information as at 31 July 2007 (cont)**

#### **Other**

The name of the company secretary is Mr Christopher Reed.

The address of the principal registered office in Australia is:

97 Outram Street, West Perth, Western Australia 6005.

Telephone: (08) 9322 1182,

Facsimile (08) 9321 0556,

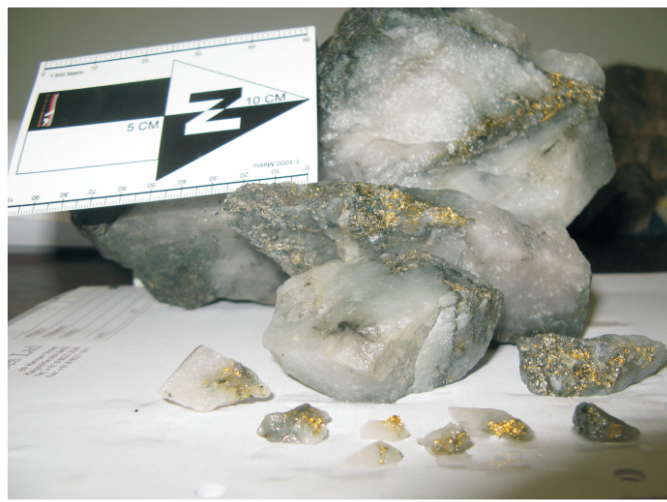
Website [www.reedresources.com](http://www.reedresources.com)

Registers of securities are held at the following addresses

97 Outram 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.









Reed Resources Ltd