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ABN: 89 099 116 631

Developing one of the world's largest hard rock lithium mines



Reed Resources Ltd

ANNUAL REPORT 2010

CORPORATE DIRECTORY

Directors

David Reed, Executive Chairman
Christopher Reed, Managing Director
Peter Collins, Non-executive Director
Ian Junk, Non-executive Director
Steven Cole, Non-executive Director

Company Secretaries

Jason Carone
Christopher Reed

Registered Office

97 Outram St
West Perth 6005

Contact Details

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Stock Exchange Listing

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

American Depositary Receipts (ADR)

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

ACN & ABN Numbers

ACN: 099 116 631
ABN: 89 099 116 631

Auditors

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

Bankers

National Australia Bank Ltd

Solicitors

Freehills
Level 36, QV1
250 St Georges Terrace
Perth WA 6000

Hunt and Humphry
Hyatt Centre Level 2
20 Terrace Road
East Perth WA 6004

Accountants

Lawrence Business Management
1133 Albany Hwy
Bentley WA

Flavel Tierney
8/295 Rokeby Road
Subiaco WA

Share Registry

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

Annual General Meeting

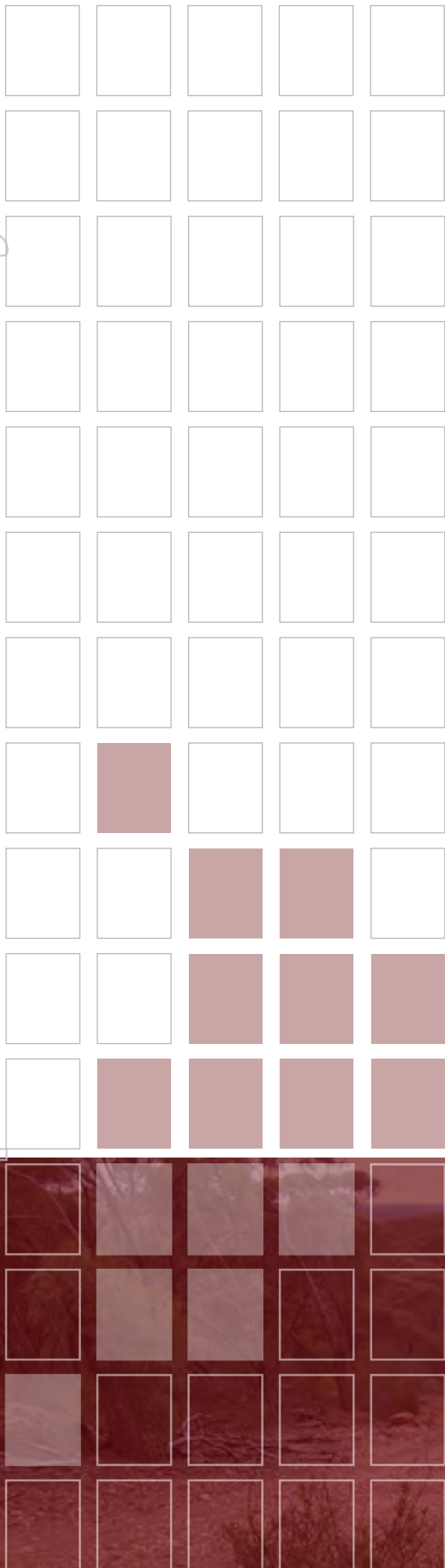
Thursday, 25 November 2010 at
3:00pm Western Standard Time
The Celtic Club
48 Ord Street, West Perth
Western Australia

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Reed Projects

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CONTENTS

CORPORATE DIRECTORY	IFC
CHAIRMAN'S LETTER	2
CORPORATE GOVERNANCE STATEMENT	4
DIRECTOR'S REPORT	10
DIRECTORS' DECLARATION	26
AUDITORS' DECLARATION	27
INDEPENDENT AUDIT REPORT	28
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME	32
CONSOLIDATED STATEMENT OF FINANCIAL POSITION	33
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY	34
CONSOLIDATED STATEMENT OF CASH FLOWS	35
NOTES TO FINANCIAL STATEMENTS	36
ADDITIONAL ASX INFORMATION	73



For

CHAIRMAN'S LETTER



Dear Shareholders,

The past financial year has marked an important growth phase for Reed Resources with the Company achieving its previous objectives and rapidly developing and expanding its projects in Western Australia and is in the strongest position it has been since listing on the Australian Securities in 2002.

Pleasingly, in just over 12 months since securing the rights to the lithium deposit at Mt Marion, our joint venture partners and operators, Mineral Resources Ltd, are committed to development of what will be, the world's second largest spodumene (lithium) operation. Site works have commenced for the construction of the plant at Mt Marion. The plant is being built in a modular form at the Kwinana workshops of Mineral Resources. We believe we will be in production in the first quarter of 2011 and expect regular cashflows from the start of the 2011/12 financial year.

We are also focusing our attention on the feasibility of constructing a lithium carbonate plant in Australia or overseas to obtain additional value from the downstream processing of our lithium concentrates.

Our vanadium deposit at Barrambie is the highest grade in Australia and is currently being assessed by China Non-ferrous Metal Industry's Foreign Engineering and Construction Co Ltd ("NFC"). We are hopeful that a satisfactory joint venture will be concluded this year to see our vanadium mine developed.

During the year the Company resumed 100% ownership of the Sand Queen Gold Mine at Comet Vale but disappointingly had to suspend operations on the 1st of June 2010 due to economic milling facilities were no longer available. We are currently drill defining additional surface and underground resources adjacent to Sand Queen and will have a new resource estimate by early 2011. This new resource will be used to evaluate resuming production on a larger scale via a decline.

A commitment to develop a decline will coincide with a decision to refurbish the Nimbus treatment plant, where preparatory works and engineering are well advanced, connection to the high-voltage grid should occur in the March Quarter 2011.

Pleasingly, our iron ore joint venture with Cliffs will shortly be under the most intensive exploration activities since the joint venture commenced in 2006 and we are hopeful of outlining a clear path forward by the end of 2010.

Our nickel project is still being actively explored by us and drilling is in progress.

With the outlook for lithium and vanadium prices set to increase substantially in the next few years we believe this will be a major contributor to profits in the coming years, supplemented by gold income and nickel and iron ore should these operations become feasible.

I believe the underlying value and future earning potential of our assets should support a much higher share price than we are currently experiencing.

The outlook for the next financial year is strong for Reed Resources with our cash position standing at A\$16 million at the time of this letter.

We will continue to build upon the successes achieved in 2010 in line with our long-term growth strategy.

In closing I must thank my fellow directors, executives, staff and contractors for an outstanding effort this year. I would also like to thank you, our shareholders, for your ongoing loyalty and support and we look forward to sharing another successful year with you.

Yours faithfully

David Reed
EXECUTIVE CHAIRMAN
6 October 2010

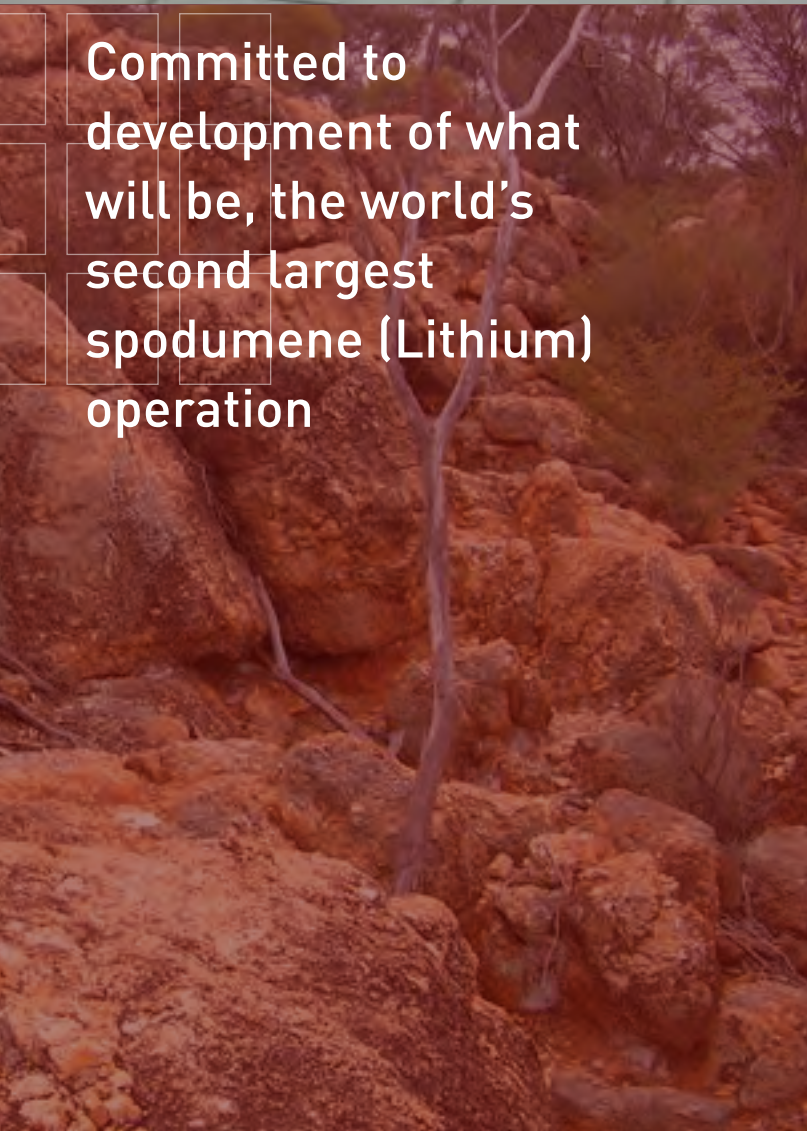
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Achieving objectives and expanding our projects



Committed to development of what will be, the world's second largest spodumene (Lithium) operation



CORPORATE GOVERNANCE STATEMENT

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

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

The Company is committed to implementing sound standards of corporate governance. In determining what those standards should involve, the Company has had regard to the ASX Corporate Governance Council's Corporate Governance Principles and Recommendations 2nd Edition 2007 ('Recommendations').

A copy of the Recommendations and the Company's Charter has been placed on the Company's website in the corporate governance section www.reedresources.com/corporate.php.

PRINCIPLE 1: LAY SOLID FOUNDATIONS FOR MANAGEMENT AND OVERSIGHT

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

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

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

The overall goals of the corporate governance process are to:

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

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

- developing initiatives for profit and asset growth;
- reviewing the corporate, commercial and financial performance of the Company on a regular basis;
- acting on behalf of, and being accountable to, the Company's shareholders;

- identifying business risks and implementing actions to manage those risks; and
- developing and effecting management and corporate systems to assure quality sound corporate performance.

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

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

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

A combined performance and remuneration review for 2009/10 concerning the CEO took place in June 2010 via the Nominations and Remuneration Committee.

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

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

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

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

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

PRINCIPLE 2: STRUCTURE THE BOARD TO ADD VALUE

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

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

For the entire year the Board comprised:

- 3 non-executive independent directors (Steven Cole, Peter Collins* and Ian Junk); and
- 2 executive directors (David John Reed and Chris Reed).

* Due to consulting work undertaken from time to time by Peter Collins for the Company, Peter might not satisfy the technical indicia of "independence" proposed in the Recommendations.

Recommendation 2.2 – The chairperson should be an independent director.

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 the Recommendations.

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

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

Recommendation 2.4 – The Board should establish a nomination committee.

The Board did establish a Nomination and Remuneration Committee.

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

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

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

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

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

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

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

The terms of office, and their status as executive/non executive/independent, for each director for the year ending 30 June 2010 were as follows (with all directors noted as continuing as at 30 June 2010 still being in office at the date of this annual report):

David John Reed	Executive Chairman - 1 July 2009 to 30 June 2010 (cont)
Steven Cole	non executive/independent – 1 July 2009 to 30 June 2010 (cont)
Peter Lionel Fleury Collins	non-executive/independent - 1 July 2009 to 30 June 2010 (cont)
Ian Courtney Junk	non-executive/independent – 1 July 2009 to 30 June 2010 (cont)
Christopher John Reed	executive - 1 July 2009 to 30 June 2010 (cont)

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

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

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

Director	Number of Meetings Eligible to Attend	Number of Meetings Attended
Steven Cole (Chairman)	2	2
Peter Lionel Fluery Collins	2	1
Ian Courtney Junk	2	2

In accordance with the process for Board, Board Committee and director evaluation as described in the Charter such an evaluation and review has been considered and was undertaken in June/July 2010.

The Company departed from the Recommendations in that:

- (a) the Company adopts a varied definition of ‘independence’ than in the Recommendations; and
- (b) the chairperson is not an independent director.

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

- it is satisfied with the level of independence of thought and decision making being contributed by all its non executive directors;
- the current size of the Company’s business operations does not warrant an expanded Board merely to satisfy technical indicia of ‘independence’ as set out in the Recommendations;
- through the appointment of Steven Cole, an independent non executive director with recognised corporate governance skills, as Deputy Chairman, extra governance oversight is brought to bear to Board proceedings notwithstanding the Chairman being executive.

PRINCIPLE 3: PROMOTE ETHICAL AND RESPONSIBLE DECISION MAKING

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

- 3.1.1 the practices necessary to maintain confidence in the company’s integrity;**
- 3.1.2 the practices necessary to take into account legal obligations and reasonable expectations of stakeholders;**

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

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

individuals for reporting and investigating reports of unethical practices.

Recommendation 3.2 : Establish and disclose the Policy Concerning Trading in Company Securities by directors, officers and employees.

The Company’s policy concerning trading in Company securities by Directors, officers and employees is set out in the Charter which has been placed on the Company’s website.

Recommendation 3.3: Provide the Information Indicated in Guide to Reporting on Principle 3.

The Company is not aware of any departures from Recommendations 3.1, 3.2 or 3.3.

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

PRINCIPLE 4: SAFEGUARD INTEGRITY IN FINANCIAL REPORTING

Recommendation 4.1: The Board should establish an Audit Committee.

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

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

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

The Company’s Audit and Risk Management Committee

has 3 members all being non executive directors (Steven Cole, Peter Collins and Ian Junk), all of whom, including the Chairman (Steven Cole), are independent.

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

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

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

Members of the Board's Audit and Risk Management Committee, and their attendance at meetings of that Committee were as follows (a total of 3 meetings were held):

Director	Number of Meetings Eligible to Attend	Number of Meetings Attended
Steven Cole (Chairman)	3	3
Peter Lionel Fluery Collins	3	2
Ian Courtney Junk	3	3

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

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

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

PRINCIPLE 5: MAKE TIMELY AND BALANCED DISCLOSURE

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

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

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

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

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

PRINCIPLE 6: RESPECT THE RIGHTS OF SHAREHOLDERS

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

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

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

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

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

PRINCIPLE 7 : RECOGNISE AND MANAGE RISK

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

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

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In addition, the Board has resolved, and the executive is in the process of developing a more robust system for identifying, assessing, monitoring and managing material risks throughout the organisation, including internal compliance and control systems, and procedures based on AS/NZ ISO 31000:2009. To this end professional consultants have been engaged to assist with the changes from AS/NZ4360. A risk assessment review commenced in April 2010 and is in the process of being finalised by September 2010.

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

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

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

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

Further, the Board discloses that management has reported to it as to the effectiveness of the Company's management of its material business risks, although the Board looks forward to completion of the more comprehensive more robust risk management system currently being finalised (as referred to in the response to Recommendation 7.1 above) based on AS/NZ ISO 31000:2009.

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

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

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

The Company is not aware of any departure from Recommendations 7.1, 7.2 or 7.3 although notes it is continuing to develop and refine its risk management and internal control processes and procedures into more robust systems and procedures based on AS/NZ ISO 31000:2009.

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

PRINCIPLE 8: REMUNERATE FAIRLY AND RESPONSIBLY

Recommendation 8.1: The Board should establish a remuneration committee.

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

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

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

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

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

- Executives were to receive a base salary (based on factors such as skills, experience, value to the Company and length of service), superannuation and, as appropriate, performance incentives, including by way of longer term share or option entitlements (as appropriate). The Nomination and Remuneration Committee (on reference from, and in consultation with, the CEO) reviews executive packages from time to time by reference to the economic entity's performance, executive performance and comparable information from industry benchmarks.
- The maximum remuneration of 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. The apportionment of non-executive director remuneration within that maximum is made by the Board having regard to the inputs and value to the Company of the respective contributions by each non executive director. The Board may also

award additional remuneration to non executive directors called upon to perform extra services or make special exertions on behalf of the Company. Some longer term share options were also awarded to non executive directors in consideration of maintaining relatively modest non executive director fee structures and expectations of extra demand for non executive time inputs for the company's benefit. Details of these are set out in the Remuneration Report within the Directors' Report.

- Greater details of the remuneration arrangements for Directors, Officers and senior executives are contained in the Remuneration Report comprised in the Directors' Report forming part of this Annual Report.

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

Remuneration Committee (names of members and attendance at meetings)

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

Non Executive Director Retirement Benefits

Non-executive directors are entitled to statutory

superannuation. There are no other schemes for retirement benefits for non executive directors.

Departure from Recommendations

Although the Company believes it has complied with Recommendation 8, it notes that the issue of options to the non executive directors as referred to above is not consistent with the statement in item 2 of Box 8.2 of the Recommendations.

In explanation thereof:

- the level of remuneration paid by the Company to its non executive directors is perceived to be modest, especially having regard to the additional service and contributions expected to be made by them at this stage of the Company's evolution;
- the issue of options to the non executive directors is a "non cash" means by which they can receive some modest recompense for such additional service and contributions.

Information Publicly Available

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

EXECUTIVE SUMMARY OF COMPLIANCE WITH RECOMMENDATIONS

Recommendation No:	Complaint	Non-Complaint	If not, why not?
1	✓	-	N/A
2	-	Partial	Refer response to Recommendation 2.6 above.
3	✓	-	N/A
4	✓	-	N/A
5	✓	-	N/A
6	✓	-	N/A
7	✓	-	However refer to the qualified statement in the response to Recommendation 7.4 above.
8	✓	-	However refer to the qualified statement in the response to Recommendation 8.3 above.

DIRECTORS' REPORT

The directors of Reed Resources Ltd submit herewith the annual financial report of the company for the financial year ended 30 June 2010. 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:

<p>David John Reed</p>	<p>Executive Chairman FCPA OAM Term of Office: Appointed 20 December 2001 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 of the Diggers and Dealers Forum in Kalgoorlie, and a past Secretary of the amalgamated Prospectors and Leaseholders Association.</p>
<p>Christopher John Reed</p>	<p>Managing Director/Chief Executive Officer/Company Secretary BComm, GradCertMinEcon, ASA, MAusIMM Term of Office: Appointed 20 December 2001 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. Mr Reed is currently the Vice-president of the Association of Mining and Exploration Companies. He has over 15 years experience in the mineral exploration and mining industry.</p>
<p>Peter Lionel Fleury Collins</p>	<p>Non-executive Director Term of Office: Appointed 20 December 2001 Company Board Committee Membership: Nomination and Remuneration Committee and Audit and Risk Management 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 35 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.</p>

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<p>Ian Courtney Junk</p>	<p>Non-Executive Director Term of Office: Appointed 1 December 2003 Company Board Committee Membership: Nomination and Remuneration Committee and Audit and Risk Management 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, having managed several private mining companies and commissioned various mining operations. Ian has been a national finalist in the Ernst & Young –Entrepreneur of the Year and received a Goldfields, Business of the Year Award. Ian is a Member of the Australasian Institute of Mining and Metallurgy.</p>
<p>Steven Cole</p>	<p>Non-Executive Director Term of Office: Appointed 24 July 2008 Company Board Committee Membership: Nomination and Remuneration Committee and Audit and Risk Management Committee Current External Directorships: Emerson Stewart Group Limited, Faber Benthin Australia Pty Ltd, 2 investment trustees each managing around \$10 million in investments, Australian Institute of Company Directors Limited, QE11 Medical Centre Trust, and Brightwater Care Group Inc. Skills, Experience and Expertise: Steven has 35 years of professional, corporate and business experience through senior legal consultancy, as well as a range of executive management and non executive appointments. His extensive boardroom and board sub-committee experience includes ASX listed, statutory, and proprietary and NFP organisations covering the industrial, financial, educational, professional services, health and resources sectors.</p>
<p>Jason Carone</p>	<p>Company Secretary Term of Office: Appointed 4 March 2009 Company Board Committee Membership: None Current External Directorships: None. Skills, Experience and Expertise: Jason holds a Bachelor of Commerce in Accounting and Business Law from Curtin University, WA and has been a member of the Institute of Chartered Accountants since 2000. Jason joined Reed in September 2007 as Financial Controller and in March 2009 was appointed joint Company Secretary. Jason brings to Reed over 10 years experience working in various professional and corporate capacities in Australia and South East Asia.</p>

Further information on the directors is contained in the corporate governance statement on page 4

Principal activities

The consolidated entity's principal activities during the period consisted of exploration for gold and other minerals, the evaluation of the Barrambie vanadium project, the ongoing gold mining operation at Comet Vale and the evaluation and development of the Mt Marion lithium project.

Review of operations

The consolidated loss after income tax for the year attributable to members of Reed Resources Ltd was \$2,666,815 (2009: \$2,468,834). The company has invested \$8,809,095 in capitalised exploration expenditure and development costs in the year ended 30 June 2010.

BARRAMBIE VANADIUM PROJECT

(Reed 100%)

The Barrambie Vanadium Project continues to be a high priority and the Company has conducted test work for the detailed design stage whilst awaiting its environmental approvals. In May 2010 the Company entered into discussions with China Non-Ferrous Metal Industry's Foreign Engineering and Construction Co. Ltd ('NFC') which, if successfully concluded, would ensure development of this world class vanadium project.

A Definitive Feasibility Study (DFS) completed in April 2009 indicated that, based on the existing mineralisation, the Barrambie vanadium processing plant and associated infrastructure will target a through-put of 3.2 million tonnes per annum of vanadium-bearing magnetite mineralisation at a grade of 0.82% V2O5 to produce 7,700 tonnes of Ferro-Vanadium (FeV80) per annum for a minimum 12 year period.

Barrambie remains one of the world's highest grade vanadium deposits with a Probable Ore Reserve of 39.7Mt at 0.82% V2O5 (Table 1). This Ore Reserve is based on an Indicated Mineral Resource of 49.2 Mt which represents a Resource to Reserve conversion rate of 81%.

During the year laboratory test work focussed on reducing the quantity of salt (sodium carbonate plus recycled sodium sulphate) required in the roasting process. Results were highly successful with a reduction in the amount of salt required from 10.5% of the roast feed to 8.5%; a saving of 20 % in the amount of salt required, which will result in a significant positive benefit to the economics of the project.

The Public Environmental Review Document (PER) for the Barrambie Vanadium Project was lodged with the Environmental Protection Agency (EPA) in March 2010. The public review period commenced on the 28th June 2010 and concluded on the 26th July 2010.

During the year, the Company also acquired remaining minority interests in two Exploration Licences (E57/769, E57/770) for a consideration 600,000 ordinary shares. The Exploration Licences completely enclose the Mining Lease (M57/173) that contains the Ore Reserve and cover strike extensions of magnetite-bearing formations and additional magnetite-bearing formations at Virginia Hills to the west of the Barrambie deposit.

MT MARION LITHIUM PROJECT

(Reed 100%)

Production JV with Mineral Resources Limited

In August 2009 the Company secured an option to purchase the Mt Marion lithium project ("Mount Marion Project") situated 40 km south of Kalgoorlie in the Goldfields region of Western Australia. The Mt Marion project comprises two Mining Leases, M15/999 and M15/1000, which cover outcropping spodumene (LiAlSi2O6) bearing pegmatites.

In October 2009, Reed signed an agreement with Mineral Resources Limited ('MIN') to develop the Mount Marion Project. Under the terms of the binding agreement MIN:

- will build, own and operate the Mt Marion Project's processing facilities;

Table 1. Probable Ore Reserve* estimate for the Barrambie vanadium deposit for a diluted cut-off grade of 0.6% V2O5.

Diluted Ore Tonnes (Mt)	Diluted V2O5 (%)	Diluted TiO2 (%)	Diluted Fe2O3 (%)	Diluted Al2O3 (%)	Diluted SiO2 (%)
39.7	0.82	15.69	48.77	11.59	16.12

* Probable Ore Reserve estimation by Snowden Mining Industry Consultants Pty Ltd. All tonnes are estimated as dry tonnes.

- will fund all development and operating costs with accumulated development costs being amortised and repaid from future operations;
- deliver an operations commencement notice by 30 June 2010 (subsequently extended to 16 July 2010), with operations to commence by 31 December 2010 (subsequently extended to 31 March 2011); and
- will be entitled to an economic interest in 40% of the net profit from the operations at the Mt Marion Project, with Reed retaining ownership and the balance of net profit and the right to purchase all spodumene produced.

Subsequent to the end of the financial year MIN delivered an Operations Commencement Notice and in turn the Company exercised its rights under the Option Agreement and acquired 100% of the granted Mining Leases. MIN funded both the exercise price (A\$1.5m) and the Decision to Mine payment (A\$1.5m) at settlement of the Option.

Commercial production is expected to commence in the March Quarter 2011 at an initial rate of 200,000 tpa of spodumene concentrate grading 6.5% Li₂O, containing some 13,000 tonnes of lithium oxide (Li₂O).

Mineral Resource Estimate

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

In April 2010 the Company completed a resource definition drilling program and results from this drilling were used for an independent estimate of Mineral Resources. Resource estimation was undertaken on four of the pegmatite bodies (No. 1, No. 2, No. 2W and No. 5 pegmatite) and results are presented in Table 2. This work has confirmed the Mt Marion Lithium Project as a world class high grade lithium deposit with a total Resource of 8.9 Mt at 1.4% Li₂O, for a total of 128,000 tonnes of contained lithium oxide (Li₂O).

Table 2. Mt Marion Mineral Resource estimate for the No. 1, No. 2, No. 2W and No. 5 pegmatite deposits, using 0.3 % Li₂O block cut off grade (ASX announcement 14 April 2010).

Deposit	Resource Classification	Tonnes	Grade (Li ₂ O%)	Li ₂ O (tonnes)
No 1	Indicated	2,364,000	1.42	33,569
No 1	Inferred	1,219,000	1.3	15,847
Sub Total		3,583,000	1.4	53,745
No 2	Indicated	391,000	1.37	5,357
No 2	Inferred	595,000	1.4	8,330
Sub Total		985,000	1.4	13,790
No 2W	Indicated	1,606,000	1.4	22,484
No 2W	Inferred	2,513,000	1.4	35,182
Sub Total		4,119,000	1.4	57,666
No 5	Inferred	237,000	1.2	2,844
Sub Total		237,000	1.2	2,844
TOTAL		8,924,000	1.4	128,045

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

Lithium Carbonate Pre-Feasibility Study

In June 2010 the Company announced the results of a Pre-Feasibility Study (PFS) which investigated the processing of spodumene concentrates to produce battery-grade lithium carbonate (Li₂CO₃). The PFS, undertaken by Hatch, investigated the production of 17,000 tonnes per annum of lithium carbonate from 120,000 tonnes of chemical grade spodumene concentrate.

The study confirmed significant benefits of producing lithium carbonate from spodumene concentrates and highlighted the potential for Reed to become a major supplier of high-purity lithium chemicals to Asian lithium battery manufacturers.

The lithium carbonate production process involves conventional sulphate roast-water leaching of spodumene concentrate then precipitation and purification of lithium carbonate. Sodium sulphate is produced as a by product. Process test work was conducted on concentrates from the Mt Marion project. For the purposes of the study, a kiln feed rate of 120,000 tpa @ 6.5% Li₂O was assumed and the following key process steps applied:

- Decrepitation and conversion of alpha spodumene to beta spodumene in a rotary kiln.
- Sulphating roast and leaching.
- Precipitation and ion exchange and lithium carbonate crystallization
- Sodium sulphate crystallization
- Production of 17,000 tonnes per annum of lithium carbonate
- 20 year effective plant life.

Operating cost estimates will not be released due to their sensitive commercial nature but the project, if located in China, has a Net Present Value (NPV) (un-g geared, pre tax, nominal discount rate of 12%) estimated at US\$404 million and a payback of around 2 years.

The Company is currently in discussions with local and international companies to downstream from spodumene concentrate to battery grade lithium carbonate via either toll treatment or joint venture.

COMET VALE PROJECT

(100% Reed)

Sand Queen Gold Mine

During the year the Company resumed 100% ownership of the Sand Queen Gold Mine at the Comet Vale Gold Project in Western Australia from 1 June 2010, pursuant to an agreement with Production Joint Venture partner Kingsrore Mining Limited ("Kingsrore") to terminate the existing joint venture arrangement. Under the agreement Reed also assumed ownership of all associated joint venture assets and infrastructure.

Under the terms of the agreement, Reed has:

- Paid Kingsrore \$1M cash on 31 October 2009;
- Issued Kingsrore \$2M in Reed shares on 31 May 2010 (4,011,431 shares at a price of \$0.4986 per share); and
- Purchased all mine assets and infrastructure for \$1M cash on 31 May 2010.

Kingsrore completed mining at the Sand Queen Gold Mine on 31 May 2010 under the existing production joint venture arrangement. In May 2010 the Company resolved to suspend underground operations at the Sand Queen Gold Mine from 1 June 2010 pending resolution of a long term milling solution or the refurbishment and recommissioning of the Nimbus processing plant, 15 km southeast of Kalgoorlie that was purchased in September 2009.

During the year underground operations at the Sand Queen mine generated 29,735 tonnes of ore hauled to surface and approximately 26,729 tonnes were treated or sold for a total of 8,818 ounces of gold (RDR share 3,574 ounces). At the end of June a parcel of 7,224 tonnes of ore was sold to a third party mill. This yielded 1,774 ounces of gold (RDR share 709 ounces) at a margin to the Company of A\$490/oz.

The average cash cost per ounce during the year was A\$733 and the average price received was A\$1,293. "Cash costs" include all expenditures by Reed, directly incurred on mining and milling, plus overheads and royalties. The cash cost was higher than the previous year due to higher costs experienced in selling the ore parcels when compared with toll treatments.

Mineral Resource Estimate

During the March Quarter 2010 Cube Consulting completed a revision of the Mineral Resource estimates for the Sand Queen gold mine. The revised Mineral Resource has a total 534,000 tonnes at an average grade of 10.8 g/t Au for 186,000 ounces of contained gold (Table 3). This represents a 2% increase in the total gold resource and an increase in grade from 8.6 to 10.8g/t Au, compared with the previous resource estimate.

Table 3. Mineral Resource estimates for the Sand Queen mine, Comet Vale project above 5g/t Au block cut-off grade (ASX announcement 8 April 2010).

Resource	Volume (BCM)	Tonnes	Grade (Au g/t)	Au (Ounces)
Indicated	88,000	238,000	10.8	82,500
Inferred	110,000	296,000	10.9	103,500
TOTAL	198,000	534,000	10.8	186,000

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

Exploration

During the March Quarter 2010 seven short diamond cored holes were drilled for geotechnical testing of the walls of an open pit at Sand Prince West/Princess Grace. In addition, three diamond drill holes successfully tested the down-dip position of the Princess Grace lode. All three holes intersected 3-5 metres of steeply dipping shear zone with a best intersection of 4.50 metres at 12.9g/t Au (PGDR002, 42.0-46.5 metres).

NIMBUS PROJECT PROCESSING PLANT

(Reed 100%)

In April 2009 the Company secured an option to purchase the Nimbus Silver Project and Processing Plant, 15km southeast of Kalgoorlie. Reed exercised its option on 4 September 2009 with a final payment of A\$2.25M to Polymetals Group Pty Ltd ('PGPL').

The plant, which is capable of processing 250,000 tpa precious metals, significantly enhances the Company's production capabilities and will enable Reed to further develop its strategy of resuming and increasing gold production. An independent valuation in 2008 valued the plant and associated equipment at a replacement value (not installed) of A\$7M.

The Nimbus Project comprises two granted mining leases (M26/490, M26/598). PGPL commenced mining in early 2004 and produced approximately 3M oz of silver from two open pits before ceasing mining operations in late 2006. The processing plant was placed on care and maintenance in late 2007. There is significant base metal exploration upside and in-situ high-grade silver mineralisation beneath and between the open pits.

During the year, the Company initiated a Stage 2 cleanup and rehabilitation of the mine site and processing plant as a vital step in rendering the site operational again. This included skimming the plant

area and ROM pad to a depth of 50 mm and returning this material to a tailings storage facility and removal of the silver refinery building, barring furnace, fume towers and drying ovens.

During the year the Company commenced a Pre-Feasibility Study (PFS) for the recommissioning of the Nimbus Treatment Plant. The PFS is investigating the following options:

- Refurbish the existing plant as is (ie 250ktpa Merrill-Crowe plant for hard rock ore only)
- Convert to CIP plant at 200ktpa, 500ktpa, 750ktpa and 1mtpa processing rates.
- Build a new 900ktpa plant

Replacing the existing Merrill Crowe circuit with a Carbon in Pulp (CIP) circuit is seen as an essential step to minimise operational risk and improve plant recovery.

A 500ktpa circuit appears to be the optimal case given existing and future ore treatment plans; delivering superior return on capital and utilising as much of the existing plant as possible. Due to a high demand for toll-milling services in the Eastern Goldfields, the Company has also engaged Como Engineers to commence an engineering study on conversion to CIP, utilising the existing milling circuit (250ktpa) to reduce the construction time with the aim of recommissioning in the June Quarter 2011. Connection to the High Voltage power network is schedule to commence in the December Quarter 2010.

MT FINNERTY PROJECT

Exploration within the Mt Finnerty project has continued to focus on the iron oxide and nickel sulphide potential of the Watt Hills greenstone belt.

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

Nickel exploration by Reed and Western Areas NL has focussed on the western flank of the greenstone belt which is most prospective for massive nickel sulphide mineralisation. There are favourable high MgO ultramafic host rocks with intact basal contacts and highly anomalous geochemical results (high Cu and Ni) that have yet to be satisfactorily explained. The effectiveness of TEM as a search tool for massive sulphides in this area is compromised by the presence of a conductive overburden.

Iron Ore Joint Venture

(Reed 20%, Cliffs 80%)

During the year, joint venture partner Cliffs completed a RC drilling campaign and announced a maiden JORC Code compliant resource at the Mt Finnerty project in Western Australian that gives sufficient encouragement to progress exploration of other targets at the project. The combined Inferred Mineral Resources at the FIN9 and FIN10 prospects is 4.66 Mt at an average grade of 53.5% Fe, for a lower cut-off grade of 50% Fe, and with significantly low levels of phosphorous (P) and sulphur (S) (Table 4).

Table 4. Inferred Mineral Resource estimates for the FIN9 and FIN10 iron prospects, Mt Finnerty project at cut-off grades of 50 and 58% Fe [ASX announcement 15 December 2009]. [ASX announcement 5 May 2009]

Prospect	Cut-off Grade (% Fe)	Tonnes '000	Fe %	SiO ₂ %	Al ₂ O ₃ %	P %	S %	LOI %
FIN9	50	2580	54.1	9.4	3.8	0.1	0.17	7.9
	58	30	58.2	4.8	3.1	0.11	0.16	7.7
FIN10	50	2080	52.9	9.9	5.3	0.06	0.12	8.3
	58	110	58.4	5.0	3.7	0.06	0.15	7.2

Geological mapping combined with interpretations of magnetic and gravity surveys by Cliffs have generated a number of new targets. Flora surveys have been completed over three targets planned for initial resource definition drilling at the FIN9 North, Mt Watt and Maitland prospects. The staged drilling program is expected to commence in September 2010 and cost about \$750,000 of which Reed will contribute approximately \$150,000. Stage 1 of the program totals 25 RC holes (\$400,000), with Stage 2 being drilled shortly after (pending results of Stage 1).

Nickel Exploration

(Barranco 100%, Reed earning 60% Ni Rights)

During the year, Reed reached an agreement with Breakaway Resources NL ('BRW') to acquire its earn-in rights in Exploration Licences E16/305 and E16/330 held by Barranco Resources NL ('Barranco'). The Company acquired BRW's rights to earn a 60% interest in the Barranco Mt Finnerty joint venture for a total consideration of 500,000 fully paid ordinary shares in Reed Resources Ltd.

The section of the Watt Hills greenstone belt covered by Exploration Licence E16/305 is along strike from the ultramafic sequence that has been intensely explored by Western Areas NL ('WSA'). The thick sequence of ultramafics within Barranco's ground is highly prospective for nickel sulphide mineralisation. Previous exploration in the area by Western Mining Corporation (WMC) during the 1970s discovered a gossan and two vertical drill holes in a subsequent drilling program intersected 1.34% Ni (BRFP28) and 1.14 % Ni (BRFP21), each over an interval of 3 metres.

Since entering into the joint venture with Barranco the Company has completed ground IP and EM geophysical surveys and drilled two diamond holes. A 320m cored hole was drilled to a depth of 320 metres to test an IP anomaly and also targeted the interpreted basal contact of an ultramafic unit. This hole intersected a sheared talc carbonate unit with disseminated pyrite, pyrrhotite and chalcopyrite at a depth 81.6 metres down hole. Nickel sulphides were not detected but copper

grades are up to 0.67 % Cu. The disseminated sulphides coincided with the IP target depth. A down-hole TEM (DHTEM) survey on this hole did not detect massive sulphides adjacent to the drill hole. Further DHTEM surveys were conducted on a follow-up diamond hole (GDD003). Two favourable targets were encountered that will be followed up with additional drilling next financial year. These included a 4m thick, pyrrhotite-rich black shale intercalated with ultramafic units and a strong conductive horizon logged as cumulate textured ultramafics with disseminated pyrrhotite throughout a 15m

wide zone. Interpretation on the DTHERM would indicate that this hole was drilled within 10m of a favourable anomaly. This was also complimented with low-grade nickel and copper assays in the anomalous geophysical zones.

Nickel Exploration (Reed 100%)

Pursuant to a Heads of Agreement with Western Areas NL ('WSA') dated 26 February 2007, WSA has been exploring for nickel at Mt Finnerty and was entitled to earn a 51% interest by expending \$1.5M before 26 February 2010 (ASX announcement 28 February 2007). WSA had expended approximately \$1.32M by the due date. Accordingly WSA's right to earn an interest expired on 26 February 2010 and the Heads of Agreement subsequently lapsed.

The Company completed a diamond drill tail on a previous RC drill hole (MFRC010) to test the geological/geophysical target at the Richies Reward prospect but no nickel sulphides were intersected. This area has been reviewed by the Company and is still ranked as having significant anomalism that will be followed up in due course.

BELL ROCK RANGE PROJECT

(Reed 100%, Anglo American Exploration earning 75%) The Bell Rock Range project (E69/2293) covers some 471 km² of the western part of the Proterozoic Musgrave Block in central Australia. It is highly prospective for several commodities, particularly Ni-Cu sulphide and PGE mineralisation.

On 29 September 2009, the Company entered into an Option and Joint Venture Agreement with Anglo American Exploration (Australia) Pty Ltd ('Anglo American'). Under the terms of the agreement Anglo American can earn a 75% interest by spending A\$3M on the Bell Rock Range Project. The key terms of the Agreement with Anglo American are:

- Anglo American can exercise an Option and earn 51% equity by spending A\$1M within 3 years;
- Upon Anglo American earning 51% equity it can elect to earn an additional 24% by additional expenditure of A\$2M in an additional 4 year period;
- Upon Anglo American earning 75% equity, Reed can elect to either contribute or dilute to a royalty of 2% Net Smelter Return (NSR) from gold and 1.5% NSR for all other minerals; and
- The Agreement is subject to executing an Access Agreement with the Ngaanyatjarra Council.

An extensive airborne electromagnetic (EM) geophysical survey using Anglo American's highly successful proprietary SPECTREM system was completed in

mid-March 2010 with 2,610 line kilometres flown at 250m line spacing. Preliminary images of the SPECTREM data did not reveal any obvious conductors that may represent massive sulphide mineralisation. Further processing and interpretation of the Bell Rock Range data is underway, including production of conductivity depth images (CDI's) for selected depth slices.

A preliminary anthropological clearance survey was carried out over E69/2293 by an anthropologist to the Ngaanyatjarra Land Council (NgLC) to identify likely exclusion zones prior to making a decision to engage in Land Access negotiations

CORPORATE

Placements

During the year the Company made the following share placements;

- As stated above the Company issued 500,000 ordinary shares in the Company to BRW pursuant to the terms of a sale agreement dated 15 July 2009 for the sale and purchase of a joint venture interest located in close proximity to the Company's Mount Finnerty project tenements.
- Issued 400,000 ordinary shares in the Company to a consultant to the Company pursuant to the terms of the consulting agreement on 15 July 2010.
- On 25 August 2009 the Company announced to the market the details of a placement of 19.5 million shares at A\$0.33 per share to raise \$6.4M before costs to qualified investors, domestic and international institutional clients of Patersons Securities Ltd ("Patersons"). The Company announced a fully-underwritten Share Purchase Plan ("SPP") on the same terms to raise a further A\$4.5 million, which was duly approved by shareholders and completed in October 2009.
- As stated above the Company issued 600,000 fully paid shares as consideration to acquire remaining minority interests in two Exploration Licences (E57/769, E57/770) in relation to the Barrambie vanadium project.
- Issued 4,011,431 ordinary shares in the Company to Kingsrose pursuant to a deed of variation to terminate the Comet Vale project joint venture agreement on 1 June 2010.
- On 30 June 2010 Chris Reed exercised 1,000,000 unlisted options in the Company with an exercise price of \$0.50 per share.

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 16 July 2010, the Company received an Operations Commencement Notice from its partner in the Mt Marion Spodumene Joint Venture, Mineral Resources Ltd. The Joint Venture was expanded to include mica, tantalum and potash feldspars. The Company exercised its rights under the Option Agreement announced to the ASX on 13th August 2009 and acquired 100% of the granted mining leases. Minerals Resources funded both the exercise price and the decision to mine payment to the prospector at settlement.

On 27 July 2010, the Company requested that the ASX put an immediate halt on the trading of the Company's shares pending an announcement of a capital raising. The Company announced to the market on 29 July 2010 the details of a \$7.5M placement ("Placement") to institutional and qualified investors. The lead manager and underwriter of the capital raising was Patersons Securities Ltd. The funds raised will be applied to advance the Mount Marion lithium and Barrambie vanadium projects.

On 12 August 2010, the Company announced a new Mineral Resource Estimate for the Mt Marion lithium project. The total resource increased some 18% or 1.6Mt to 10.5Mt at 1.4% Li2O, including 2.1Mt at 1.5%

Li2O in the Measured Resource category. The upgraded resource classification and increased confidence in the estimate was based upon additional geology, bulk density and quality control work undertaken on the drilling at the Mt Marion project, to further highlight and demonstrate the robustness of the project geology and grade.

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

As required by section 299(f) of the Corporations Act the company states that it has performed all of its environmental obligations in accordance with applicable environmental regulations except for one breach on its Barrambie Vanadium Project where some rehabilitation obligations were not fully met.

Dividends

In respect of the financial year ended 30 June 2010, the company has not paid an interim dividend and no final dividend is recommended. In respect of the financial year ended 2009, the company did not pay an interim dividend and no final dividend was recommended.

Share options granted to directors and executives

During and since the end of the financial year an aggregate 7,700,000 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
David Reed	1,500,000	Reed Resources Ltd	1,500,000
Christopher Reed	3,000,000	Reed Resources Ltd	3,000,000
Peter Collins	250,000	Reed Resources Ltd	250,000
Ian Junk	250,000	Reed Resources Ltd	250,000
Steven Cole	350,000	Reed Resources Ltd	350,000
Jason Carone	900,000	Reed Resources Ltd	900,000
Craig Fawcett	750,000	Reed Resources Ltd	750,000
Non-Key Management	700,000	Reed Resources Ltd	700,000

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:

Options series	Number	Grant date	Expiry date	Exercise price \$	Fair value at grant date \$
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
Issued 14 September 2007	300,000	14/09/2007	31/12/2012	\$0.85	\$0.22
Issued 28 November 2007	1,500,000	28/11/2007	31/12/2012	\$0.85	\$0.22
Issued 15 September 2008	600,000	15/9/2008	30/6/2013	\$1.20	\$0.13
Issued 25 November 2008	1,250,000	25/11/2008	30/6/2013	\$1.20	\$0.03
Issued 7 September 2009	1,600,000	31/08/2009	31/12/2013	\$0.80	\$0.08
Issued 9 December 2009	4,500,000	26/11/2009	30/06/2012	\$0.80	\$0.17
Issued 9 December 2009	850,000	26/11/2009	31/12/2013	\$0.80	\$0.24
Issued 26 July 2010	750,000	19/07/2010	1/7/2013	\$1.00	\$0.05
Issued 27 August 2010	2,400,000	20/08/2010	1/7/2013	\$1.00	\$0.05

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.

A further 2,400,000 options were issued to four employees and four consultants of the Company on 27 August 2010 pursuant to the Company's employee share option plan. The exercise price of the options is \$1.00 and the expiry date for the exercise of the options is 1 July 2013.

Details of unissued 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 \$
Reed Resources Ltd	1,000,000	Ordinary	\$0.50	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' 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, 15 board meetings, 2 nomination and remuneration committee meetings and 3 audit committee meetings were held.

Directors David Reed	Board of Directors		Nomination & Remuneration Committee		Adult Committee	
	HELD	ATTENDED	HELD	ATTENDED	HELD	ATTENDED
David Reed (Chairman)	15	13	-	-	-	-
Christopher Reed	15	13	-	-	-	-
Peter Collins	15	13	2	1	3	2
Ian Junk	15	13	2	2	3	2
Steven Cole (Deputy Chairman)	15	13	2	2	3	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
David Reed	21,750,251	1,500,000
Christopher Reed	2,909,202	5,600,000
Peter Collins	285,705	950,000
Ian Junk	781,102	950,000
Steven Cole	17,034	600,000

Remuneration report

Details of Directors and Senior Management

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

- **David Reed** - Executive Chairman
- **Christopher Reed** - Managing Director/Chief Executive Officer/Joint Company Secretary
- **Peter Collins** - Non-executive Director
- **Ian Junk** - Non-executive Director
- **Steven Cole** - Non-executive Director/Deputy Chairman

The senior executives of the company and the group for the financial year were:

- **David Reed** - Executive Chairman
- **Christopher Reed** - Managing Director/Chief Executive Officer/Joint Company Secretary
- **Jason Carone** - Financial Controller and Joint Company Secretary
- **Craig Fawcett** - Principal Geologist (commenced 12 April 2010)

Unless otherwise disclosed, the Key Management Personnel held their position from 1 July 2009 until the date of this report.

Remuneration policy for directors and executives

The Group's remuneration policy is to provide a fixed remuneration component and a performance based component. The Board believes that this remuneration policy is appropriate given the stage of development of the Company and the activities which it undertakes and is appropriate in aligning Key Management Personnel objectives with shareholder and business objectives.

The remuneration policy in regard to setting the terms and conditions for the Group's executives (including the Managing Director) has been developed by the Nomination and Remuneration taking into account market conditions and comparable salary levels for companies of a similar size and operating in similar sectors.

The Company is a developing listed company with most of its funds allocated to specific exploration and new business development activities. As a result, the Board has chosen to issue incentive options to executives as a key component of the incentive portion of their remuneration, in order to retain the services of the executives and to provide an incentive linked to the performance of the Company. The Board considers that each executive's experience in the resources industry will greatly assist the Company in progressing its projects to the next stage of development and the

identification of new projects. As such, the Board believes that the number of incentive options granted to executives is commensurate to their value to the Company.

Other than service-based vesting conditions, there are no additional performance criteria on the incentive options granted to executives as, given the speculative nature of the Company's activities and the small management team responsible for its running, it is considered the performance of the executives and the performance and value of the Company are closely related. The Board has a policy of granting options to key management personnel with exercise prices above the respective share price at the time that the options were agreed to be granted. As such, incentive options granted to executives will generally only be of benefit if the executives perform to the level whereby the value of the Company increases sufficiently to warrant exercising the incentive options granted. Given the stage of development of the Company and the high risk nature of its activities, the Board considers that the prospects of the Company and resulting impact on shareholder wealth are largely linked to the success of this approach, rather than by referring to current or prior year earnings. All incentive options are performance based and the percentage of total remuneration are disclosed in the table below.

All remuneration paid to Key Management Personnel is valued at cost to the company and expensed. Incentive options are valued using the Black Scholes valuation methodology. The value of these incentive options is expensed as they vest.

The executive directors of the Company are employed under Service Agreements. In August 2009 the executive directors agreed to extend their contracts for a further 3 years. The Service Agreements are similar in their contents and only differ in hours of service and 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 Board policy is to remunerate Non-Executive Directors at market rates for comparable companies for time, commitment and responsibilities. Given the current size, nature and risks of the Company, incentive options have been used to attract and retain Non-Executive Directors. The Nomination and Remuneration committee on behalf of the Board determines payments to the Non-Executive Directors and reviews their remuneration annually, based on market practice,

duties and accountability. Independent external advice is sought when required. The maximum aggregate amount of fees that can be paid to Non-Executive Directors is \$250,000 as approved by shareholders at the General Meeting on 26 November 2008. Fees for Non-Executive Directors are not linked to the performance of the economic entity. However, to align Directors' interests with shareholder interests, the Directors are encouraged to hold shares in the Company and Non-Executive Directors have received options in order to secure their services.

To date the Company has been undertaking exploration activities, and does not expect to be undertaking profitable operations until after the successful commercialisation, production and sales of commodities from one or more of its projects. Accordingly, the Board does not consider current or prior year earnings when assessing remuneration of Key Management Personnel.

As a result of the Company's exploration and business development activities, the Board anticipates that it will retain future earnings (if any) and other cash resources for the operation and development of its business. Accordingly, the Company does not currently have a policy with respect to the payment of dividends, and as a result the remuneration policy does not take into account the level of dividends or other distribution to shareholders (e.g. return of capital). In addition, the Board does not directly base remuneration levels on the Company's share price or movement in the share price over time. However, as noted above a number of Key Management Personnel have received incentive options which will generally only be of benefit if the Key Management Personnel perform to the level whereby the share price of the Company increases sufficiently to warrant exercising the options granted.

Remuneration packages contain the following key elements:

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

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

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

There is currently no Board policy in relation to the person granted the option limiting his or her exposure to risk in relation to the securities as the options are issued in addition to their separate remuneration package. The Nomination and Remuneration committee intends to review whether such a policy would likely to be of benefit during the coming financial year.

Relationship between the remuneration policy and company performance

The tables below set out summary information about the consolidated entity's earnings and movements in shareholder wealth for the five years to June 2010:

	30 June 2010 \$	30 June 2009 \$	30 June 2008 \$	30 June 2007 \$	30 June 2006 \$
Revenue	2,883,931	3,593,481	1,972,498	402,864	257,348
Net loss before tax	(3,484,481)	(3,629,760)	(4,439,216)	(3,005,087)	(1,530,129)
Net loss after tax	(2,666,815)	(2,468,834)	(3,179,303)	(2,423,092)	(986,182)
Share price at start of year	0.24	1.03	0.46	0.52	0.22
Share price at end of year	0.60	0.24	1.03	0.46	0.52
Market capitalisation at year end (undiluted)	106,362,881	33,036,000	139,513,500	45,112,750	42,052,500
Basic loss per share	(1.61)	(1.80)	(2.83)	(2.93)	(1.33)
Diluted loss per share	(1.61)	(1.80)	(2.83)	(2.93)	(1.33)
Dividends Paid	Nil	Nil	Nil	Nil	Nil

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:

2010 Directors	Short-Term Employee Benefits				Post Employ- ment Benefits	Termination Benefits	Share Based Payment	Total \$	% Consisting of Options
	Salary & Fees \$	Bonus \$	Non- Monetary \$	Other \$	Super- annuation \$		Options & Rights		
David Reed	125,000	-	-	-	11,250	-	106,766	243,016	43.93
Christopher Reed	250,000	-	-	5,498	22,500	-	213,532	491,530	43.44
Peter Collins	40,000	-	-	-	3,600	-	59,830	103,430	57.85
Steven Cole	50,000	-	-	-	4,125	-	83,762	137,887	60.75
Ian Junk	40,000	-	-	-	3,600	-	59,830	103,430	57.85
2010 Executives									
Jason Carone	135,902	-	13,703	-	12,375	-	38,311	200,291	19.13
Craig Fawcett	43,888	-	-	-	3,950	-	-	47,838	-
TOTAL	684,790	-	13,703	5,498	61,400	-	562,031	1,327,422	42.34

2009 Directors	Short-Term Employee Benefits				Post Employ- ment Benefits	Termination Benefits	Share Based Payment	Total \$	% Consisting of Options
	Salary & Fees \$	Bonus \$	Non- Monetary \$	Other \$	Super- annuation \$		Options & Rights		
David Reed	100,000	-	-	-	9,000	-	-	109,000	-
Christopher Reed	250,000	-	-	-	22,500	-	18,240	290,740	6.27
Peter Collins	40,000	-	-	-	3,600	-	6,080	49,680	12.24
Steven Cole	45,833	-	-	-	4,125	-	7,600	57,558	13.20
Ian Junk	40,000	-	-	-	3,600	-	6,080	49,680	12.24
2009 Executives									
William J Crossley (i)	270,343	-	-	-	100,000	-	-	370,343	-
Jason Carone	109,236	-	13,514	-	11,100	-	38,130	171,980	22.17
David Potter (i)	125,000	-	-	-	11,250	59,152	31,775	227,177	13.99
Claudio Sheriff- Zegers (i)	42,500	-	-	-	3,825	33,170	19,065	98,560	19.34
TOTAL	1,022,912	-	13,514	-	169,000	92,322	126,970	1,424,718	8.91

(i) Ceased to be employees of the Group during the year.

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 \$	Vesting date
Issued 20 July 2005	1,000,000	20/7/2005	1/7/2010	\$0.50	\$0.08	At date of grant
Issued 2 August 2006	700,000	2/8/2006	30/06/2011	\$0.75	\$0.19	At date of grant
Issued 13 December 2006	2,000,000	13/12/2006	30/06/2011	\$0.75	\$0.19	At date of grant
Issued 14 September 2007	700,000	14/09/2007	31/12/2012	\$0.85	\$0.22	Pursuant to ESOP
Issued 28 November 2007	1,500,000	28/11/2007	31/12/2012	\$0.85	\$0.22	At date of grant
Issued 15 September 2008	850,000	15/9/2008	30/6/2013	\$1.20	\$0.13	Pursuant to ESOP*
Issued 25 November 2008	1,250,000	25/11/2008	30/6/2013	\$1.20	\$0.03	At date of grant
Issued 7 September 2009	1,600,000	31/08/2009	31/12/2013	\$0.80	\$0.08	Pursuant to ESOP*
Issued 9 December 2009	4,500,000	26/11/2009	31/12/2012	\$0.80	\$0.17	50% 30/12/10, 50% 30/12/11
Issued 9 December 2009	850,000	26/11/2009	31/12/2013	\$0.80	\$0.24	Pursuant to ESOP

Service conditions only relate to options issued under the Company's Employee Share Option Plan 2007 ('ESOP') in that 50% of the options vest 12 months following issue with the balance vesting 18 months following issue.

In addition, in the event that an employee leaves, the options lapse 3 months following the date of cessation of employment. The options marked with an asterix (*) include 900,000 options with additional vesting conditions (one third 11 September 2010, one third 30 June 2011 and one third 30 June 2012).

The weighted average fair value of the share options granted during the financial year ranges between \$0.08 and \$0.24 (2009: \$0.13 & \$0.03). The values attributed to the equity options were calculated using the Black Scholes model. The expected volatility is based on the historical share price volatility.

The following grants of share based payment compensation to directors and senior management relate to the current financial year.

Name	During the financial year					% of compensation for the year consisting of options
	Option series	No. granted	No. vested	% of grant vested	% of grant fortified	
David Reed (i)	9 December 2009	1,500,000	-	-	-	43.93
Christopher Reed (i)	9 December 2009	3,000,000	-	-	-	43.44
Peter Collins (ii)	9 December 2009	250,000	250,000	100	-	57.85
Ian Junk (i)	9 December 2009	250,000	250,000	100	-	57.85
Steven Cole (ii)	9 December 2009	350,000	350,000	100	-	60.75
Jason Carone (iii)	7 September 2009	900,000	-	-	-	19.13

(i) The executive directors options vest progressively during the extended term of their employment contracts.

(ii) The non-executive directors options vested on grant date with no further requirements for vesting.

(iii) Jason Carone options vest one third 11 September 2010, one third 30 June 2011 and one third 30 June 2012.

Value of options issued to directors and senior management

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

Directors	Value of options granted at the grant date (i) \$	Value of options exercised at the exercise date (ii) \$	Value of options lapsed/cancelled at the date of lapse \$	Total \$
David Reed	106,766	-	-	106,766
Christopher Reed	231,532	100,000	-	331,532
Peter Collins	59,830	-	-	59,830
Ian Junk	59,830	-	-	59,830
Steven Cole	83,762	-	-	83,762
Executives				
Jason Carone	38,311	-	-	38,311

(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 2010 to directors and executives at an exercise price of \$0.80 exercisable with an expiry date of 31/12/2012 for executive directors and 31/12/2013 for the remainder.

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 F1: 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 27 of the annual report.

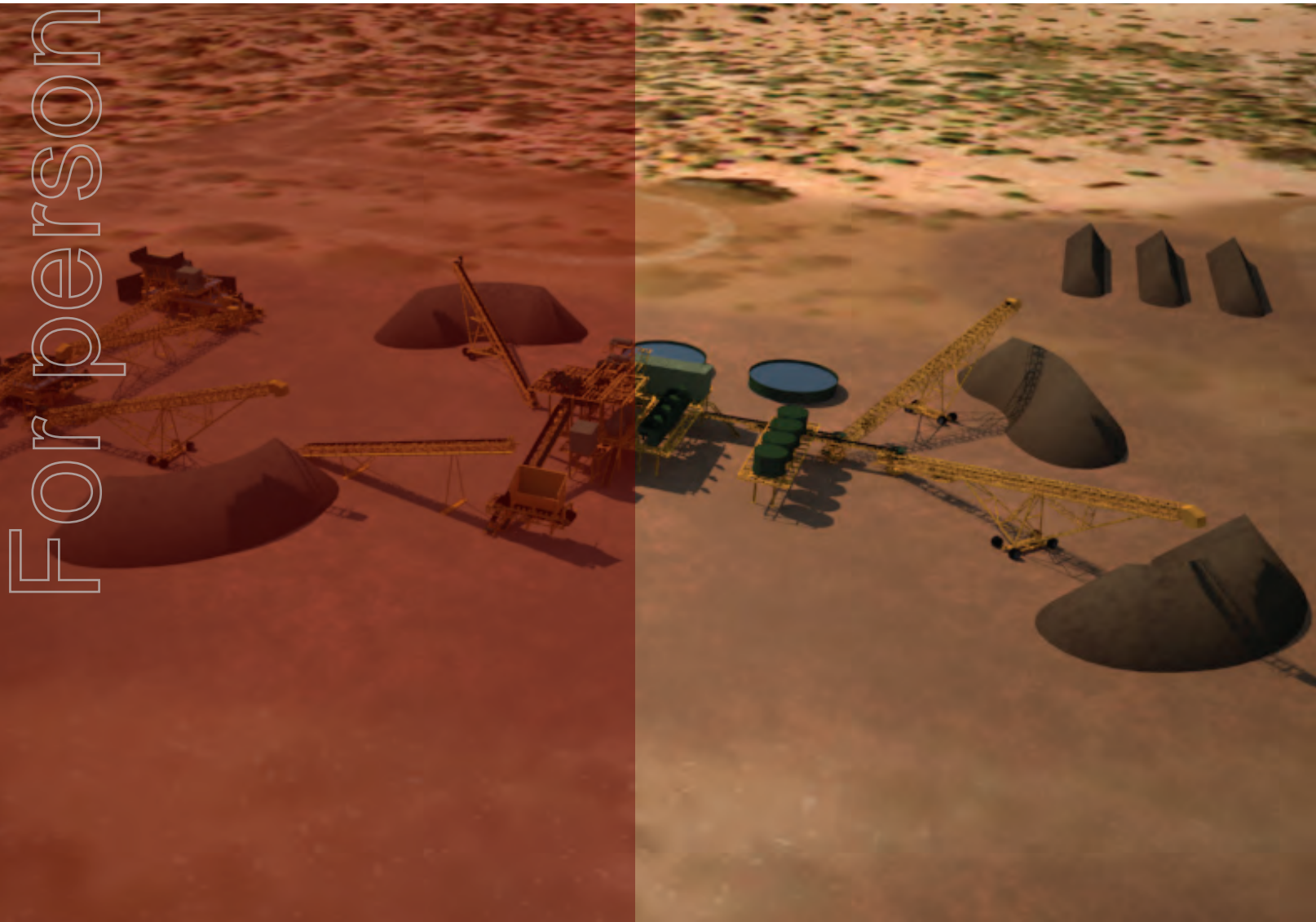
Signed in accordance with a resolution of directors made pursuant to s.298(2) of the Corporations Act 2001.

On behalf of the Directors



Christopher Reed
Managing Director
West Perth, WA,
21 September 2010

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AUDITOR'S INDEPENDENCE DECLARATION

Deloitte.

Deloitte Touche Tohmatsu
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The Board of directors
Reed Resources Ltd
97 Outram Street,
West Perth, WA 6005

21 September 2010

Dear Board Members

Reed Resources Ltd

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

As lead audit partner for the audit of the financial statements of Reed Resources Ltd for the financial year ended 30 June 2010, I declare that to the best of my knowledge and belief, there have been no contraventions of:

- (i) the auditor independence requirements of the Corporations Act 2001 in relation to the 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.

AUDITORS' REPORT

Deloitte.

Deloitte Touche Tohmatsu
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Independent Auditor's Report to the Members of Reed Resources Ltd

Report on the financial report

We have audited the accompanying financial report of Reed Resources Ltd, which comprises the consolidated balance sheet as at 30 June 2010, and the consolidated statement of comprehensive income, the consolidated cash flow statement and the consolidated statement of changes in equity for the year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year as set out on pages 32 to 74.

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 2, 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 financial report, comprising the group or consolidated financial statements and notes, complies 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.

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Member of
Deloitte Touche Tohmatsu

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AUDITORS' REPORT CONTINUED

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 consolidated entity's financial position as at 30 June 2010 and of its 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 financial report also complies with International Financial Reporting Standards as disclosed in Note 2.

Report on the Remuneration Report

We have audited the Remuneration Report included in pages 23 to 28 of the directors' report for the year ended 30 June 2010. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Auditor's Opinion

In our opinion the Remuneration Report of Reed Resources Ltd for the year ended 30 June 2010, complies with section 300A of the *Corporations Act 2001*.

Yours sincerely



DELOITTE TOUCHE TOHMATSU



Mark Gover

Partner

Chartered Accountants

Perth, 21 September 2010

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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) the attached financial statements are in compliance with International Financial Reporting Standards as stated in note 2 to the financial statements;
- (c) in the directors' opinion, the attached financial statements and notes thereto are in accordance with the Corporations Act 2001, including compliance with accounting standards and giving a true and fair view of the financial position and performance of the consolidated entity; and
- (d) the directors have been given the declarations required by s.295A of the Corporations Act 2001.

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

On behalf of the Directors



Christopher Reed
Managing Director
West Perth, WA,

21 September 2010

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CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 30 JUNE 2010

	Note	2010 \$	2009 \$
Continuing operations			
Revenue from sale of goods	5	2,883,931	3,593,481
Cost of sales before amortisation	5	(853,684)	(2,399,777)
Gross profit before amortisation		2,030,247	1,193,704
Amortisation expense	15	(569,828)	(1,299,742)
Gross profit		1,460,419	(106,038)
Other income	5	527,025	932,778
Employment expenses	5	(1,773,897)	(1,734,632)
Occupancy expenses		(216,523)	(204,981)
Administration expenses		(2,484,614)	(2,021,970)
Finance costs		(148,599)	(149,762)
Impairment non-current assets	15	(533,016)	(310,689)
Other expenses		(315,276)	(34,467)
Loss before income tax		(3,484,481)	(3,629,761)
Income tax benefit	6	817,666	1,160,927
Loss for the period from continuing operations		(2,666,815)	(2,468,834)
Loss for the period		(2,666,815)	(2,468,834)
Other comprehensive income		-	-
Total comprehensive income for the period		(2,666,815)	(2,468,834)
Loss attributable to:			
Owners of the parent		(2,666,815)	(2,468,834)
Minority interests		-	-
		(2,666,815)	(2,468,834)
Total comprehensive income attributable to:			
Owners of the parent		(2,666,815)	(2,468,834)
Minority interests		-	-
		(2,666,815)	(2,468,834)
Earnings per share			
Basic (cents per share)	21	(1.61)	(1.80)
Diluted (cents per share)	21	(1.61)	(1.80)

Notes to the financial statements are included on pages 36 to 72.

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CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2010

	Note	2010 \$	2009 \$
Current assets			
Cash and cash equivalents	30	1,285,378	9,287,755
Trade and other receivables	11	943,460	288,695
Inventories	10	282,181	-
Current tax assets	6	413,720	412,348
Total current assets		2,924,739	9,988,798
Non-current assets			
Exploration, evaluation & development expenditure	15	35,529,871	28,121,379
Financial assets	13	8,767,394	-
Other intangible assets	12	300,000	50,000
Property, plant and equipment	14	4,406,174	237,897
Deferred tax assets	6	5,377,956	4,766,787
Total non-current assets		54,381,395	33,176,063
Total assets		57,306,134	43,164,861
Current liabilities			
Trade and other payables	16	1,113,529	300,044
Provisions	17	985,730	18,890
Total current liabilities		2,099,259	318,934
Non-current liabilities			
Provisions	17	1,121,683	192,665
Total non-current liabilities		1,121,683	192,665
Total liabilities		3,220,942	511,599
Net assets		54,085,192	42,653,262
Equity			
Issued capital	18	63,773,894	50,277,004
Accumulated losses	20	(13,361,157)	(10,694,342)
Reserves	19	3,672,455	3,070,600
Total equity		54,085,192	42,653,262

Notes to the financial statements are included on pages 36 to 72.

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CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE 2010

Consolidated	Issued capital \$	Share based payments reserve \$	Accumulated losses \$	Total attributable to equity holders of the entity \$
Balance at 1/7/08	48,881,004	2,905,500	(8,225,508)	43,560,996
Loss for the period	-	-	(2,468,834)	(2,468,834)
Total comprehensive income/(loss)	-	-	(2,468,834)	(2,468,834)
Recognition of share-based payments	-	165,100	-	165,100
Issue of share capital	1,396,000	-	-	1,396,000
Balance at 30/6/09	50,277,004	3,070,600	(10,694,342)	42,653,262
Balance at 1/7/09	50,277,004	3,070,600	(10,694,342)	42,653,262
Loss for the period	-	-	(2,666,815)	(2,666,815)
Total comprehensive (loss)	-	-	(2,666,815)	(2,666,815)
Recognition of share-based payments	-	601,855	-	601,855
Issue of share capital	13,980,411	-	-	13,980,411
Share issue costs	(483,521)	-	-	(483,521)
Balance at 30/6/10	63,773,894	3,672,455	(13,361,157)	54,085,192

Notes to the financial statements are included on pages 36 to 72.

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CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2010

	Note	2010 \$	2009 \$
Cash flows from operating activities			
Receipts from customers		3,015,161	3,883,330
Payments to suppliers and employees		(4,478,728)	(6,055,756)
Interest received		360,322	906,887
Interest and other finance costs paid		(130,500)	(133,804)
Income tax refund		412,348	323,535
Net cash used in operating activities	30 (c)	(821,397)	(1,075,808)
Cash flows from investing activities			
Exploration and development costs paid		(4,830,920)	(9,561,679)
Payment for other financial assets		-	(50,000)
Proceeds from sale of property, plant & equipment		-	46,341
Payment for property, plant & equipment		(4,318,334)	(17,696)
Net cash used in investing activities		(9,149,254)	(9,583,034)
Cash flows from financing activities			
Proceeds from issues of shares		11,426,413	-
Payment for share issue costs		(690,745)	-
Amounts advanced to related parties		(250,000)	-
Amounts received from related parties		250,000	-
Repayment of borrowings		-	(26,412)
Net cash provided by/(used in) financing activities		10,735,668	(26,412)
Net increase/(decrease) in cash and cash equivalents		765,017	(10,685,254)
Cash and cash equivalents at the beginning of the financial year		9,287,755	19,973,009
Transfer to financial assets	13	(8,767,394)	-
Cash and cash equivalents at the end of the financial year	30	1,285,378	9,287,755

Notes to the financial statements are included on pages 36 to 72.

INDEX TO NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE	CONTENTS	PAGE
1	GENERAL INFORMATION	37
2	SIGNIFICANT ACCOUNTING POLICIES	37
3	CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY	45
4	PARENT ENTITY DISCLOSURE	47
5	LOSS FOR THE YEAR	48
6	INCOME TAXES	48
7	KEY MANAGEMENT PERSONNEL COMPENSATION	51
8	SHARE BASED PAYMENTS	53
9	REMUNERATION OF AUDITORS	55
10	INVENTORIES	55
11	TRADE AND OTHER RECEIVABLES	56
12	OTHER NON-CURRENT INTANGIBLE ASSETS	56
13	FINANCIAL ASSETS	56
14	PROPERTY, PLANT AND EQUIPMENT	57
15	EXPLORATION AND DEVELOPMENT EXPENDITURE	58
16	TRADE AND OTHER PAYABLES	59
17	PROVISIONS	59
18	ISSUED CAPITAL	60
19	RESERVES	61
20	ACCUMULATED LOSSES	61
21	LOSS PER SHARE	61
22	COMMITMENTS FOR EXPENDITURE	63
23	CONTINGENT LIABILITIES	63
24	LEASES	63
25	JOINTLY CONTROLLED OPERATIONS AND ASSETS	64
26	SUBSIDIARIES	64
27	SEGMENT INFORMATION	65
28	RELATED PARTY DISCLOSURES	67
29	SUBSEQUENT EVENTS	70
30	NOTES TO THE CASH FLOW STATEMENT	70
31	FINANCIAL INSTRUMENTS	71

NOTES TO THE FINANCIAL STATEMENTS

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	97 Outram St, West Perth, WA, 6005
Principal place of business	97 Outram St, West Perth, WA, 6005

2. SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance

The financial report is a general purpose financial report which has been prepared in accordance with the Corporations Act 2001, Accounting Standards and Interpretations, and complies with other requirements of the law. The financial 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 Group comply with International Financial Reporting Standards ('IFRS').

The financial statements were authorised for issue by the directors on 21 September 2010.

Basis of preparation

The accounting policies adopted are consistent with those adopted and disclosed in the Company's 2009 annual financial report for the financial year ended 30 June 2009 except for the impact of the Standards and Interpretations described below. These accounting policies are consistent with Australian Accounting Standards and with International Financial Reporting Standards.

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

New and revised Standards and Interpretations effective for the current reporting period that are relevant to the Group are listed below:

- AASB 8 Operating Segments, AASB 2007-3 Amendments to Australian Accounting Standards arising from AASB 8 (applies to annual reporting periods beginning on or after 1 January 2009).
- AASB 3 Business Combinations, AASB 3 Business Combinations (2008), AASB 127 Consolidated and Separate Financial Statements (2008), AASB 2008-3 Amendments to Australian Accounting Standards arising from AASB 3 and AASB 127.
- AASB 101 Presentation of Financial Statements (revised September 2007), AASB 2007-8 Amendments to Australian Accounting Standards arising from AASB 101.
- AASB 2008-1 Amendments to Australian Accounting Standard – Share-based Payments: Vesting Conditions and Cancellations.
- AASB 2008-5 Amendments to Australian Accounting Standards arising from the Annual Improvements Project.
- AASB 2007-10 Further Amendments to Australian Accounting Standards arising from AASB 101.
- AASB 2008-7 Amendments to Australian Accounting Standards – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate.
- AASB 2009-2 Amendments to Australian Accounting Standards – Improving Disclosures about Financial Instruments.

Initial application of the aforementioned Standards/Interpretations are not expected to have any material impact on the financial report of the Group and the Company.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

2. SUMMARY OF ACCOUNTING POLICIES (CONT'D)

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

Critical accounting judgements and key sources of estimation uncertainty

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

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

Standards and Interpretations issued not yet effective

At the date of authorisation of the financial report, the Standards and Interpretations listed below were in issue but not yet effective.

Initial application of the following Standards will not affect any of the amounts recognised in the financial report, but will change the disclosures presently made in relation to the Group and the Company's financial report:

Standard	Effective for annual reporting periods beginning on or after	Expected to be initially applied in the financial year ending
AASB 124 Related Party Disclosures (2009), AASB 2009-12 Amendments to Australian Accounting Standards	1 January 2011	30 June 2012
AASB 9 Financial Instruments, AASB 2009-11 Amendments to Australian Accounting Standards arising from AASB 9.	1 January 2013	30 June 2014
AASB 2009-5 Further Amendments to Australian Accounting Standards arising from the Annual Improvements Process	1 January 2010	30 June 2011

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.

2. SUMMARY OF ACCOUNTING POLICIES (CONT'D)

(c) Financial instruments issued by the company

Debt and equity instruments

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

Financial liabilities

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

Financial liabilities at fair value through profit or loss

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

A financial liability is held for trading if:

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

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

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

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

Other financial liabilities

Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs.

Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

Transaction costs on the issue of equity instruments

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

Interest and dividends

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

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

2. SUMMARY OF ACCOUNTING POLICIES (CONT'D)

(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.

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,

2. SUMMARY OF ACCOUNTING POLICIES (CONT'D)

branches, associates and joint ventures except where the consolidated entity is able to control the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets arising from deductible temporary differences associated with these investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

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

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

Current and deferred tax for the period

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

Tax consolidation

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

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

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

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

(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:
 - or
 - exploration and evaluation activities in the area of interest have not at the reporting date reached a stage

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

2. SUMMARY OF ACCOUNTING POLICIES (CONT'D)

which permits a reasonable assessment of the existence or otherwise of economically recoverable reserves, and active and significant operations in, or in relation to, the area of interest are continuing.

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

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

Development expenditure

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

Provision for restoration and rehabilitation

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

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

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

(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 26 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

2. SUMMARY OF ACCOUNTING POLICIES (CONT'D)

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 diminishing value basis so as to write off the net cost or other re-valued amount of each asset over its expected useful life to its estimated residual value. The estimated useful lives, residual values and depreciation method 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

(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.

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

(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.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

2. SUMMARY OF ACCOUNTING POLICIES (CONT'D)

(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.

(o) Financial assets

Subsequent to initial recognition, investments in subsidiaries are measured at cost in the company's financial statements.

Other financial assets are classified into the following specified categories: financial assets 'at fair value through profit or loss', 'held-to-maturity investments', 'available-for-sale' financial assets, and 'loans and receivables'.

The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All of the company/s and group financial assets are classified as loans and receivables.

Loans and receivables

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

Interest income is recognised by applying the effective interest rate.

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.

Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve

2. SUMMARY OF ACCOUNTING POLICIES (CONT'D)

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.

(q) Inventories

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

Consumable stores inventory are measured at the cost of acquisition.

3. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 2, management is required to make judgments, estimates and assumptions about carrying values of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstance, the results of which form the basis of making the judgments. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

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) 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.

Key areas of estimation uncertainty

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

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

3. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (CONT'D)

(a) Capitalised Development and Evaluation Assets

Certain assumptions are required to be made in order to assess the recoverability of long-lived assets. Key assumptions include the future price of gold, future cash flows, an estimated discount rate and estimates of recoverable gold ounces. In addition, cash flows are projected over the life of mine, which is based on indicated ore resources. Estimates of ore are dependent on various assumptions, in addition to those described above, a cut-off grade of 5g/t Au. Changes in these estimates could materially impact on ore reserves, and could therefore affect estimates of future cash flows used in the assessment of recoverable amount.

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

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

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

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4. PARENT ENTITY DISCLOSURE

	2010 \$	2009 \$
Parent entity statement of financial position as at 30 June 2010		
Assets		
Current assets	2,315,833	9,827,818
Non-current assets	54,140,779	34,342,645
Total assets	56,456,612	44,170,463
Liabilities		
Current liabilities	746,273	249,544
Non-current liabilities	191,503	192,665
Total liabilities	937,776	442,209
Equity		
Issued capital	63,773,894	50,277,004
Retained earnings	(11,927,513)	(9,619,350)
Reserves		
Share based payments	3,672,455	3,070,600
Total equity	55,518,836	43,728,254
Parent entity comprehensive income for year ended 30 June 2010		
(Loss) for the year	(2,308,163)	(2,468,834)
Other comprehensive income	-	-
Total comprehensive income	(2,308,163)	(2,468,834)
Guarantees entered into on behalf of subsidiaries (a)	8,767,394	8,765,000
Contingent liabilities		
Contingent liability arising from interest in joint ventures (b)	(80,000)	(80,000)
Commitments for acquisition of PP&E (c)	-	-

(a) Barrambie Gas Pty Ltd, a wholly owned subsidiary of the Company, is party to a gas transmission agreement with DBNGP (WA) Transmission Pty Ltd for the Barrambie project. As part of this agreement the parent entity was required to procure term deposits of \$8.767 million from its bankers as security. Refer to note 13 for details.

(b) As part of the Mt Finnerty project joint venture agreement with Cliffs Asia Pacific Iron Ore Pty Ltd, the Company agreed to provide an indemnity in respect of performance bonds provided to the Department of Mines and Petroleum by Cliffs. Refer to note 23 for details.

(c) The Company had no contractual commitments for exploration expenditure and for the acquisition of property, plant and equipment as at 30 June 2010.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

5. LOSS FOR THE YEAR

	2010 \$	2009 \$
(a) Revenue		
Revenue from operations consisted of the following items:		
Revenue from the sale of goods	2,883,931	3,593,481
Interest revenue	496,978	885,072
Other	30,047	47,706
	3,410,956	4,526,259
(b) Loss before income tax		
Loss before income tax has been arrived at after charging the following expenses:		
Finance costs:		
Borrowing costs	(130,500)	(133,805)
Provision for rehabilitation	(18,099)	(15,957)
	(148,599)	(149,762)
Cost of goods sold	(1,423,512)	(3,699,519)
Depreciation of property, plant, equipment and development expenditure	(126,214)	(102,514)
Employee benefit expense		
Share-based payments:		
Equity settled share-based payments	(601,855)	(146,035)
Defined contribution plans	(91,659)	(185,061)
Other employee benefits	(1,080,383)	(1,403,536)
	(1,773,897)	(1,734,632)

6. INCOME TAXES

	2010 \$	2009 \$
(a) Income tax recognised in profit or loss		
Tax income comprises:		
Current tax income	413,720	412,347
Deferred tax income relating to the origination and reversal of temporary differences	403,946	748,580
Total tax income	817,666	1,160,927

6. INCOME TAXES (CONT'D)

	2010 \$	2009 \$
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:		
Loss from operations	(3,484,481)	(3,629,761)
Income tax calculated at 30%	1,045,344	1,088,928
Effect of expenses that are not deductible in determining taxable profit	(347,410)	(86,319)
Effect of research and development tax off-set	119,732	137,035
Adjustments recognised in the current year in relation to the current tax of prior years	-	21,283
	817,666	1,160,927

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.

	2010 \$	2009 \$
(b) Deferred tax balances		
Deferred tax assets comprise: (i)		
Unclaimed share issue costs	624,074	709,736
Accrued expenses	38,522	18,267
Tax losses – revenue	12,401,657	10,734,534
	13,064,253	11,462,537
Deferred tax liabilities comprise:		
Temporary differences – capitalised expenditure	7,686,299	6,695,750

(i) deferred tax assets have been recorded based upon the Directors assessment of future probable taxable profits arising from current development assets.

	2010 \$	2009 \$
(c) Current tax balances		
Current tax assets comprise:		
Tax refund receivable	413,720	412,348
	413,720	412,348

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

6. INCOME TAXES (CONT'D)

Taxable and deductible temporary differences arise from the following:

2010	Consolidated			
	Opening balance \$	Charged to equity \$	Charged to income \$	Closing balance \$
Gross deferred tax liabilities:				
Capitalised expenditure	6,695,748	-	990,549	7,686,297
Gross deferred tax assets:				
Unclaimed share issue costs	709,735	207,224	(292,885)	624,074
Accrued expenses	18,267	-	20,255	38,522
Tax losses - revenue	10,734,533	-	1,667,124	12,401,657
	11,462,535	207,224	1,394,494	13,064,253
	4,766,787	207,224	403,945	5,377,956

2009	Consolidated			
	Opening balance \$	Charged to equity \$	Charged to income \$	Closing balance \$
Gross deferred tax liabilities:				
Capitalised expenditure	5,134,440	-	1,561,308	6,695,748
Gross deferred tax assets:				
Unclaimed share issue costs	967,415	-	(257,680)	709,735
Accrued expenses	-	-	18,267	18,267
Tax losses - revenue	8,185,232	-	2,549,301	10,734,533
	9,152,647	-	2,309,888	11,462,535
	4,018,207	-	748,580	4,766,787

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 26.

Nature of tax funding arrangements and tax sharing agreements

Entities within the tax-consolidated group have entered into a tax funding arrangement and a tax sharing agreement with the head entity. Under the terms of the tax funding arrangement, Reed Resources Ltd and each of the entities in the tax consolidation group has agreed to pay a tax equivalent payment to or from the head entity, based on the current tax liability or current tax assets if the entity. Such amounts are reflected in amounts receivable from or payable to other entities in the tax-consolidated group.

The tax sharing agreement entered into between the members of the tax-consolidated group provides for the determination of the allocation of income tax liabilities between the entities should the head entity default on its payment obligations or if an entity should leave the tax-consolidated group. The effect of the tax sharing agreement is that each member's tax liability for tax payable by the tax-consolidated group is limited to the amount payable to the head entity under the tax funding arrangement.

7. KEY MANAGEMENT PERSONNEL COMPENSATION

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

- David Reed (Executive Chairman)
- Christopher Reed (Managing Director)
- Peter Collins (Non-executive Director)
- Ian Junk (Non-executive Director)
- Steven Cole (Non-executive Director)
- Jason Carone (Financial Controller and Company Secretary)
- Craig Fawcett (Principal Geologist)

Key management personnel compensation

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

	2010 \$	2009 \$
Short-term employee benefits	703,991	1,036,426
Post-employment benefits	61,400	169,000
Termination benefits	-	92,322
Share-based payment	562,031	126,970
	1,327,422	1,424,718

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 \$250,000 approved by shareholders in November 2008. 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 July and August 2006 and the renewal for a further 3 years was agreed in August 2009. The Service Agreements are similar in their contents and only differ in hours of service and 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 two remaining key management personnel of the Company are employed under Employment and Service or Agreements which have been in existence since August 2007 and April 2010 respectively. The compensation under the employment 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 service agreement is for a 12 month term and maybe terminated by either party providing four weeks notice. In both instances 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 CONTINUED

7. KEY MANAGEMENT PERSONNEL COMPENSATION (CONT'D)

Key management personnel compensation

2010	Short-term benefits			Post-employment			Share-based payments			Total \$
	Salary \$	Other \$	Non- monetary \$	Super- annuation \$	Prescribed benefits \$	Other \$	Equity settled options \$	Cash settled \$	Termi- nation benefits \$	
David Reed	125,000	-	-	11,250	-	-	106,766	-	-	243,016
Christopher Reed (i)	250,000	5,498	-	22,500	-	-	213,532	-	-	491,530
Peter Collins (i)	40,000	-	-	3,600	-	-	59,830	-	-	103,430
Ian Junk (i)	40,000	-	-	3,600	-	-	59,830	-	-	103,430
Steven Cole (i)	50,000	-	-	4,125	-	-	83,762	-	-	137,887
Jason Carone (ii)	135,902	-	13,703	12,375	-	-	38,311	-	-	200,291
Craig Fawcett	43,888	-	-	3,950	-	-	-	-	-	47,838
Total	684,790	5,498	13,703	61,400	-	-	562,031	-	-	1,327,422

(i) Mr D Reed, Mr C Reed, Mr P Collins, Mr I Junk & Mr S Cole were granted share options on 26/11/09 at the Company's AGM. Further details of the options granted are contained in notes 8 and 28 to the financial statements.

(ii) Mr J Carone was granted share options under the employee share option plan on 7/9/09. Further details of the options granted are contained in notes 8 and 28 to the financial statements.

2009	Short-term benefits			Post-employment			Share-based payments			Total \$
	Salary \$	Other \$	Non- monetary \$	Super- annuation \$	Prescribed benefits \$	Other \$	Equity settled options \$	Cash settled \$	Termi- nation benefits \$	
David Reed	100,000	-	-	9,000	-	-	-	-	-	109,000
Christopher Reed (i)	250,000	-	-	22,500	-	-	18,240	-	-	290,740
Peter Collins (i)	40,000	-	-	3,600	-	-	6,080	-	-	49,680
Ian Junk (i)	40,000	-	-	3,600	-	-	6,080	-	-	49,680
William Crossley (i)	270,343	-	-	100,000	-	-	-	-	-	370,343
Jason Carone (ii)	109,236	-	13,514	11,100	-	-	38,130	-	-	171,980
Steven Cole (i)	45,833	-	-	4,125	-	-	7,600	-	-	57,558
David Potter (ii)	125,000	-	-	11,250	-	-	31,775	-	59,152	227,177
Claudio Sherif-Zegers (ii)	42,500	-	-	3,825	-	-	19,065	-	33,170	98,560
Total	1,022,912	-	13,514	169,000	-	-	126,970	-	92,322	1,424,718

(i) Mr C Reed, Mr P Collins, Mr I Junk & Mr S Cole were granted share options on 25/11/08 at the Company's AGM. Further details of the options granted are contained in notes 8 and 28 to the financial statements.

(ii) Mr J Carone, Mr D Potter and Mr C Sherif-Zegers were granted share options under the employee share option plan on 15/9/08. Further details of the options granted are contained in notes 8 and 28 to the financial statements.

8. SHARE BASED PAYMENTS

Employee and Executive share option plan

Reed Resources Ltd has an ownership based remuneration scheme for executives and employees (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 2010 to executives and employees with an exercise price of \$0.80. Four million five hundred thousand were exercisable at any time on or before 30 June 2012 and two million four hundred and fifty thousand were exercisable on or before 31 December 2013. The number of options granted was calculated by the board after considering the experience of grantee, the current market price and current market practice. Four million five hundred thousand options that were issued to the executive directors' vest progressively during the extended term of their contract, whilst the non-executive directors' options totalling eight hundred and fifty thousand vest at the date of their issue and one million six hundred employee and consultants options vest according to the employee share option plan 2007.

As at 30 June 2010 the Company had issued 14,950,000 share options (30 June 2009: 7,650,000). Share options carry no rights to dividends and no voting rights.

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

Options series	Number	Grant date	Expiry date	Exercise price \$	Fair value at grant date \$
Issued 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	30/06/2011	\$0.75	\$0.19
Issued 13 December 2006	2,000,000	13/12/2006	30/06/2011	\$0.75	\$0.19
Issued 14 September 2007	700,000	14/09/2007	31/12/2012	\$0.85	\$0.22
Issued 28 November 2007	1,500,000	28/11/2007	31/12/2012	\$0.85	\$0.22
Issued 15 September 2008	850,000	15/9/2008	30/6/2013	\$1.20	\$0.13
Issued 25 November 2008	1,250,000	25/11/2008	30/6/2013	\$1.20	\$0.03
Issued 7 September 2009	1,600,000	31/08/2009	31/12/2013	\$0.80	\$0.08
Issued 9 December 2009	4,500,000	26/11/2009	31/12/2012	\$0.80	\$0.17
Issued 9 December 2009	850,000	26/11/2009	31/12/2013	\$0.80	\$0.24

The fair value of the share options granted during the financial year ranges between \$0.08 and \$0.24 (2009: \$0.13 & \$0.03). The values attributed to the equity options were calculated using the Black Scholes model based on the inputs in the table below. The expected volatility is based on the historical share price volatility.

Inputs into the model	Option series						
	20 Jul 2005	2 Aug 2006	13 Dec 2006	14 Sep 2007	15 Sep 2008	7 Sep 2009	9 Dec 2009
Grant date share price	\$0.27	\$0.50	\$0.52	\$0.61	\$0.57, \$0.28	\$0.37, \$0.65	
Exercise price	\$0.50	\$0.75	\$0.75	\$0.85	\$1.20	\$0.80	
Expected volatility	74%	77%	77%	63%	64%, 69%	73%	
Option life	5 years	5 years	5 years	5 years	5 Years	4 & 3 Years	
Dividend yield	-	-	-	-	-	-	
Risk-free interest rate	5.34%	5.68%	5.68%	6.27%	6.53%	3.95%	

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

8. SHARE BASED PAYMENTS (CONT'D)

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

	2010		2009	
	Number of options	Weighted average exercise price \$	Number of options	Weighted average exercise price \$
Balance at beginning of the financial year	8,000,000	0.86	8,400,000	0.65
Granted during the financial year as compensation	6,950,000	0.80	2,250,000	1.20
Exercised during the financial year (i)	(1,000,000)	0.50	-	-
Lapsed during the financial year (ii)	(650,000)	0.98	(2,650,000)	0.45
Balance at end of the financial year (iii)	13,300,000	0.85	8,000,000	0.86

(i) Exercised during the financial year

There were 1,000,000 share options exercised during the financial year that were issued on 20 July 2005 at an exercise price of \$0.50. At the time of being exercised on 30 June 2010 the share price was \$0.60.

(ii) Lapsed during the financial year

There were 650,000 share options that lapsed during the financial year (2009: 2,650,000).

(iii) Balance at end of the financial year

The share options outstanding at the end of the financial year had a weighted average exercise price of \$0.85 (2009: \$0.86), and a weighted average remaining contractual life of 834 days (2009: 1027 days).

Share based payments

During the year the Company did not make any share based payments to consultants for the provision of services other than those that were issued under the Company's employee share option plan captured above. Three million eight hundred and thirty three thousand and thirty three Options that were issued in prior years to consultants to the Company lapsed during the financial year ended 30 June 2010 without being exercised.

Accordingly, as at 30 June 2010 the Company did not have any share options on issue to consultants (30 June 2009: 3,833,333).

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

Options series	Number	Grant date	Expiry date	Exercise price \$	Fair value at grant date \$
Issued 7 December 2007	2,500,000	7/12/2007	31/12/2009	\$0.78	\$0.34
Issued 13 June 2008	1,333,333	24/5/2007	30/6/2010	\$1.08	\$0.60

The values attributed to the equity options were calculated using the Black Scholes model based on the inputs in the table below. The expected volatility is based on the historical share price volatility

Inputs into the model	Option Series	
	7 Dec 07	13 June 08
Grant date share price	\$0.96	\$0.90
Exercise price	\$0.78	\$1.08
Expected volatility	63%	199%
Option life	2 years	2 years
Dividend yield	-	-
Risk-free interest rate	6.27%	7.32%

8. SHARE BASED PAYMENTS (CONT'D)

The following reconciles the outstanding share options granted to suppliers for the provision of services at the beginning and end of the financial year:

	2010		2009	
	Number of options	Weighted average exercise price \$	Number of options	Weighted average exercise price \$
Balance at beginning of the financial year	3,833,333	0.88	5,833,333	0.79
Granted during the financial year as compensation				
Lapsed during the financial year (i)	(3,833,333)	0.78	(2,000,000)	0.60
Balance at end of the financial year (ii)	-	-	3,833,333	0.88

(i) Lapsed during the financial year

There were 3,833,333 share options that lapsed during the financial year (2009: 2,000,000).

(ii) Balance at the end of the financial year

The share options outstanding at the end of the financial year had a weighted average exercise price of nil (2009: \$0.88).

The weighted average remaining contractual life for the 2009 balance was 247 days.

9. REMUNERATION OF AUDITORS

	2010 \$	2009 \$
Auditor of the parent entity (Deloitte Touche Tohmatsu)		
Audit or review of the financial report	67,725	63,830
Other advice - corporate	33,425	9,800
	101,150	73,630

10. INVENTORIES

	2010 \$	2009 \$
Consumable stores	51,406	-
Work in progress	230,775	-
	282,181	-

The cost of inventories recognised as an expense during the period in respect of continuing operations was \$1,309,742 (2009: \$3,584,857).

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

11. TRADE AND OTHER RECEIVABLES

	2010 \$	2009 \$
Current trade and other receivables		
Trade receivables (i)	57,724	132,281
Other receivables (ii)	179,174	22,421
Prepayments	102,175	19,734
Goods and services tax (GST) recoverable	604,387	114,259
	943,460	288,695

(i) The current trade receivables balance includes monies due from Mineral Resources Ltd of \$57,724 (2009: Nil) in relation to the Mt Marion lithium joint venture project. The average credit period is 30 days. Trade receivables disclosed above includes amounts that are past due at the end of the reporting period, however the Group has not recognised an allowance for doubtful receivables as all amounts are considered recoverable.

(ii) Other receivables are predominantly comprised of interest receivable on term deposits held by the Group at year-end.

Ageing of past due but not impaired

	2010 \$	2009 \$
30-60 Days	37,748	-
Total	37,748	-

Average age (45 days)

12. OTHER NON-CURRENT INTANGIBLE ASSETS

	2010 \$	2009 \$
Call option	-	50,000
Option fee (ii)	200,000	-
Earn-in rights (iii)	100,000	-
	300,000	50,000

(i) The option to acquire the Nimbus processing plant for \$2.25 million was exercised on 31 August 2009.

(ii) During the period the Group paid an option fee for the right to acquire 100% of the granted mining leases relating to the Mt Marion Lithium Project. The Option was exercised on 16 July 2010, refer to note 29 subsequent events.

(iii) The Group acquired the farm-in rights of Breakaway Resources Ltd for a joint venture interest in tenements adjoining the Mount Finnerty project. The agreement is with Barranco Resources NL.

13. FINANCIAL ASSETS

	2010 \$	2009 \$
Barrambie Gas term deposit (i)	8,700,000	-
Bond term deposit (ii)	67,394	-
	8,767,394	-

13. FINANCIAL ASSETS (CONT'D)

- (i) Barrambie Gas Pty Ltd, a wholly owned subsidiary of the Company, previously entered into a gas transmission agreement with DBNGP (WA) Transmission Pty Ltd for the Barrambie project. As part of the agreement the Company was required to procure a term deposit from its bankers in the amount of \$8.7 million as security for the bonds, which represents the present value of the Company's commitment under the agreement. The gas transmission and the Group's commitment commenced 1 July 2010. Whilst the Group is not utilising this transmission capacity, it has entered into agreements to on-sell part of this capacity.
- (ii) Cash restrictions exist on a term deposit for \$67,394 relating to an unconditional performance bond issued by the National Australia Bank in favour of the Minister for State Development to ensure the term deposit serves as security for the bonds.

14. PROPERTY, PLANT AND EQUIPMENT

	Consolidated				
	Buildings at cost	Office Equipment, Furniture & Fittings at cost	Plant and equipment at cost	Capital work in progress (i)	Total
	\$	\$	\$	\$	\$
Gross carrying amount					
Balance at 1 July 2008	27,900	173,550	471,899	-	673,349
Additions	-	3,249	15,225	-	18,474
Disposals	-	-	(116,502)	-	(116,502)
Balance at 1 July 2009	27,900	176,799	370,622	-	575,321
Additions	-	36,153	1,316,903	2,896,452	4,249,508
Disposals	-	-	-	-	-
Balance at 30 June 2010	27,900	212,952	1,687,525	2,896,452	4,824,829
Accumulated depreciation					
Balance at 1 July 2008	6,228	102,362	240,960	-	349,550
Disposals	-	-	(70,463)	-	(70,463)
Depreciation expense	1,300	24,434	32,603	-	58,337
Balance at 1 July 2009	7,528	126,796	203,100	-	337,424
Disposals	-	-	-	-	-
Depreciation expense	1,222	19,523	60,486	-	81,231
Balance at 30 June 2010	8,750	146,319	263,586	-	418,655
Net book value					
As at 30 June 2009	20,372	50,003	167,522	-	237,897
As at 30 June 2010	19,150	66,633	1,423,939	2,896,452	4,406,174

- (i) Capital work in progress is wholly comprised of the Nimbus processing plant acquired during the period. The costs specifically relate to the acquisition and refurbishment of the plant and will provide a long-term milling solution for the Group's gold operations once these operations are resumed.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

15. EXPLORATION AND DEVELOPMENT EXPENDITURE

	Capitalised development \$	Consolidated Capitalised exploration \$	Total \$
Gross carrying amount			
Balance at 1 July 2008	6,011,768	18,259,229	24,270,997
Additions	717,176	8,436,620	9,153,796
Rehabilitation asset	176,706	-	176,706
Balance at 1 July 2009	6,905,650	26,695,849	33,601,499
Additions	3,605,628	5,203,467	8,809,095
Rehabilitation asset adjustment	(22,001)	-	(22,001)
Balance at 30 June 2010	10,489,277	31,899,316	42,388,593
Accumulated amortisation and impairment			
Balance at 1 July 2008	1,086,727	2,738,785	3,825,512
Amortisation expense (i)	1,299,742	-	1,299,742
Impairment losses charged to profit (ii)	-	310,689	310,689
Depreciation of rehabilitation asset (iii)	44,177	-	44,177
Balance at 1 July 2009	2,430,646	3,049,474	5,480,120
Amortisation expense:			
- Included in cost of sales (i)	569,828	-	569,828
- Included in inventory (i)	230,775	-	230,775
Impairment losses charged to profit (ii)	468,876	64,140	533,016
Depreciation of rehabilitation asset (iii)	44,983	-	44,983
Balance at 30 June 2010	3,745,108	3,113,614	6,858,722
Net book value			
As at 30 June 2009	4,773,933	23,347,446	28,121,379
As at 30 June 2010	6,744,169	28,785,702	35,529,871

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

(i) Amortisation expense is included in the assessment of cost of sales and inventory for the period.

(ii) A detailed review of each tenement within each area of interest has been performed in accordance with the accounting policy detailed in note 2(g). All costs in relation to tenements that are considered to be impaired, including those abandoned or those where operations are not continuing, have been written off.

(iii) Depreciation of the rehabilitation asset is included in note 5 under depreciation of non-current assets.

16. TRADE AND OTHER PAYABLES

	2010 \$	2009 \$
Trade payables	634,223	124,304
Accrued expenses	270,841	101,545
Other (i)	208,465	74,195
	1,113,529	300,044

The average credit period on purchases is 30 days. No interest is charged on the trade payables. The Group has financial risk management policies in place to ensure that all payables are paid within the credit timeframe. (i) The other payables balances are comprised of GST payable and several payroll related liabilities.

17. PROVISIONS

	2010 \$	2009 \$
Current		
Annual leave	29,779	18,890
Long service leave	48,633	-
Other (refer below)	907,318	-
	985,730	18,890
Non-current		
Long service leave	2,742	-
Other (refer below)	1,118,941	192,663
	1,121,683	192,663
	2,107,413	211,553

	Provision for rehabilitation \$	Onerous contracts (i) \$	Total \$
Balance at 1 July 2009	192,663	-	192,663
Additional provisions recognised	-	1,845,595	1,845,595
Reductions arising from payments/other sacrifices of future economic benefits	-	-	-
Additions/(reductions) resulting from re-measurement or settlement without cost	(22,001)	(8,097)	(30,098)
Unwinding of discount and effect of changes in the discount rate	18,099	-	18,099
Balance at 30 June 2010	188,761	1,837,498	2,026,259
Comprised of:			
Current provision	-	907,318	907,318
Non-current provision	188,761	930,180	1,118,941
	188,761	1,837,498	2,026,259

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

17. PROVISIONS (CONT'D)

(i) The onerous contract relates to a contract entered into by Barrambie Gas Pty Ltd, a wholly owned subsidiary of the Company for the Company's Barrambie project. The contract is with DBNGP (WA) Transmission Pty Ltd for gas transmission that commenced on 1 July 2010. The provision in the accounts represents the present value of 24 months of gas transmission obligations under the contract.

18. ISSUED CAPITAL

	2010 \$	2009 \$
177,271,468 fully paid ordinary shares (2009: 137,650,000)	63,773,894	50,277,004

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.

	2010		2009	
	No.	\$	No.	\$
Fully paid ordinary shares				
Balance at beginning of financial year	137,650,000	50,277,004	135,450,000	48,881,004
Issue of shares for cash	33,110,337	10,926,411	-	-
Share issue costs	-	(690,745)	-	-
Income tax on items taken directly to equity	-	207,224	-	-
Issue of shares as part payment for acquisition of private Company	-	-	2,000,000	1,340,000
Issue of shares to consultant	400,000	100,000	-	-
Issue of shares to exit joint venture arrangement	4,011,131	2,000,000	-	-
Issue of shares as donation	-	-	200,000	56,000
Issue of shares under employee option plan	1,000,000	500,000	-	-
Issue of shares for earn-in rights	500,000	100,000	-	-
Issue of shares for interest in tenements	600,000	354,000	-	-
Balance at end of financial year	177,271,468	63,773,894	137,650,000	50,277,004

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, at 30 June 2010, executives had options over 13,300,000 ordinary shares (7,200,000 of which are vested) in aggregate, with 2,700,000 expiring 30/12/2011, 6,300,000 expiring 30/12/2012, 1,850,000 expiring 30/06/2013 and the remainder expiring on 31/12/2013. As at 30 June 2010 there were not any options held by anyone that were not issued under the Employee Share Option Plan 2007.

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.

19. RESERVES

	2010 \$	2009 \$
Share based payments reserve		
Balance at beginning of financial year	3,070,600	2,905,500
Share-based payments	601,855	165,100
Balance at end of financial year	3,672,455	3,070,600

The equity-settled benefits reserve arises on the grant of share options for the provision of services by consultants and to executives and senior employees under the employee share option plan. Share Options are also granted to suppliers. 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 28 to the financial statements.

20. ACCUMULATED LOSSES

	2010 \$	2009 \$
Balance at beginning of financial year	(10,694,342)	(8,225,508)
Net loss attributable to members of the parent entity	(2,666,815)	(2,468,834)
Balance at end of financial year	(13,361,157)	(10,694,342)

21. LOSS PER SHARE

	2010 Cents per Share	2009 Cents per share
Basic loss per share:	(1.61)	(1.80)
Diluted loss per share:	(1.61)	(1.80)

Basic loss per share

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

	2010 \$	2009 \$
Loss (a)	(2,666,815)	(2,468,834)

	2010 No.	2009 No.
Weighted average number of ordinary shares for the purposes of basic loss per share	165,577,596	137,245,068

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

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

21. LOSS PER SHARE (CONT'D)

Diluted loss per share

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

	2010 \$	2009 \$
Loss (a)	(2,666,815)	(2,468,834)

	2010 No.	2009 No.
Weighted average number of ordinary shares for the purposes of diluted loss per share (b)	165,577,596	137,245,068

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

	2010 \$	2009 \$
Net loss	(2,666,815)	(2,468,834)
Loss used in the calculation of diluted EPS	(2,666,815)	(2,468,834)

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

	2010 No.	2009 No.
Weighted average number of ordinary shares used in the calculation of basic EPS	165,577,596	137,245,068

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

22. COMMITMENTS FOR EXPENDITURE

(a) Capital expenditure commitments

As referred to in note 17 to the accounts, Barrambie Gas Pty Ltd, a wholly owned subsidiary of the Company, previously entered into a gas transmission agreement with DBNGP (WA) Transmission Pty Ltd for the Barrambie project. As part of the agreement the Company was required to procure a term deposit in the amount of \$8.7 million from its bankers as security, which represents the present value of the Company's commitment under the agreement. The gas transmission and the Company's commitment commenced on 1 July 2010.

The Group has approved Cliffs Asia Pacific Iron Ore Pty Ltd's exploration programs for Mt Finnerty for the 2010 calendar year. Accordingly, the Company is committed to exploration expenditure totalling \$151,903 in the ensuing twelve months.

(b) Lease commitments

Finance lease liabilities and non-cancellable operating lease commitments are disclosed in note 24 to the financial statements.

23. CONTINGENT LIABILITIES

	2010 \$	2009 \$
Contingent liabilities incurred by the Group arising from interests in joint ventures (i)	80,000	80,000

(i) In consideration of Cliffs agreeing to provide performance bonds totaling \$80,000 for the benefit of the Company to the Department of Mines and Petroleum in relation to four Mount Finnerty Project tenements, the Company agrees to unconditionally indemnify Cliffs in respect of any claims made against Cliffs in respect of the performance bonds where such claims arise out of the Company's activities on those four tenements that are outside the scope of the joint venture and irrespective of whether such activities are undertaken by the Company alone or by a third party with the Company's consent.

24. LEASES

Finance leases

Leasing arrangements

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

Operating leases

Leasing arrangements

2 operating leases relate to commercial premises with lease terms of two years commencing 1 January 2009 with options to extend for a further two years. A further 2 operating leases relate to commercial premises with lease terms of 12 months commencing 1 August 2009, with future tenancy to continue on a periodic (casual) basis. 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.

	Consolidated	
	2010 \$	2009 \$
Non-cancellable operating lease payments		
Not longer than 1 year	84,565	196,260
Longer than 1 year and not longer than 5 years	-	84,565
	84,565	280,825

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

25. JOINTLY CONTROLLED OPERATIONS AND ASSETS

Name of operation	Principal activity	Interest	
		2010 %	2009 %
Comet Vale project	Gold production	100 (i)	50
Mt Finnerty iron ore project	Iron Ore exploration	20	20

The consolidated entity's interest in assets employed in the above jointly controlled operations and assets is detailed below. The amounts are included in the financial statements and consolidated financial statements under their respective asset categories:

	Consolidated	
	2010 \$	2009 \$
Non-current assets		
Exploration and development expenditure (i)	6,609,799	4,447,311
Exploration expenditure	2,055,377	1,139,175
Total non-current assets	8,665,176	5,586,486
Total assets	8,665,176	5,586,486

(i) The Group acquired 100% interest in the Comet Vale gold mine operation at 1 June 2010, pursuant to the joint venture arrangement that had been in place with Kingsrore Mining Ltd.

26. SUBSIDIARIES

Name of entity	Country of incorporation	Ownership interest	
		2010 %	2009 %
Parent entity			
Reed Resources Ltd	Australia	-	-
Subsidiaries			
Mount Finnerty Pty Ltd	Australia	100	100
Barrambie Gas Pty Ltd	Australia	100	100
Australian Vanadium Corporation (Holdings) Pty Ltd	Australia	100	100
Australian Vanadium Exploration Pty Ltd (i)	Australia	100	100
Kalgoorlie Ore Treatment Company Pty Limited	Australia	100	100
Reed Industrial Minerals Pty Ltd (ii)	Australia	100	-
Reed Exploration Pty Ltd (ii)	Australia	100	-
Reed Advanced Materials Pty Ltd (ii)	Australia	100	-
GMK Exploration Pty Ltd (ii)	Australia	100	-
GMK Administration Pty Ltd (ii)	Australia	100	-
Gold Mines of Kalgoorlie Ltd (ii)	Australia	100	-
Sand Queen Gold Mines Pty Ltd (ii)	Australia	100	-

26. SUBSIDIARIES (CONT'D)

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

- (i) Formerly Australian Vanadium Corporation Pty Ltd. Company name changed on 26 November 2009.
- (ii) These companies were incorporated by Reed Resources Ltd in the current year.

27. SEGMENT INFORMATION

Basis for segmentation:

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

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

In contrast, the predecessor Standard (AASB 114 Segment Reporting) required an entity to identify two sets of segments (business and geographical), using a risks and rewards approach, with the entity's system of internal financial reporting to key management personnel serving only as the starting point for the identification of such segments. As a result, following the adoption of AASB 8, the identification of the Consolidated Entity's reportable segments has changed.

For the year ended 30 June 2010

Reportable operating segments	Gold \$	Vanadium \$	Other \$	Unallocated \$	Total \$
Revenue from external customers	2,883,931	-	-	-	2,883,931
Cost of sales before amortisation	(853,684)	-	-	-	(853,684)
Gross profit before amortisation	2,030,247	-	-	-	2,030,247
Amortisation expense	(569,829)	-	-	-	(569,829)
Gross profit/(loss)	1,460,418	-	-	-	1,460,418
Revenue – other	4,093	-	25,189	497,743	527,025
Inter segment revenue	-	-	-	-	-
Impairment	(468,876)	-	(64,140)	-	(533,016)
Depreciation	(55,962)	-	-	(25,269)	(81,231)
Total revenue	2,888,024	-	25,189	497,743	3,410,956
Total expenses	(2,268,528)	(171,446)	(266,606)	(4,188,857)	(6,895,437)
Profit/(loss) before tax	619,496	(171,446)	(241,417)	(3,691,114)	(3,484,481)

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

27. SEGMENT INFORMATION (CONT'D)

30 June 2010

Reportable operating segments	Gold \$	Vanadium \$	Other \$	Unallocated \$	Total \$
Additions to non-current assets	6,708,765	2,841,970	2,265,698	8,777,730	20,594,163
Total segment assets	13,435,306	24,004,950	4,189,815	15,676,063	57,306,134

For the year ended 30 June 2009

Reportable operating segments	Gold \$	Vanadium \$	Other \$	Unallocated \$	Total \$
Revenue from external customers	3,593,481	-	-	-	3,593,481
Cost of sales before amortisation	(2,399,777)	-	-	-	(2,399,777)
Gross profit before amortisation	1,193,704	-	-	-	1,193,704
Amortisation expense	(1,299,742)	-	-	-	(1,299,742)
Gross profit/(loss)	(106,038)	-	-	-	(106,038)
Revenue – other	-	-	663	932,115	932,778
Inter segment revenue	-	-	-	-	-
Impairment	-	-	(310,689)	-	(310,689)
Depreciation	(58,337)	-	-	-	(58,337)
Total revenue	3,593,481	-	663	932,115	4,526,259
Total expenses	(3,699,519)	(132,629)	(314,457)	(4,009,414)	(8,156,019)
Profit/(loss) before tax	(106,038)	(132,629)	(313,794)	(3,077,299)	(3,629,760)

30 June 2009

Reportable operating segments	Gold \$	Vanadium \$	Other \$	Unallocated \$	Total \$
Additions to non-current assets	1,226,228	7,745,263	409,011	18,474	9,398,976
Total segment assets	6,182,517	21,030,570	1,734,461	14,217,313	43,164,861

Information about major customers

Revenue from external customers includes gold sales to AGR Matthey Pty Ltd of \$1.4 million (2009: Nil), gold sales to a third party of nil (2009: \$0.6 million), and gold ore sales to a third party of \$1.4 million (2009: \$3 million).

Geographical information

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

28. 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 26 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

2010	Balance@ 1/7/09 No.	Balance on appointment No.	Received on exercise of options No.	Net other change No.	Balance@ 30/6/10 No.	Balance held nominally No.
David Reed	21,689,715	-	-	60,536	21,750,251	
Christopher Reed	1,863,800	-	1,000,000	45,402	2,909,202	
Peter Collins	285,705	-	-	-	285,705	
Ian Junk	735,700	-	-	45,402	781,102	
Steven Cole	1,900	-	-	15,134	17,034	
Jason Carone	138,500	-	-	268	138,768	
Craig Fawcett	-	-	-	-	-	
Total	24,715,320	-	1,000,000	166,742	25,882,062	

2009	Balance@ 1/7/08 No.	Balance on appointment No.	Received on exercise of options No.	Net other change No.	Balance@ 30/6/09 No.	Balance held nominally No.
David Reed	20,239,715	-	-	1,450,000	21,689,715	-
Christopher Reed	1,823,800	-	-	40,000	1,863,800	-
Peter Collins	285,705	-	-	-	285,705	-
Ian Junk	735,700	-	-	-	735,700	-
Steven Cole	-	1,900	-	-	1,900	-
Jason Carone	-	10,000	-	128,500	138,500	-
David Potter	76,358	-	-	(22,222)	54,136	-
Claudio Sheriff-Zegers	12,200	-	-	-	12,200	-
Total	23,173,478	11,900	-	1,596,278	24,781,656	-

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

28. RELATED PARTY DISCLOSURES (CONT'D)

Executive share options of Reed Resources Ltd

	Bal @ 1/7/09	Granted as remuneration	Exercised / (lapsed)	Bal @ 30/6/10	Bal vested @ 30/6/10	Vested but not exercisable	Vested and exer- cisable	Options vested during year
2010	No.	No.	No.	No.	No.	No.	No.	No.
David Reed	-	1,500,000	-	1,500,000	-	-	-	-
Christopher Reed	3,600,000	3,000,000	(1,000,000)	5,600,000	2,600,000	-	2,600,000	-
Peter Collins	700,000	250,000	-	950,000	1,000,000	-	1,000,000	250,000
Ian Junk	700,000	250,000	-	950,000	1,000,000	-	1,000,000	250,000
Steven Cole	250,000	350,000	-	600,000	600,000	-	600,000	350,000
Jason Carone	300,000	900,000	-	1,200,000	300,000	-	300,000	300,000
Non key management personnel	2,450,000	700,000	(650,000)	2,500,000	1,450,000	-	1,450,000	750,000
Total (i)	8,000,000	6,950,000	(1,650,000)	13,300,000	6,950,000	-	6,950,000	1,900,000

(i) Opening balance at 1/7/09 includes 350,000 options issued to a consultant under the Company ESOP that was not previously considered as part of the executive.

	Bal @ 1/7/08	Granted as remuneration	Exercised / (lapsed)	Bal @ 30/6/09	Bal vested @ 30/6/09	Vested but not exercisable	Vested and exer- cisable	Options vested during year
2009	No.	No.	No.	No.	No.	No.	No.	No.
Christopher Reed	4,000,000	600,000	(1,000,000)	3,600,000	3,600,000	-	3,600,000	600,000
Peter Collins	1,000,000	200,000	(500,000)	700,000	700,000	-	700,000	200,000
Ian Junk	750,000	200,000	(250,000)	700,000	700,000	-	700,000	200,000
David Potter	1,150,000	250,000	(250,000)	1,150,000	1,150,000	164,384	900,000	-
Claudio Sheriff-Zegers	500,000	150,000	(450,000)	200,000	200,000	-	200,000	150,000
Jason Carone	-	300,000	-	300,000	197,260	197,260	-	-
Steven Cole	-	250,000	-	250,000	250,000	-	250,000	250,000
William Crossley	500,000	-	-	500,000	500,000	-	500,000	-
Non key management	100,000	150,000	-	250,000	250,000	98,630	100,000	-
Total	8,000,000	2,100,000	(2,450,000)	7,650,000	7,650,000	700,000	6,950,000	1,400,000

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.

28. RELATED PARTY DISCLOSURES (CONT'D)

(d) Other transactions with key management personnel

	2010 \$	2009 \$
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:		
Service fees	55,032	46,160
Rent	164,900	159,250
Interest expense	1,247	-
Sale of assets	-	15,000
Consulting fees	18,309	31,848
Royalties	101,678	124,404
Total recognised as expenses	341,166	376,662

(e) Transactions with other related parties

Other related parties include:

- the parent entity;
- associates;
- joint ventures in which the entity is a venturer;
- subsidiaries;
- key management personnel of Reed Resources Ltd
- former key management personnel; and
- other related parties.

Transactions involving the parent entity

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

The parent entity has loaned funds to subsidiaries. The loans totaled \$7,902,572 at 30 June 2010 (\$2,190,712 at 30 June 2009). These loans are repayable on demand and interest free.

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 \$219,932 (2009: \$205,410), being rent and service fees. Trucking Nominees Pty Ltd also provided a short-term loan (at a market rate of interest) to Reed Resources Ltd during the period. Interest charges for the year totaled \$1,247 (2009: Nil).

Mr. P Collins provides geological consulting services to the Company. The total amount for the year was \$18,309 (2009: \$31,848).

Reed Resources Ltd has a royalty agreement with MTAB Pty Ltd which is a company controlled by David Reed. The total amount for the year was \$101,678 (2009: \$124,404).

The above amounts were paid 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 CONTINUED

29. SUBSEQUENT EVENTS

On 16 July 2010, the Company received an Operations Commencement Notice from its partner in the Mt Marion Spodumene Joint Venture, Mineral Resources Ltd. The Joint Venture was expanded to include mica, tantalum and potash feldspars. The Company exercised its rights under the Option Agreement announced to the ASX on 13th August 2009 and acquired 100% of the granted mining leases. Minerals Resources funded both the exercise price and the decision to mine payment to the prospector at settlement.

On 27 July 2010, the Company requested that the ASX put an immediate halt on the trading of the Company's shares pending an announcement of a capital raising. The Company announced to the market on 29 July 2010 the details of a \$7.5M placement ("Placement") to institutional and qualified investors. The lead manager and underwriter of the capital raising was Patersons Securities Ltd. The funds raised will be applied to advance the Mount Marion lithium and Barrambie vanadium projects.

On 12 August 2010, the Company announced a new Mineral Resource Estimate for the Mt Marion lithium project. The total resource increased some 18% or 1.6 Mt to 10.5 Mt at 1.4% Li₂O, including 2.1 Mt at 1.5% Li₂O in the Measured Resource category. The upgraded resource classification and increased confidence in the estimate was based upon additional geology, bulk density and quality control work undertaken on the drilling at the Mt Marion project, to further highlight and demonstrate the robustness of the project geology and grade.

30. NOTES TO THE CASH FLOW STATEMENT

(a) Reconciliation of cash and cash equivalents

	2010 \$	2009 \$
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:		
Cash and cash equivalents	1,285,378	9,287,755
	1,285,378	9,287,755

(b) Funds not available for use

Restrictions exist on two separate term deposits of \$67,394 and \$8,700,000 classified as financial assets. The restrictions relate to unconditional performance bonds and serve as security for bonds issued by the National Australia Bank in favour of the Minister of State Development and DBNGP (WA) Transmission Pty Ltd.

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

	2010 \$	2009 \$
Loss for the period	(2,666,815)	(2,468,834)
(Gain) on sale of or disposal of non-current assets	-	(302)
Depreciation of non-current assets	126,214	102,514
Amortisation of non-current assets	569,829	1,299,742
Equity settled share-based payment	601,855	221,100
Impairment of non-current assets	533,016	310,689
(Increase) in current tax asset	(1,372)	(88,813)
(Increase) in deferred tax asset	(403,945)	(748,500)
(Increase) / Decrease in assets:		
Current receivables	(896,281)	310,315

30. NOTES TO THE CASH FLOW STATEMENT (CONT'D)

	2010 \$	2009 \$
Decrease / (Increase) in liabilities:		
Current payables	871,868	(36,015)
Other non-cash expenses	444,234	22,375
Net cash used in operating activities	(821,397)	(1,075,808)

(d) Non cash financing and investing activities

On 15 July 2009, the Company issued 500,000 shares at 0.20 cents per share to acquire a joint venture interest in several Mt Finnerty project tenements. An additional 400,000 shares at 0.25 cents per share were also issued on this date to Lennonville Pty Ltd as consideration for the provision of consulting services. On 18 December 2009, the Company issued 600,000 shares to Mark Clifton to acquire several tenements relating to the Barrambie project. On 1 June 2010, 4,011,0131 shares were issued to Kingsrose Mining Ltd at 0.49 cents per share as part of the consideration for termination of the Comet Vale project joint venture. All shares issued were fully paid ordinary shares.

31. FINANCIAL INSTRUMENTS

Cash restrictions exist on \$8,767,394 of the cash balance as at 30 June 2010. The cash restrictions relates to unconditional performance bonds issued by National Australia Bank in favour of the Minister for State Development and DBNGP (WA) Transmission Pty Ltd. Two separate term deposits of \$67,394 and \$8,700,000 respectively have been restricted in their use to ensure they serve as security for the bonds.

(a) Financial risk management objectives

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

(b) Significant accounting policies

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

The following tables detail the exposure to interest rate risk:

2010	Weighted average effective interest rate %	Variable interest rate \$	Maturity dates				Non interest bearing \$	Total \$
			Less than 1 year \$	1-5 years \$	More than 5 years \$			
Financial assets:								
Cash and cash equivalents	3.05	-	1,284,271	-	-	1,107	1,285,378	
Barrambie Gas term deposit (i)	5.75	-	8,700,000	-	-	-	8,700,000	
Bond term deposit (i)	5.80	-	67,394	-	-	-	67,394	
Trade and other receivables	-	-	-	-	-	943,460	943,460	
Financial liabilities:								
Trade payables	-	-	-	-	-	1,113,529	1,113,529	

(i) The balances represent two term deposits that are restricted in their use and are classified in the current reporting period as a financial asset. Refer to Note 13 for further explanation.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

31. FINANCIAL INSTRUMENTS (CONT'D)

2009	Weighted average effective interest rate %	Variable interest rate \$	Maturity dates			Non interest bearing \$	Total \$
			Less than 1 year \$	1-5 years \$	More than 5 years \$		
Financial assets:							
Cash and cash equivalents	3.2	-	9,286,650	-	-	1,105	9,287,755
Trade and other receivables	-	-	-	-	-	288,695	288,695
Financial liabilities:							
Trade payables	-	-	-	-	-	300,044	300,044

(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. Refer to 31 (b).

(e) Fair value

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

(f) Commodity Price Risk

The Group is exposed to gold and other commodity price risk. These commodity prices can be volatile and are influenced by factors beyond the Group's control. No hedging or derivative transactions have been used to manage commodity price risk.

(g) Capital Management

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

ADDITIONAL STOCK EXCHANGE INFORMATION AS AT 31 AUGUST 2010

The shareholder information set out below was applicable as at 31 August 2010.

Distribution of equity securities:

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

Range	Total holders	Units	% of Issued Capital
1 - 1,000	323	153,466	0.08
1,001 - 5,000	834	2,583,535	1.34
5,001 - 10,000	653	5,517,081	2.87
10,001 - 100,000	1,540	53,210,658	27.67
100,001 - 9,999,999,999	265	130,807,028	68.03
Rounding			0.01
Total	3,615	192,271,768	100.00

Top 20 holders of ordinary shares:

Rank	Name	Units	% of Units
1.	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	12,073,284	6.28
2.	TRUCKING NOMINEES PTY LTD ←D J REED SUPER FUND A/C→	11,877,034	6.18
3.	MR DAVID JOHN REED	8,619,149	4.48
4.	TERAN NOMINEES PTY LTD ←Q00949 A/C→	3,480,000	1.81
5.	COROM PTY LTD	2,527,034	1.31
6.	BOND STREET CUSTODIANS LIMITED ←JATRAN - V04614 A/C→	2,425,134	1.26
7.	KINGSROSE MINING LTD	2,256,015	1.17
8.	JK ASSIMINA PTY LTD ←THE JASMINE KAILIS S/F A/C→	2,035,134	1.06
9.	ROBMOB PTY LTD ←ROBINSON SUPER FUND ACCOUNT→	1,528,000	0.79
10.	HAREWOOD PTY LTD	1,451,880	0.76
11.	MR CHRISTOPHER JOHN REED	1,356,421	0.71
12.	HORSESHOE INVESTMENTS PTY LTD ←ROD RUSSELL FAMILY FUND A/C→	1,300,000	0.68
13.	MRS JASMINE KAILIS	1,300,000	0.68
14.	COLBERN FIDUCIARY NOMINEES PTY LTD	1,250,000	0.65
15.	MR ROBERT STANLEY LINFOOT ←THE LINFOOT S/F NO 2 A/C→	1,211,384	0.63
16.	DOTTIE INVESTMENTS PTY LTD	1,195,449	0.62
17.	PAN AUSTRALIAN NOMINEES PTY LIMITED	1,182,370	0.61
18.	ABN AMRO CLEARING SYDNEY NOMINEES PTY LTD ←CUSTODIAN A/C→	1,101,484	0.57
19.	SEAFORD NOMINEES PTY LTD ←SEAFORD NOMINEES PL SF A/C→	1,100,000	0.57
20.	SURPION PTY LTD ←M W SUHR & CO A/C→	1,100,000	0.57
Totals: Top 20 holders of ORDINARY SHARES (GROUPED)		60,369,772	31.40

ADDITIONAL STOCK EXCHANGE INFORMATION AS AT 31 AUGUST 2010 (CONT'D)

Substantial holders

Substantial holders in the company are set out below:

Ordinary Shares	Number Held	Percentage
D J REED	21,750,251	11.31%

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.

Other

The name of the company's joint company secretaries are Mr Christopher Reed and Mr Jason Carone.

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

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.

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Reed Resources Ltd

Registered office:

97 Outram Street
West Perth WA 6005

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Fax: +61 8 9321 0556

Kalgoorlie office:

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ANNUAL REPORT 2010

www.reedresources.com