

# **Reed Resources Ltd**

ABN 89 099 116 631

Financial report for the financial year ended 30 June 2006

# Annual financial report for the financial year ended 30 June 2006

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# Corporate governance statement

## Introduction

The Board of directors of Reed Resources Ltd (the *Company*) is responsible for the corporate governance of the Company, for setting corporate direction, defining policies and monitoring the business of the Company, to ensure it is conducted appropriately and in the best interests of the Company and its shareholders.

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

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

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

## **Principle 1: Lay solid foundations for management and oversight**

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

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

### **Role of the Board**

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

The overall goals of the corporate governance process are to:

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

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

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

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

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

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## **Principle 2: Structure the board to add value**

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

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

### **Composition of the Board**

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

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

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

**Nature of departure:** The Board does not have a majority of independent directors.

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

**Recommendation 2.2:** The chairperson should be an independent director.

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

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

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

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

**Recommendation 2.4:** The board should establish a nomination committee.

### **Nomination and Remuneration Committee**

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

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

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

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

The Remuneration component of the Committee assists the Board in ensuring that:

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

**Nature of departure:** Prior to 13 June 2006 the Company did not have a formal nomination committee.

**Explanation for departure:** Until the establishment of the Nomination and Remuneration Committee, its functions were fulfilled by the Board acting as a whole. The establishment of the Committee is part of the Company's continuing commitment to develop its corporate governance practices.

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

**Directors skills, experience and expertise**

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

**David John Reed, OAM, FCPA, age 60**

*Position with Company:* Executive Chairman

*Term of Office:* Appointed 20 December 2001

*Independent:* No

*Company Board Committee Membership:* Nomination and Remuneration Committee

*Current External Directorships:* None

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

**Christopher John Reed, BComm, GradCertMinEcon, ASA, MAusIMM, age 33**

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

*Term of Office:* Appointed 20 December 2001

*Independent:* No

*Company Board Committee Membership:* None

*Current External Directorships:* None

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

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

*Position with Company:* Non-Executive Director

*Term of Office:* Appointed 20 December 2001

*Independent:* Yes

*Company Board Committee Membership:* Nomination and Remuneration Committee

*Current External Directorships:* None

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

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

*Position with Company:* Non-Executive Director

*Term of Office:* Appointed 1 December 2003

*Independent:* Yes

*Company Board Committee Membership:* Nomination and Remuneration Committee

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

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

**Director independence**

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

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

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

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

### Independent Professional Advice

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

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

### Term of Office of each Director

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

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

### Nomination and Remuneration Committee

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

The Nomination and Remuneration Committee met once during the 2005-2006 financial year. Attendance of each member was as follows:

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

### Principle 3: Promote ethical and responsible decision-making

*Actively promote ethical and responsible decision-making.*

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

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

**Nature of departure:** The Board presently has not adopted a formal code of conduct.

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

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

### **Share trading policy**

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

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

**Nature of Departure:** Prior to 13 June 2006 the Company did not have a formal share trading policy.

**Explanation for Departure:** Prior to adoption of the policy in June 2006, the Company's policy was for all its directors, officers and employees to at all times comply with their obligations at law, and as may be required by the ASX Listing Rules, including with respect to share trading. The adoption of the policy is part of the Company's continuing commitment to develop its corporate governance practices.

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

There is no further information to be provided.

### **Principle 4: Safeguard integrity in financial reporting**

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

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

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

**Recommendation 4.2:** The board should establish an audit committee.

**Nature of departure:** The Board does not have a formal audit committee.

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

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

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

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

**Notice of departure:** The Board does not have a formal audit committee.

**Explanation for departure:** See explanation in recommendation 4.2 above.

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

**Notice of departure:** The board does not have a formal audit committee.

**Explanation for departure:** See explanation in recommendation 4.2 above.

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

**Qualifications of Audit Committee Members**

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

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

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

**Audit Committee**

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

Although no formal audit committee has been established, there were 2 meetings of the full Board at which functions commonly dealt with by an audit committee were addressed during the 2005-2006 financial year. Attendance of each Board member at those meetings is as follows:

Director	No. of meetings attended
David Reed - (Committee Chair) Executive Chairman	2/2
Christopher Reed – Chief Executive Officer	2/2
Peter Collins – Non-executive Director	2/2
Ian Junk – Non-executive Director	2/2

**Principle 5: Make timely and balanced disclosure**

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

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

**Disclosure policy**

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

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

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

releases and financial reports available on the Company's web-site.

**Nature of departure:** Prior to 13 June 2006 the Board did not have a formal disclosure policy.

**Explanation for departure:** Prior to adoption of a formal policy in June 2006, the Company's policy was to, at all times, for it and its officers to comply with their obligations at law, and the ASX Listing Rules including with respect to disclosure. The adoption of the Continuous Disclosure Policy is part of the Company's continuing commitment to develop its corporate governance practices.

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

There is no further information to be provided.

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## **Principle 6: Respect the rights of shareholders**

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

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

### **Shareholder communication**

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

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

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

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

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## **Principle 7: Recognise and manage risk**

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

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

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

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

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

**Nature of departure:** Prior to 13 June 2006 the Board did not have a formal risk management policy.

**Explanation for departure:** Prior to adoption of a formal policy in June 2006, the Board informally relied on the collective experience and skills of the full board without a structural policy framework to identify material risks which may affect the Company's business. In view of the Company's recent and continued growth, a more formal framework for identifying and managing risk was deemed appropriate as part of the Company's continuing

commitment to develop its corporate governance practices.

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

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

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

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

### **Risk Management Policy**

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

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

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

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

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

Until recently, the Company's approach to risk management has been more informal but, on 13 June 2006 the Board adopted a high-level Risk Management Policy with a view to rollout a formal set of initiatives under that policy in the 2006-2007 financial year. It is anticipated that internal initiatives will be monitored, implemented and managed under these developing initiatives from time to time.

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

### **Principle 8: Encourage enhanced performance**

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*Fairly review and actively encourage enhanced board and management effectiveness*

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

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

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

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

officer and other key executives.

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**Principle 9: Remunerate fairly and responsibly**

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

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

**Directors' Remuneration Arrangements**

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

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

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

The Company's 2006 remuneration report is located on page 20 of the 2006 Annual Report.

**Recommendation 9.2:** The board should establish a remuneration committee.

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

**Nature of departure:** Prior to 13 June 2006 the Company did not have a formal remuneration committee.

**Explanation for departure:** Until the establishment of the Nomination and Remuneration Committee, its functions were fulfilled by the Board acting as a whole. The establishment of the Committee is part of the Company's continuing commitment to develop its corporate governance practices.

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

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

**Explanation for departure:** All non-executive directors are remunerated by way of annual fees which are set out in the Remuneration Report of the 2006 Annual Report, the maximum aggregate level of which fees has been approved by shareholders in general meeting. However, in order to attract and maintain high-calibre, non-executive directors, the Board, in recognition of each of the non-executive directors contribution to the Company's progress to date, and to further incentivise their ongoing performance and commitment to the Company has decided to grant, subject to shareholder approval, new options to each of the non-executive directors. Shareholder approval will be sought at the 2006 Annual General Meeting for the issue of new options to each of the non-executive directors. Further details are provided in the Explanatory Statement of the 2006 Notice of Annual General Meeting.

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

The chief executive officer has received a total aggregate of 2,000,000 options to date that were issued following approval by shareholders in general meeting. Shareholder approval will be sought at the 2006 AGM for the issue of a total of 1,000,000 new options to the chief executive officer as part of the company's long-term incentive plan. Approval will also be sought for the remuneration arrangements of all executive and non-executive directors, further details of which are provided in the Explanatory Statement of the 2006 Notice of Annual General Meeting. The Remuneration Report will also be tabled at the 2006 Annual General meeting for adoption by the Company.

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

**Remuneration Policy Disclosure**

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

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

Further information is provided in the Remuneration Report on page 20 of the Annual Report.

**Remuneration Committee**

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

See Recommendation 2.5 above.

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

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

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

**Principle 10: Recognise the legitimate interests of stakeholders**

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*Recognise legal and other obligations to all legitimate stakeholders*

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

**Nature of departure:** The Company presently has not adopted a formal code of conduct.

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

## Directors' report

The directors of Reed Resources Ltd submit herewith the annual financial report of the company for the financial year ended 30 June 2006. In order to comply with the provisions of the Corporations Act 2001, the directors report as follows:

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

### Directors

Name	Particulars
Mr D. J. Reed	Executive Chairman
Mr C. J. Reed	Executive Director and Company Secretary
Dr P. L. F. Collins	Non-Executive Director
Mr I. C. Junk	Non-Executive Director

### Principal activities

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

### Review of operations

#### COMET VALE PROJECT

##### Sand Queen Gold Mine

##### Production Joint Venture

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

During the year Kingsrose Mining Pty Ltd, our Joint Venture Operator, commenced underground operations at the Sand Queen mine and the first gold was poured in June 2006.

The Sand Queen mine has been dewatered to below the 3 Level, minor rehabilitation work completed on the Sand Queen Shaft, the 2 Level has been driven south for about 200 metres and has intersected the northern extent of the Sand George lodes, stoping commenced at the south end of the old Sand Queen mine to recover remnant ore, and work commenced on 3 Level plat in preparation for a development drive to the south. A 2 kilometre long haul road was constructed for access for road trains to transport the ore to the Greenfields Mill, Coolgardie for processing.

A total of 3,089 tonnes of ore from development and stoping on the 2 Level at the south end of the old Sand Queen mine was hoisted to the surface, including 1,730 tonnes from the SQ2A stope. Additional broken stock reserves remain in the SQ2B stope. Mining of the southern extremities of the Sand Queen deposit will continue from both the 2 and 3 Level developments. Geotechnical analysis of the ground conditions has been conducted to ensure safe working conditions are maintained as the Sand George activities come online.

The first milling campaign in June 2006 treated 3,089 tonnes of combined development and stope ore mined from the southern end of the Sand Queen deposit. A total of 643 ounces of gold and 129 ounces of silver have been recovered of which 315 ounces of gold has been credited to Reed. The gravity circuit recovered about 65% of the gold, and the total gold recovery was in excess of 97% (calculated from the metallurgical balance) for a reconciled head grade of 6.5 g/t Au. The leach and adsorption kinetics of the ore parcel were excellent and the tail grade was about 0.10 g/t.

The cash cost per ounce was A\$523, and the average price received was A\$798. "Cash costs" include all expenditures by Reed, directly incurred on mining and milling, plus overheads and royalties. The cash cost is expected to decrease as the proportion of stope ore to development ore increases as mining of the Sand George lodes reaches a more advanced stage.

The next milling campaign is scheduled for September 2006 and then bi-monthly for the next three and a half years. The size of each campaign is expected to increase as mining of the Sand George lodes increases to full production. Kingsrose Mining Pty Ltd is continuing to evaluate the widening of a planned ventilation shaft at the south end of the Sand George lodes to a new production shaft.

## Mineral Resources

During the year the Company completed a resource extension drilling program, which doubled the strike extent of the Sand George lode system, and completed a re-evaluation of resources along strike to the south of and at depth beneath the Sand George lodes and between the northern end of the Sand George lodes and the Sand Queen deposit. This has resulted in a substantial increase in the combined Mineral Resources to a total of 360,000 tonnes at a grade of 11.8 g/t Au for 136,000 ounces of gold (at 5 g/t Au cut-off), as listed in Table 1.

All drill holes (seven cored drill holes and five RC percussion drill holes) intersected mineralised quartz lodes thereby extending the strike extent of the Sand George lodes for a further 500m to the south and down to a vertical depth of 150m. Drilling along strike to the south of the Sand George lodes and a re-evaluation of deep lode intersections (not previously included in resource estimates) has resulted in an additional Inferred Mineral Resource of 128,000 tonnes at a grade of 11.9 g/t Au for 49,400 ounces of gold (at 5 g/t cut-off).

A re-evaluation of previous drilling between the northern end of the Sand George lodes and the south end of the Sand Queen deposit has resulted in an additional Indicated and Inferred Mineral Resources of 64,500 tonnes at 10.5 g/t Au for 21,850 ounces of gold (at 5 g/t Au cut-off) between the two deposits. This includes the southern strike extension of lodes in the Sand Queen deposit, which have not previously been mined and are currently being driven on as part of the development to access the Sand George lodes.

The gold-bearing lode structure remains open at depth and along strike to the south where previous shallow drilling has intercepted the mineralised structure up to further south of the Kingsrose JV boundary. The increase in resources has the potential to significantly extend the mine life beyond the current plan of three and a half years.

Mineral Resource inventory for the Sand Queen mine, Comet Vale, including additional Inferred Resources along strike to the south and at depth beneath the Sand George (SG1 & SG2) lodes and between the Sand George lodes (at a cut-off grade of 5 g/t Au).

Lode	Category	Tonnes	Grade (g/t Au)	Contained Gold Ounces
<b>Sand George deposit</b>				
SG1 lode	<b>Indicated</b>	78,000	11.4	28,800
SG2 lode	<b>Indicated</b>	68,000	13.0	28,500
SG1 lode	Inferred	11,400	9.4	3,460
SG2 lode	Inferred	10,200	14.8	4,900
<b>South extension and deep lodes</b>	Inferred	128,000	11.9	49,400
<b>North extension</b>	<b>Indicated</b>	44,400	12.0	17,100
(Sand George to Sand Queen south)	Inferred	20,100	7.4	4,750
<b>TOTAL</b>	<b>Ind + Inf</b>	<b>360,000</b>	<b>11.8</b>	<b>136,000</b>

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

### Sand Prince West Deposit (100% RDR)

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

An initial open pit mining study, using Whittle Pit Optimisation software and a gold price of A\$550 per ounce, indicated an optimal shell resource of 28,300 tonnes at a grade of 3.28 g/t Au (2,990 ounces) above a 2.0g/t cut off. This does not constitute a reserve as no formal pit design has been undertaken.

#### Mineral Resource inventory for the Sand Prince West deposit

<i>Cut Off Grade</i>	<i>Category</i>	<i>Tonnes</i>	<i>Grade (g/t Au)</i>	<i>Contained gold (ounces)</i>
1.0 g/t	Measured	53,000	2.72	4,640
	Indicated	46,000	2.15	3,180
	Inferred	21,900	2.11	1,490
	<b>Total</b>	<b>121,000</b>	<b>2.39</b>	<b>9,310</b>
2.0 g/t	Measured	33,000	3.47	3,680
	Indicated	23,100	2.88	2,140
	Inferred	11,200	2.74	995
	<b>Total</b>	<b>67,441</b>	<b>3.15</b>	<b>6,820</b>

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

#### Nickel Laterite Exploration

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

A program of RC drilling was completed during the year to test the weathered profile above the Walter Williams Formation for lateritic nickel mineralisation in the same stratigraphic unit that hosts the Goongarrie, Cawse, and Siberia lateritic nickel deposits.

Drilling confirmed the presence of two separate horizons of nickel enrichment in the weathered profile, with a near surface 'A zone' and a lower 'B zone'. Grades in both zones are similar. Analytical results indicate substantial thicknesses of nickel enrichment in the weathered profile with best intersections of 12 metres at 0.76 % Ni (NLC007, open at depth), 26 metres at 0.62 % Ni (NLC009) and 35 metres at 0.53 % Ni (NLC017).

The exploration target at Comet Vale is a 20-30 Mt deposit with a grade of the order of 0.5-0.6 % Ni (unscreened) for a potential resource similar in style to that at Heron Resources' nearby Goongarrie and Highway deposits. Drilling to date indicates that the targeted grades are achievable, with possible higher-grade zones, but additional closer-spaced drilling is required for adequate testing of a potential resource.

#### Regional Exploration

Regional exploration continued with 1:2,000 scale geological mapping of the well-exposed areas to the east of the Goldfields Highway. Integration of this mapping with airborne geophysical survey data has resulted in a number of targets with potential for gold-silver, gold-copper and nickel-copper sulphide mineralisation. Surface rock-chip sampling of outcropping quartz reefs and mineralised shear zones, some gossanous, within komatiitic rocks has returned highly anomalous gold and copper assays (up to 113 g/t Au, 10.1 % Cu) at a number of these targets.

Further detailed mapping and sampling, a detailed (25m line spacing) low-level airborne geophysical survey and a gravity survey will aid delineation of exploration targets in preparation for an RC drilling program to test the subsurface expression of mineralised structures.

## MOUNT FINNERTY PROJECT (100% Reed, Portman earning 80% Fe rights)

Exploration at the Mt Finnerty Project focused on evaluation of the iron ore potential, by Portman Limited, and continuing evaluation of the nickel sulphide potential of ultramafic sequences on either side of the Watt Hills greenstone belt.

### Iron Ore Exploration (Portman Iron Ore Ltd)

During the year Portman completed reconnaissance mapping and sampling throughout the full length of the Mt Finnerty Project and identified several areas of hematite/martite enriched BIF, lateritised goethitic cap rock and goethite-cemented scree (canga), in addition to surface iron enrichments previously discovered by Reed. Rock-chip sampling returned grades in excess of 60 % Fe (most samples in excess of 55 % Fe) at several locations spread over 35 km along the strike of the greenstone belt. Portman's sampling of the surface-enriched BIF confirmed previous indications of low phosphorous levels (most samples containing less than 0.08 % P).

Nine prospects (designated FIN1 to FIN9) were selected by Portman for an initial drilling campaign to test the depth extent of surface enrichment. Portman completed 28 reverse circulation (RC) drill holes for 1,497 metres of drilling at seven of the prospects (FIN1 & 2, Fin 4-6, FIN8 & 9). The best drill results were obtained from the FIN9 prospect to the north of Mt Finnerty where high-grade mineralisation (i.e., >58% Fe) was intersected in both drill holes on each of two drill traverses, which are located about 200 metres apart, as summarised below:

Hole ID	From (m)	To (m)	Intercept (m)	Fe %	SiO <sub>2</sub> %	Al <sub>2</sub> O <sub>3</sub> %	P %	LOI %
MFRC023	5	17	12	60.09	2.94	2.20	0.080	7.77
MFRC024	16	26	10	59.88	3.54	1.67	0.096	6.80
MFRC025	13	34	21	59.72	2.77	2.74	0.120	7.94
MFRC025	73	77	4	60.19	4.71	1.70	0.029	6.56
MFRC026	22	32	10	58.73	3.59	3.03	0.130	8.26

Iron enrichment at FIN9 appears to occur as irregular pods within a variably mineralised envelope of banded iron formation (BIF). At the other prospects (FIN1 & 2, FIN4-6, FIN8), all south of Mt Finnerty, drilling returned variable results with thin bands of iron enrichment approaching ore grade mineralisation.

The results from the initial drilling program are sufficiently encouraging to warrant further exploration in the area north of Mt Finnerty, in the vicinity of the FIN9 prospect and further north toward Mount Walton. This work will include detailed geological mapping and surface sampling to better delineate prospective zones within the BIF units prior to another phase of drilling.

### Regional Exploration (100% Reed)

Reconnaissance exploration for nickel sulphide mineralisation accompanying the ultramafic sequences identified along the western and eastern flanks of the Watt Hills greenstone belt continued during the period with the drilling of nine reverse circulation percussion (RC) drill holes for a total of 1,536 metres. The drilling program was designed to test EM targets identified from a surface TEM survey conducted over sections of favourable ultramafic flow sequences that had been interpreted from an aeromagnetic survey and confirmed, where possible, by geological mapping and rock chip sampling.

Initial results from the RC drilling program indicate that the ground geophysical survey was successful as disseminated sulphides (mostly barren pyrite) were intersected in several drill holes. MgO-enriched ultramafic rocks were intersected in several of the drill holes, including thick flow sequences of these rocks intersected in two drill holes. An interpreted basal contact of an ultramafic sequence intersected in one of the drill holes contained barren disseminated sulphides.

The Company's consultant geologist has compiled all data from the geological mapping, geochemical sampling and drilling in preparation for an evaluation of the exploration program to define the position of prospective basal contacts to generate targets for follow-up drilling.

## **BARRAMBIE PROJECT**

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

During the year, the Company completed a Pre-Feasibility Study (PFS) to determine the viability of mining and constructing and operating a plant to produce vanadium pentoxide. Open-pit optimisation, design and scheduling on the oxide resource were completed, and operating and capital costs have been incorporated into the financial modeling.

### **Resources**

At a throughput rate of 2Mt of Run-of-Mine ore per year, the plant will produce 20M/lbs of Vanadium Pentoxide Flake ( $V_2O_5$ ) per year. Barrambie contains over 148 million tonnes of mineralisation in the Central and Eastern Bands, with 25 million tonnes planned to be mined from the Eastern Band down to a depth of 50 metres below in the study. Mining would employ conventional open pit drill, blast, load and truck haul.

### **Processing**

The proposed treatment process is a conventional salt roast – leach of a magnetic concentrate. The ore will be crushed and ground using a conventional SAG mill before being subjected to low intensity magnetic separation and rare-earth drum to produce a concentrate. Samples of the concentrate produced from the magnetic separation test work were successfully roasted and leached with recoveries from the oxide concentrate exceeding 95%.

### **Capital Cost**

The estimated capital costs capture recent industry wide cost escalations and are based on all new equipment. All estimates were made by Sinclair Knight Merz, to Pre-feasibility Study standards ( $\pm 30\%$ ) are :

Plant Direct (Processing plant & Infrastructure)	A\$ 174.8 m
Plant Indirect (EPCM, commissioning, first fill and Contingency)	A\$ 61.7 m
Natural gas turn key package	A\$ 19.5 m
<b>Total</b>	<b>A\$ 256.0 m</b>

### **Operating Cost**

An estimate of the plant operating cost of the Barrambie plant treating 2.0 Mtpa run of mine producing 20.8 M lb of  $V_2O_5$  has been derived by engineers Sinclair Knight Merz. Mining costs were estimated by METS. The costs are expressed in Australian dollars and were valid during Q4 2005.

Plant Operating Costs include processing plant, infrastructure and administration. Costs are estimated at A\$ 2.50 /lb  $V_2O_5$  produced. Mining costs were estimated at A\$1.73 per tonne of ore milled or A\$0.17/lb  $V_2O_5$  produced. The operating costs have been based upon preliminary plant lay-out and metallurgical data and assumptions of plant staff levels.

### **Revenues and Financial**

The PFS used discounted cashflow modelling to determine the economic viability of constructing and operating a plant. Key model assumptions are that the project would be 100% equity funded, WA State Royalty of 1.5% would apply and assets would be depreciated over 10 years.

Market studies indicate that vanadium consumption is strong and growing worldwide. The current price of vanadium is currently quoted by Ryans Notes at US\$7.00-7.50/lb.

The project has, on an un-g geared pre-tax basis:

- Net Present Value of A\$379 million using 12% discount rate
- Internal Rate of Return of 40%
- Payback of 4 years

## **Forward Work Schedule**

The Board is assessing a number of options in relation to funding a Feasibility Study (FS), the first stage of which will entail an intensive infill and extension drilling program to upgrade the current Indicated and Inferred Mineral Resources to Measured and Indicated Resource status, extend the known resources along strike, confirm mineralisation depth, thickness and grade predictions, acquire accurate material densities for precise resource modelling, and provide a range of material samples at various grades for ongoing metallurgical test work.

## **CORPORATE**

### **Titan Resources Limited**

The Company announced on 15 September 2005 that it had been granted a call option by Consolidated Nickel Pty Ltd to acquire 60 million shares in ASX listed Titan Resources Limited (*Titan*) and that the call option was exercisable in the event that Reed Resources makes an off-market bid to acquire all of the issued share capital of Titan.

The Company further announced on 11 October 2005 that a Confidentiality Agreement had been entered into between Reed Resources and Titan and that the Board of Titan had indicated that it would provide Reed Resources with access to information and relevant personnel so that Reed Resources could determine whether or not to make a bid for Titan.

The Board of Reed Resources resolved not to make a bid for Titan or exercise the call option and the call option expired.

### **Changes in state of affairs**

During the financial year there was no significant change in the state of affairs of the consolidated entity other than that referred to in this report or the financial statements or notes thereto.

### **Subsequent events**

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

### **Environmental regulations**

The Company is aware of its environmental obligations with regards to its exploration, development and production activities and ensures that it complies with all regulations when carrying out such work.

### **Dividends**

In respect of the financial year ended 30 June 2006, the company has not paid an interim dividend and no final dividend is recommended. In respect of the financial year ended 2005, the company did not pay an interim dividend and no final dividend was recommended.

## Share options

### Share options granted to directors and executives

During and since the end of the financial year an aggregate of 1,000,000 share options were granted to the following directors and executives of the company:

Directors and executives	Number of options granted	Issuing entity	Number of ordinary shares under option
Christopher Reed	1,000,000	Reed Resources Ltd	1,000,000

### Share options on issue at year end or exercised during the year

Details of un-issued shares or interests under option are:

Issuing entity	Number of shares under option	Class of shares	Exercise price of option	Expiry date of options
Reed Resources Ltd	2,550,000	Ordinary	\$0.35	31/12/2008
Reed Resources Ltd	1,000,000	Ordinary	\$0.50	1/7/2010

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

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

Issuing entity	Number of shares issued	Class of shares	Amount paid for shares	Amount unpaid on shares
Reed Resources Ltd	100,000	Ordinary	\$0.35	\$0.00

## 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.

## 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, 9 board meetings, 1 nomination and remuneration committee meetings and nil audit committee meetings were held.

Directors	Board of directors		Nomination & remuneration committee		Audit committee	
	Held	Attended	Held	Attended	Held	Attended
David Reed	9	9	1	1	-	-
Christopher Reed	9	9	-	-	-	-
Peter Collins	9	9	1	1	-	-
Ian Junk	9	9	1	1	-	-

## Information on directors

Director	Experience	Special responsibilities	Ordinary shares	Options held
David John Reed <i>OAM FCPA</i>	Mr David Reed, age 60, 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. Mr Reed has not held any directorship in other listed companies in the 3 years immediately before the end of the financial year. He has a long history in the gold mining industry, including Chairman of Fund Raising for the	Chairman	20,604,115	-

Australian Prospectors and Miners Hall of Fame. A Founder and Chairman of the Diggers and Dealers Forum in Kalgoorlie, and a past Secretary of the Amalgamated Prospectors and leaseholders Association. He was appointed a director and executive chairman of Reed Resources Ltd on 20 December 2001.

<p>Christopher John Reed <i>B Comm</i> <i>GradCertMinEcon,</i> <i>MAusIMM ASA</i></p>	<p>Mr Chris Reed, age 33, graduated as 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 Member of the Australian Institute of Mining and Metallurgy and Associate Member of CPA Australia. He has fourteen years experience in the mineral exploration and mining industry. He was appointed a director of Reed Resources Ltd on 20 December 2001.</p>	<p>Director Secretary</p>	<p>2,230,000</p>	<p>2,000,000</p>
<p>Peter Lionel Fleury Collins <i>BSc(Hons), PhD, MAIG</i></p>	<p>Dr Peter Collins, age 57, graduated as a Bachelor of Science with honours from the University of Tasmania, where he also gained his Doctor of Philosophy. He has 27 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. He was appointed a director of Reed Resources Ltd on 20 December 2001 .</p>	<p>Director</p>	<p>285,705</p>	<p>500,000</p>
<p>Ian Courtney Junk <i>BEng(Hons)</i> <i>MAusIMM</i></p>	<p>Mr Ian Junk, age 38, graduated as a Bachelor of Engineering with honours from the WA School of Mines and holds a First Class Mine Managers Certificate. Ian is a highly respected mining engineer with considerable experience in narrow vein underground mining and project development. Ian and his brother Leigh were chosen as national finalists in the 2003 Ernst &amp; Young - Young Entrepreneur of the Year for their successful implementation of innovative mining methods at the Mittel nickel mine. Ian is a member of the Australian Institute of Mining and Metallurgy. He was appointed a director of Reed Resources Ltd on 1 December 2003 .</p>	<p>Director</p>	<p>1,175,000</p>	<p>500,000</p>

## 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	Options (\$0.35)	Options (\$0.50)
David Reed	20,604,115	-	-
Christopher Reed	2,230,000	1,000,000	1,000,000
Peter Collins	285,705	500,000	-
Ian Junk	1,175,000	500,000	-

## Remuneration report

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

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

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

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

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

Remuneration packages contain the following key elements:

- a) Short-term benefits – salary, superannuation and non-monetary benefits including the provision a motor vehicle;
- b) Share based payments – share options granted under the executive share option plan as disclosed in note 5 to the financial statements.

## Key management personnel details

The directors of Reed Resources Ltd during the year were:

- David Reed
- Christopher Reed
- Peter Collins
- Ian Junk

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

- David Potter (manager - geology)
- Claudio Sheriff-Zegers (geologist)

The following table discloses the remuneration of the key management personnel of the company:

	Short-term benefits			Post-employment			Share-based payments			Total
	Salary	Bonus	Non-monetary	Superannuation	Prescribed benefits	Other	Equity settled options	Cash settled	Other	
2006	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
David Reed	100,000	-	-	9,000	-	-	-	-	-	109,000
Christopher Reed	135,407	-	-	15,112	-	-	80,000	-	-	230,519
Peter Collins	30,000	-	-	2,700	-	-	-	-	-	32,700
Ian Junk	30,000	-	-	2,700	-	-	-	-	-	32,700
David Potter	113,750	-	-	10,237	-	-	-	-	-	123,987
Claudio Sheriff-Zegers*	31,875	-	-	2,869	-	-	-	-	-	34,744
<b>Total</b>	<b>441,032</b>	<b>-</b>	<b>-</b>	<b>42,618</b>	<b>-</b>	<b>-</b>	<b>80,000</b>	<b>-</b>	<b>-</b>	<b>563,650</b>

\* Appointed January 2006

	Short-term benefits			Post-employment			Share-based payments			Total
	Salary	Bonus	Non-monetary	Superannuation	Prescribed benefits	Other	Equity settled options	Cash settled	Other	
2005	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
David Reed	104,000	-	-	9,360	-	-	-	-	-	113,360
Christopher Reed	124,807	-	9,778	15,196	-	-	72,587	-	-	222,368
Peter Collins	37,254	-	-	2,700	-	-	36,294	-	-	76,248
Ian Junk	30,000	-	-	2,700	-	-	36,294	-	-	68,994
David Potter	78,750	-	-	7,087	-	-	18,147	-	-	103,984
<b>Total</b>	<b>374,811</b>	<b>-</b>	<b>9,778</b>	<b>37,043</b>	<b>-</b>	<b>-</b>	<b>163,322</b>	<b>-</b>	<b>-</b>	<b>584,954</b>

#### Value of options issued to directors and executives

The following table discloses the value of options granted, exercised or lapsed during the year:

	Options Granted	Options Exercised	Options Lapsed	Total value of options granted, exercised and lapsed	Value of options included in remuneration for the year	Percentage of total remuneration for the year that consists of options
	Value at grant date	Value at exercise date	Value at time of lapse			
	\$	\$	\$	\$	\$	%
Christopher Reed	80,000	-	-	80,000	80,000	34.7

#### Value of options - basis of calculation

The total value of options included in remuneration for the year is calculated in accordance with Accounting Standard AASB 2 "Share Based Payment. This requires the following:

- the value of the options is determined at grant date, and are included in remuneration on a proportionate basis from grant date to vesting date. Where the options immediately vest the full value of the option is recognised in remuneration in the current year.
- all options vest at the date of issue. In accordance with Accounting Standards AASB 124, the total fair value of the options at grant date is included in remuneration for the financial year.

### **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 6 to the financial statements.

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

The auditor's independence declaration is included on page 23 of the financial report.

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

On behalf of the Directors



Christopher Reed  
Director  
Perth, 12 September 2006



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

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

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

Board of Directors  
Reed Resources Limited  
97 Outram Street  
West Perth WA 6000

12 September 2006

Dear Board Members

**Reed Resources Limited**

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 Limited.

As lead audit partner for the audit of the consolidated financial statements of Reed Resources Limited for the financial year ended 30 June 2006, I declare that to the best of my knowledge and belief, there have been no contraventions of:

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

Yours sincerely

DELOITTE TOUCHE TOHMATSU

A T Richards  
Partner  
Chartered Accountants

Member of  
Deloitte Touche Tohmatsu

## Independent audit report to the members of Reed Resources Limited

### Scope

#### *The financial report and directors' responsibility*

The financial report comprises the balance sheet, income statement, cash flow statement, statement of changes in equity, a summary of significant accounting policies and other explanatory notes and the directors' declaration for both Reed Resources (the company) and the consolidated entity, for the financial year ended 30 June 2006 as set out on pages 26 to 56. The consolidated entity comprises the company and the entities it controlled at the year's end or from time to time during the financial year.

The directors of the company are responsible for the preparation and true and fair presentation of the financial report in accordance with Accounting Standards in Australia and the Corporations Act 2001. This includes responsibility for the maintenance of adequate financial records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report.

#### *Audit approach*

We have conducted an independent audit of the financial report in order to express an opinion on it to the members of the company. Our audit has been conducted in accordance with Australian Auditing Standards to provide reasonable assurance whether the financial report is free of material misstatement. The nature of an audit is influenced by factors such as the use of professional judgement, selective testing, the inherent limitations of internal controls, and the availability of persuasive rather than conclusive evidence. Therefore, an audit cannot guarantee that all material misstatements have been detected.

We performed procedures to form an opinion whether, in all material respects, the financial report is presented fairly in accordance with Accounting Standards in Australia and the Corporations Act 2001 so as to present a view which is consistent with our understanding of the company's and the consolidated entity's financial position, and performance as represented by the results of their operations, their changes in equity and their cash flows.

Our procedures included examination, on a test basis, of evidence supporting the amounts and other disclosures in the financial report, and the evaluation of accounting policies and significant accounting estimates made by the directors.

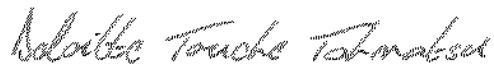
While we considered the effectiveness of management's internal controls over financial reporting when determining the nature and extent of our procedures, our audit was not designed to provide assurance on internal controls.

The audit opinion expressed in this report has been formed on the above basis.

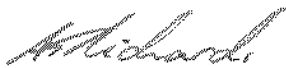
## Audit Opinion

In our opinion, the financial report of Reed Resources Limited is in accordance with the Corporations Act 2001, including:

- (a) giving a true and fair view of the company's and consolidated entity's financial position as at 30 June 2006 and of their performance for the year ended on that date; and
- (b) complying with Accounting Standards in Australia and the Corporations Regulations 2001.



DELOITTE TOUCHE TOHMATSU



A T Richards  
Partner  
Chartered Accountants  
Perth, 12 September 2006

## Directors' declaration

The directors declare that:

- (a) in the directors' opinion, there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable;
- (b) in the directors' opinion, the attached financial statements and notes thereto are in accordance with the Corporations Act 2001, including compliance with accounting standards and giving a true and fair view of the financial position and performance of the consolidated entity; and
- (c) the directors have been given the declarations required by s.295A of the Corporations Act 2001

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

On behalf of the Directors



Christopher Reed

Director

Perth, 12 September 2006

## Income statement for the financial year ended 30 June 2006

	Note	Consolidated		Company	
		2006 \$	2005 \$	2006 \$	2005 \$
Revenue	2	257,348	-	257,348	-
Cost of sales		(51,872)	-	(51,872)	-
<b>Gross profit</b>		205,476	-	205,476	-
Other income	2	71,631	105,441	71,631	105,441
Employment expenses		(617,575)	(481,374)	(617,575)	(481,374)
Occupancy expenses		(88,590)	(73,927)	(88,590)	(73,927)
Administration expenses		(819,028)	(369,066)	(819,028)	(369,066)
Finance costs		-	(5,116)	-	(5,116)
Impairment of non-current assets		(115,735)	-	(102,632)	-
Other expenses		(166,308)	(167,263)	(166,308)	(149,108)
<b>Loss before income tax</b>	2	(1,530,129)	(991,305)	(1,517,026)	(973,150)
Income tax benefit	3	543,947	335,405	424,367	329,927
<b>Loss for the period</b>		(986,182)	(655,900)	(1,092,659)	(643,223)
<b>Earnings per share:</b>					
Basic (cents per share)	15	(1.33)	(1.06)		
Diluted (cents per share)	15	(1.33)	(1.06)		

Notes to the financial statements are included on pages 31 to 56.

## Balance sheet as at 30 June 2006

	Note	Consolidated		Company	
		2006 \$	2005 \$	2006 \$	2005 \$
<b>Current assets</b>					
Cash and cash equivalents	23	1,612,963	2,353,606	1,612,963	2,353,606
Trade and other receivables	7	142,800	39,331	1,240,365	479,946
<b>Total current assets</b>		<b>1,755,763</b>	<b>2,392,937</b>	<b>2,853,328</b>	<b>2,833,552</b>
<b>Non-current assets</b>					
Exploration & development expenditure	10	10,406,794	8,813,990	8,730,785	7,781,668
Other financial assets	8	-	-	621,578	625,317
Property, plant and equipment	9	271,057	332,826	271,057	332,826
Deferred tax assets	3	1,462,966	919,019	1,333,752	909,387
<b>Total non-current assets</b>		<b>12,140,817</b>	<b>10,065,835</b>	<b>10,957,172</b>	<b>9,649,198</b>
<b>Total assets</b>		<b>13,896,580</b>	<b>12,458,772</b>	<b>13,810,500</b>	<b>12,482,750</b>
<b>Current liabilities</b>					
Trade and other payables	11	217,867	96,377	217,867	99,957
<b>Total current liabilities</b>		<b>217,867</b>	<b>96,377</b>	<b>217,867</b>	<b>99,957</b>
<b>Total liabilities</b>		<b>217,867</b>	<b>96,377</b>	<b>217,867</b>	<b>99,957</b>
<b>Net assets</b>		<b>13,678,713</b>	<b>12,362,395</b>	<b>13,592,633</b>	<b>12,382,793</b>
<b>Equity</b>					
Issued capital	12	16,203,679	13,981,179	16,203,679	13,981,179
Accumulated losses	14	(2,623,113)	(1,636,931)	(2,709,193)	(1,616,533)
Employee equity-settled benefits reserve	13	98,147	18,147	98,147	18,147
<b>Total equity</b>		<b>13,678,713</b>	<b>12,362,395</b>	<b>13,592,633</b>	<b>12,382,793</b>

Notes to the financial statements are included on pages 31 to 56.

## Statement of changes in equity for the financial year ended 30 June 2006

<b>Consolidated</b>	Issued capital \$	Employee equity-settled benefits reserve \$	Accumulated losses \$	Total attributable to equity holders of the entity \$
<b>Balance at 1/7/04</b>	12,005,179	-	(981,031)	11,024,148
Loss for the period	-	-	(655,900)	(655,900)
Total recognised income & expense for the period	-	-	(655,900)	(655,900)
Recognition of share based payments	-	18,147	-	18,147
Issue of share capital	2,080,000	-	-	2,080,000
Share issue costs	(104,000)	-	-	(104,000)
<b>Balance at 30/6/05</b>	13,981,179	18,147	(1,636,931)	12,362,395
<b>Balance at 1/7/05</b>	13,981,179	18,147	(1,636,931)	12,362,395
Loss for the period	-	-	(986,182)	(986,182)
Total recognised income & expense for the period	-	-	(986,182)	(986,182)
Recognition of share based payments	-	80,000	-	80,000
Issue of share capital	2,285,000	-	-	2,285,000
Share issue costs	(62,500)	-	-	(62,500)
<b>Balance at 30/6/06</b>	16,203,679	98,147	(2,623,113)	13,678,713
<b>Company</b>	Issued capital \$	Employee equity-settled benefits reserve \$	Accumulated losses \$	Total attributable to equity holders of the entity \$
<b>Balance at 1/7/04</b>	12,005,179	-	(973,311)	11,031,868
Loss for the period	-	-	(643,223)	(643,223)
Total recognised income & expense for the period	-	-	(643,223)	(643,223)
Recognition of share based payments	-	18,147	-	18,147
Issue of share capital	2,080,000	-	-	2,080,000
Share issue costs	(104,000)	-	-	(104,000)
<b>Balance at 30/6/05</b>	13,981,179	18,147	(1,616,534)	12,382,792
<b>Balance at 1/7/05</b>	13,981,179	18,147	(1,616,534)	12,382,792
Loss for the period	-	-	(1,092,659)	(1,092,659)
Total recognised income & expense for the period	-	-	(1,092,659)	(1,092,659)
Recognition of share based payments	-	80,000	-	80,000
Issue of share capital	2,285,000	-	-	2,285,000
Share issue costs	(62,500)	-	-	(62,500)
<b>Balance at 30/6/06</b>	16,203,679	98,147	(2,709,193)	13,592,633

Notes to the financial statements are included on pages 31 to 56.

## Cash flow statement for the financial year ended 30 June 2006

	Note	Consolidated		Company	
		2006 \$	2005 \$	2006 \$	2005 \$
<b>Cash flows from operating activities</b>					
Receipts from customers		257,348	-	257,348	-
Payments to suppliers and employees		(1,503,015)	(884,217)	(1,503,015)	(866,062)
Interest received		70,132	99,730	70,132	99,730
Interest and other costs of finance paid		-	(1,292)	-	(1,292)
Net cash used in operating activities	23	(1,175,535)	(785,779)	(1,175,535)	(767,624)
<b>Cash flows from investing activities</b>					
Exploration and development costs paid		(1,767,632)	(743,040)	(1,110,698)	(584,323)
Amounts advanced to related parties		-	-	(656,934)	(176,872)
Payment for property, plant and equipment		(19,976)	(84,548)	(19,976)	(84,548)
Proceeds from sale of property, plant and equipment		-	1,000	-	1,000
Net cash used in investing activities		(1,787,608)	(826,588)	(1,787,608)	(844,743)
<b>Cash flows from financing activities</b>					
Proceeds from issues of shares		2,285,000	2,080,000	2,285,000	2,080,000
Payment for share issue costs		(62,500)	(104,000)	(62,500)	(104,000)
Repayment of borrowings		-	(13,713)	-	(13,713)
Net cash provided by financing activities		2,222,500	1,962,287	2,222,500	1,962,287
<b>Net decrease in cash and cash equivalents</b>		<b>(740,643)</b>	<b>349,920</b>	<b>(740,643)</b>	<b>349,920</b>
<b>Cash and cash equivalents at the beginning of the financial year</b>		<b>2,353,606</b>	<b>2,003,686</b>	<b>2,353,606</b>	<b>2,003,686</b>
<b>Cash and cash equivalents at the end of the financial year</b>	23	<b>1,612,963</b>	<b>2,353,606</b>	<b>1,612,963</b>	<b>2,353,606</b>

Notes to the financial statements are included on pages 31 to 56.

## Notes to the financial statements for the financial year ended 30 June 2006

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

The financial statements were authorised for issue by the directors on 12 September 2006.

### Basis of preparation

The financial report has been prepared on the basis of historical cost. Cost is based on the fair values of the consideration given in exchange for assets.

In the application of A-IFRS 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.

Judgments made by management in the application of A-IFRS that have significant effects on the financial statements and estimates with a significant risk of material adjustments in the next year are disclosed, where applicable, in the relevant notes to the financial statements.

Accounting policies are selected and applied in a manner which ensures that the resulting financial information satisfies the concepts of relevance and reliability, thereby ensuring that the substance of the underlying transactions or other events is reported.

The consolidated entity changed its accounting policies on 1 July 2005 to comply with A-IFRS. The transition to A-IFRS is accounted for in accordance with Accounting Standard AASB 1 'First-time Adoption of Australian Equivalents to International Financial Reporting Standards', with 1 July 2004 as the date of transition. An explanation of how the transition from superseded policies to A-IFRS has affected the company's and consolidated entity's financial position, financial performance and cash flows is discussed in note 24.

The directors have also elected under s.334(5) of the Corporations Act 2001 to apply Accounting Standards AASB 119 'Employee Benefits' (December 2004) and AASB 2004-3 'Amendments to Australian Accounting Standards', even though these Standards are not required to be applied until annual reporting periods beginning on or after 1 July 2006.

The accounting policies set out below have been applied in preparing the financial statements for the year ended 30 June 2006, the comparative information presented in these financial statements for the year ended 30 June 2005, and in the preparation of the opening A-IFRS balance sheet at 1 July 2004 (as disclosed in note 25), the consolidated entity's date of transition, except for the accounting policies in respect of financial instruments.

## 1. Summary of accounting policies (cont'd)

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

- (a) **Cash and cash equivalents**  
Cash and cash equivalents comprise cash on hand, cash in banks and investments in money market instruments.
- (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.
- (c) **Financial instruments issued by the company**  
Debt and equity instruments  
Debt and equity instruments are classified as either liabilities or as equity in accordance with the substance of the contractual arrangement.  
Transaction costs on the issue of equity instruments  
Transaction costs arising on the issue of equity instruments are recognised directly in equity as a reduction of the proceeds of the equity instruments to which the costs relate. Transaction costs are the costs that are incurred directly in connection with the issue of those equity instruments and which would not have been incurred had those instruments not been issued.  
Interest and dividends  
Interest and dividends are classified as expenses or as distributions of profit consistent with the balance sheet classification of the related debt or equity instruments or component parts of compound instruments.
- (d) **Goods and services tax**  
Revenues, expenses and assets are recognised net of the amount of goods and services tax (GST), except:  
i. where the amount of GST incurred is not recoverable from the taxation authority, it is recognised as part of the cost of acquisition of an asset or as part of an item of expense; or  
ii. for receivables and payables which are recognised inclusive of GST.  
The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables.  
Cash flows are included in the cash flow statement on a gross basis. The GST component of cash flows arising from investing and financing activities which is recoverable from, or payable to, the taxation authority is classified as operating cash flows.
- (e) **Impairment of assets**  
At each reporting date, the consolidated entity reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the consolidated entity estimates the recoverable amount of the cash-generating unit to which the asset belongs.  
Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

## 1. Summary of accounting policies (cont'd)

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, 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.

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

## 1. Summary of accounting policies (cont'd)

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

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

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

### 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.

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

## 1. Summary of accounting policies (cont'd)

(j) Property, plant and equipment

Plant and equipment, leasehold improvements and equipment under finance lease are 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 provided on property, plant and equipment, including freehold buildings but excluding land. Depreciation is calculated on a straight line basis so as to write off the net cost or other re-valued amount of each asset over its expected useful life to its estimated residual value. Leasehold improvements are depreciated over the period of the lease or estimated useful life, whichever is the shorter, using the straight line method. The estimated useful lives, residual values and depreciation method is reviewed at the end of each annual reporting period.

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

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 is recognised on a receivable basis. Interest revenue is recognised on a time proportionate basis that takes into account the effective yield on the financial asset.

(m) Joint ventures

Jointly controlled assets and operations

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

(n) Share-based payments

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

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

	Consolidated		Company	
	2006	2005	2006	2005
	\$	\$	\$	\$
<b>2. Loss from ordinary activities</b>				
<b>(a) Revenue</b>				
Revenue from operations consisted of the following items:				
Revenue from the sale of goods	257,348	-	257,348	-
Interest revenue:	64,755	104,441	64,755	104,441
Other	6,876	-	6,876	-
	<u>328,979</u>	<u>104,441</u>	<u>328,979</u>	<u>104,441</u>
<b>(b) Loss before income tax</b>				
loss before income tax has been arrived at after crediting/ (charging) the following gains and losses from continuing and discontinued operations:				
Gain/(loss) on disposal of property, plant and equipment	-	1,000	-	1,000
	<u>-</u>	<u>1,000</u>	<u>-</u>	<u>1,000</u>
loss before income tax has been arrived at after charging the following expenses. The line items below combine amounts attributable to both continuing operations and discontinued operations:				
Finance costs:				
Borrowing costs	-	(5,116)	-	(5,116)
Cost of goods sold	(51,872)	-	(51,872)	-
Depreciation of non-current assets	(81,745)	(53,500)	(81,745)	(53,500)
Employee benefit expense				
Share-based payments:				
Equity settled share-based payments	(80,000)	(18,147)	(80,000)	(18,147)
Other employee benefits	(537,575)	(463,227)	(537,575)	(463,227)
	<u>(617,575)</u>	<u>(481,374)</u>	<u>(617,575)</u>	<u>(481,374)</u>

**3. Income taxes**

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

**Tax income comprises:**

	Consolidated		Company	
	2006 \$	2005 \$	2006 \$	2005 \$
Current tax income	933,183	558,318	736,841	505,181
Deferred tax expense relating to the origination and reversal of temporary differences	(389,236)	(222,913)	(312,474)	(175,254)
<b>Total tax income</b>	<b>543,947</b>	<b>335,405</b>	<b>424,367</b>	<b>329,927</b>

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

Profit/(loss) from operations	(1,530,129)	(991,305)	(1,517,026)	(973,150)
Income tax income calculated at 30%	459,039	297,392	455,107	291,945
Non-deductible expenses	(108,287)	(5,444)	(104,356)	(5,444)
Other	193,195	43,457	73,616	43,426
	<b>543,947</b>	<b>335,405</b>	<b>424,367</b>	<b>329,927</b>

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.

**(b) Deferred tax balances**

**Deferred tax assets comprise:**

Tax losses – revenue	3,433,770	2,500,586	3,112,651	2,375,810
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**Deferred tax liabilities comprise:**

Temporary differences – capitalised expenditure	1,970,804	1,581,567	1,778,899	1,466,423
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### 3. Income taxes (cont'd)

Taxable and deductible temporary differences arise from the following:

2006	Consolidated		
	Opening balance	Charged to income	Closing balance
	\$	\$	\$
<b>Gross deferred tax liabilities:</b>			
Capitalised expenditure	1,581,567	389,237	1,970,804
<b>Gross deferred tax assets:</b>			
Tax losses - revenue	2,500,586	933,184	3,433,770
	919,019	543,947	1,462,966

2005	Consolidated		
	Opening balance	Charged to income	Closing balance
	\$	\$	\$
<b>Gross deferred tax liabilities:</b>			
Capitalised expenditure	1,358,654	222,913	1,581,567
<b>Gross deferred tax assets:</b>			
Tax losses - revenue	1,942,268	558,318	2,500,586
	583,614	335,405	919,019

2006	Company		
	Opening balance	Charged to income	Closing balance
	\$	\$	\$
<b>Gross deferred tax liabilities:</b>			
Capitalised expenditure	1,466,423	312,474	1,778,897
<b>Gross deferred tax assets:</b>			
Tax losses - revenue	2,375,810	736,839	3,112,649
	909,387	424,365	1,333,752

2005	Company		
	Opening balance	Charged to income	Closing balance
	\$	\$	\$
<b>Gross deferred tax liabilities:</b>			
Capitalised expenditure	1,291,170	175,253	1,466,423
<b>Gross deferred tax assets:</b>			
Tax losses - revenue	1,870,629	505,181	2,375,810
	579,459	329,928	909,387

#### 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 19.

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

#### 4. Key management personnel compensation

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

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

##### (a) Key management personnel compensation

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

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

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

##### Key management personnel compensation

	Short-term benefits			Post-employment			Share-based payments			Total
	Salary	Bonus	Non-monetary	Superannuation	Prescribed benefits	Other	Equity settled options	Cash settled	Other	
2006	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
David Reed	100,000	-	-	9,000	-	-	-	-	-	109,000
Christopher Reed	135,407	-	-	15,112	-	-	80,000	-	-	230,519
Peter Collins	30,000	-	-	2,700	-	-	-	-	-	32,700
Ian Junk	30,000	-	-	2,700	-	-	-	-	-	32,700
David Potter	113,750	-	-	10,237	-	-	-	-	-	123,987
Claudio Sheriff-Zegers*	31,875	-	-	2,869	-	-	-	-	-	34,744
<b>Total</b>	<b>441,032</b>	<b>-</b>	<b>-</b>	<b>42,618</b>	<b>-</b>	<b>-</b>	<b>80,000</b>	<b>-</b>	<b>-</b>	<b>563,650</b>

\*Appointed January 2006

	Short-term benefits			Post-employment			Share-based payments			Total
	Salary	Bonus	Non-monetary	Superannuation	Prescribed benefits	Other	Equity settled options	Cash settled	Other	
2005	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
David Reed	104,000	-	-	9,360	-	-	-	-	-	113,360
Christopher Reed	124,807	-	9,778	15,196	-	-	72,587	-	-	222,368
Peter Collins	37,254	-	-	2,700	-	-	36,294	-	-	76,248
Ian Junk	30,000	-	-	2,700	-	-	36,294	-	-	68,994
David Potter	78,750	-	-	7,087	-	-	18,147	-	-	103,984
<b>Total</b>	<b>374,811</b>	<b>-</b>	<b>9,778</b>	<b>37,043</b>	<b>-</b>	<b>-</b>	<b>163,322</b>	<b>-</b>	<b>-</b>	<b>584,954</b>

## 5. Executive share option plan

Reed Resources Ltd has an ownership based remuneration scheme for executives (including executive directors). In accordance with the provisions of the scheme, as approved by shareholders at an extraordinary general meeting, options were issued during the financial year ended 30 June 2006 to executives with an exercise price of \$0.50 exercisable at any time on or before 1 July 2010. The number of options granted was calculated by the board after considering the experience of grantee, the current market price and current market practice. Options vest at the date of their issue.

As at 30 June 2006 the Company had issued 3,250,000 share options (30 June 2005: 2,250,000). Share options carry no rights to dividends and no voting rights

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

Options series	Number	Grant date	Expiry date	Exercise price \$	Fair value at grant date \$
Issued 3 August 2004	2,000,000	3/8/2004	31/12/2008	\$0.35	145,176
Issued 11 January 2005	250,000	11/1/2005	31/12/2008	\$0.35	18,147
Issued 20 July 2005	1,000,000	20/7/2005	1/7/2010	\$0.50	80,000

The value attributed to the equity options were calculated using the Black Scholes model based on the following input:

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

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

	2006		2005	
	Number of options	Weighted average exercise price \$	Number of options	Weighted average exercise price \$
Balance at beginning of the financial year	2,250,000	\$0.35	-	-
Granted during the financial year as compensation	1,000,000	\$0.50	2,250,000	\$0.35
Balance at end of the financial year	3,250,000	\$0.40	2,250,000	\$0.35



## 9. Property, plant and equipment

	Consolidated			
	Buildings at fair value	Furniture & Fittings at cost	Plant and equipment at cost	Total
	\$	\$	\$	\$
<b>Gross carrying amount</b>				
Balance at 1 July 2004	27,900	7,657	355,961	391,518
Additions	-	80,898	3,650	84,548
<b>Balance at 1 July 2005</b>	<b>27,900</b>	<b>88,555</b>	<b>359,611</b>	<b>476,066</b>
Additions	-	19,976	-	19,976
<b>Balance at 30 June 2006</b>	<b>27,900</b>	<b>108,531</b>	<b>359,611</b>	<b>496,042</b>
<b>Accumulated depreciation/ amortisation and impairment</b>				
Balance at 1 July 2004	142	4,134	85,464	89,740
Depreciation expense	1,665	10,676	41,159	53,500
<b>Balance at 1 July 2005</b>	<b>1,807</b>	<b>14,810</b>	<b>126,623</b>	<b>143,240</b>
Depreciation expense	1,566	31,521	48,658	81,745
<b>Balance at 30 June 2006</b>	<b>3,373</b>	<b>46,331</b>	<b>175,281</b>	<b>224,985</b>
<b>Net book value</b>				
As at 30 June 2005	26,093	73,745	232,988	332,826
As at 30 June 2006	24,527	62,200	184,329	271,057

	Company			
	Buildings at fair value	Furniture & Fittings at cost	Plant and equipment at cost	Total
	\$	\$	\$	\$
<b>Gross carrying amount</b>				
Balance at 1 July 2004	27,900	7,657	355,961	391,518
Additions	-	80,898	3,650	84,548
<b>Balance at 1 July 2005</b>	<b>27,900</b>	<b>88,555</b>	<b>359,611</b>	<b>476,066</b>
Additions	-	19,976	-	19,976
<b>Balance at 30 June 2006</b>	<b>27,900</b>	<b>108,531</b>	<b>359,611</b>	<b>496,042</b>
<b>Accumulated depreciation/ amortisation and impairment</b>				
Balance at 1 July 2004	142	4,134	85,464	89,740
Depreciation expense	1,665	10,676	41,159	53,500
<b>Balance at 1 July 2005</b>	<b>1,807</b>	<b>14,810</b>	<b>126,623</b>	<b>143,240</b>
Depreciation expense	1,566	31,521	48,658	81,745
<b>Balance at 30 June 2006</b>	<b>3,373</b>	<b>46,331</b>	<b>175,281</b>	<b>224,985</b>
<b>Net book value</b>				
As at 30 June 2005	26,093	73,745	232,988	332,826
As at 30 June 2006	24,527	62,200	184,329	271,057

**9. Property, plant and equipment (cont'd)**

Aggregate depreciation allocated, whether recognised as an expense or capitalised as part of the carrying amount of other assets during the year:

	Consolidated		Company	
	2006 \$	2005 \$	2006 \$	2005 \$
Buildings	1,566	1,665	1,566	1,665
Furniture & Fittings	31,521	10,676	31,521	10,676
Plant and equipment	48,658	41,159	48,658	41,159
	81,745	53,500	81,745	53,500

## 10. Other intangible assets

	Consolidated		
	Capitalised development \$	Capitalised exploration \$	Total \$
<b>Gross carrying amount</b>			
<b>Balance at 1 July 2004</b>	1,423,567	6,420,459	7,844,026
Additions	340,700	629,264	969,964
<b>Balance at 1 July 2005</b>	1,764,267	7,049,723	8,813,990
Additions	325,625	1,434,786	1,760,411
<b>Balance at 30 June 2006</b>	2,089,892	8,484,509	10,574,401
<b>Accumulated amortisation and impairment</b>			
<b>Balance at 1 July 2004</b>	-	-	-
Amortisation expense (i)	-	-	-
Impairment losses charged to profit	-	-	-
<b>Balance at 1 July 2005</b>	-	-	-
Amortisation expense (i)	51,872	-	51,872
Impairment losses charged to profit	-	115,735	115,735
<b>Balance at 30 June 2006</b>	51,872	115,735	167,607
<b>Net book value</b>			
As at 30 June 2005	1,764,267	7,049,723	8,813,990
As at 30 June 2006	2,038,020	8,368,774	10,406,794

	Company		
	Capitalised development \$	Capitalised exploration \$	Total \$
<b>Gross carrying amount</b>			
<b>Balance at 1 July 2004</b>	1,423,417	5,774,071	7,197,488
Additions	335,300	248,880	584,180
<b>Balance at 1 July 2005</b>	1,758,717	6,022,951	7,781,668
Additions	325,625	777,996	1,103,621
<b>Balance at 30 June 2006</b>	2,084,342	6,800,947	8,885,289
<b>Accumulated amortisation and impairment</b>			
<b>Balance at 1 July 2004</b>	-	-	-
Amortisation expense (i)	-	-	-
Impairment losses charged to profit	-	-	-
<b>Balance at 1 July 2005</b>	-	-	-
Amortisation expense (i)	51,872	-	51,872
Impairment losses charged to profit	-	102,632	102,632
<b>Balance at 30 June 2006</b>	51,872	102,632	154,504
<b>Net book value</b>			
As at 30 June 2005	1,758,717	6,022,951	7,781,668
As at 30 June 2006	2,032,470	6,698,315	8,730,785

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

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

11. Current trade and other payables	2006		2005	
	\$	\$	\$	\$
Trade payables and accruals	217,867	96,377	217,867	99,957

	Consolidated		Company	
	2006	2005	2006	2005
	\$	\$	\$	\$
12. Issued capital				
80,100,000 fully paid ordinary shares (2005: 70,000,000)	16,203,679	13,981,179	16,203,679	13,981,179

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.

	2006		2005	
	No.	\$	No.	\$
<b>Fully paid ordinary shares</b>				
Balance at beginning of financial year	70,000,000	13,981,179	62,000,000	12,005,179
Issue of shares for cash	10,000,000	2,250,000	8,000,000	2,080,000
Share issue costs	-	(62,500)	-	(104,000)
Issue of shares under option plan	100,000	35,000	-	-
Balance at end of financial year	80,100,000	16,203,679	70,000,000	13,981,179

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

#### Share options

In accordance with the provisions of the executive share option plan, as at 30 June 2005, executives had options over 2,250,000 ordinary shares, in aggregate, with 2,250,000 of those options expiring 31/12/2008. As at 30 June 2006, executives have options over 3,250,000 ordinary shares (all of which are vested), in aggregate, with 2,250,000 of those options expiring on 31/12/2008, and the remainder expiring on 1/7/2010.

Share options carry no rights to dividends and no voting rights. Further details of the executive share option plan are contained in note 5 to the financial statements.

13. Reserves	Consolidated		Company	
	2006	2005	2006	2005
	\$	\$	\$	\$
<b>Employee equity-settled benefits reserve</b>				
Balance at beginning of financial year	18,147	-	18,147	-
Share-based payment (note 5)	80,000	18,147	80,000	18,147
Balance at end of financial year	98,147	18,147	98,147	18,147

14. Accumulated losses	Consolidated		Company	
	2006	2005	2006	2005
	\$	\$	\$	\$
Balance at beginning of financial year	(1,636,931)	(981,031)	(1,616,533)	(973,310)
Net loss attributable to members of the parent entity	(986,182)	(655,900)	(1,092,659)	(643,223)
Balance at end of financial year	(2,623,113)	(1,636,931)	(2,709,193)	(1,616,533)

## 15. Earnings per share

	Consolidated	
	2006	2005
	Cents per share	Cents per share
<b>Basic earnings per share:</b>	(1.33)	(1.06)
<b>Diluted earnings per share:</b>	(1.33)	(1.06)

### Basic earnings per share

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

	2006	2005
	\$	\$
Earnings (a)	(986,182)	(655,900)
	2006	2005
	No.	No.
Weighted average number of ordinary shares for the purposes of basic earnings per share	73,903,014	64,564,384

- (a) Earnings used in the calculation of total basic earnings per share and basic earnings per share from continuing operations reconciles to net loss in the income statement.

### Diluted earnings per share

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

	2006	2005
	\$	\$
Earnings (a)	(986,182)	(655,900)
	2006	2005
	No.	No.
Weighted average number of ordinary shares for the purposes of diluted earnings per share (b), (c)	77,398,219	64,564,384

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

	2006	2005
	\$	\$
Net loss	(986,182)	(655,900)
Earnings used in the calculation of diluted EPS	(986,182)	(655,900)

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

	Consolidated	
	2006	2005
	No.	No.
Weighted average number of ordinary shares used in the calculation of basic EPS	73,903,014	64,564,384

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

	2006 No.	2005 No.
Options issued 3 August 2004	2,400,000	2,400,000
Options issued 11 January 2005	150,000	150,000
Options issues 20 July 2005	1,000,000	-
	3,550,000	2,550,000

## 16. Commitments for expenditure

### (a) Capital expenditure commitments

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

### (b) Lease commitments

Finance lease liabilities and non-cancellable operating lease commitments are disclosed in note 17 to the financial statements.

## 17. Leases

### Finance leases

#### Leasing arrangements

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

#### Finance lease liabilities

	Minimum future lease payments				Present value of minimum future lease payments			
	Consolidated		Company		Consolidated		Company	
	2006	2005	2006	2005	2006	2005	2006	2005
	\$	\$	\$	\$	\$	\$	\$	\$
No later than 1 year	15,308	-	15,308	-	14,665	-	14,665	-
Later than 1 year and not later than 5 years	74,652	-	74,652	-	58,078	-	58,078	-
Minimum lease payments*	89,960	-	89,960	-	72,743	-	72,743	-
Less future finance charges	17,217	-	17,217	-	-	-	-	-
Present value of minimum lease payments	72,743	-	72,743	-	72,743	-	72,743	-

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

### Operating leases

#### Leasing arrangements

Operating leases relate to commercial premises with lease terms of two years with options to extend for a further two years. All 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		Company	
	2006	2005	2006	2005
	\$	\$	\$	\$
<b>Non-cancellable operating lease payments</b>				
Not longer than 1 year	42,600	85,200	42,600	85,200

**18. Jointly controlled operations and assets**

Name of entity	Principal activity	Output interest	
		2006 %	2005 %
Reed Resources Ltd	Gold production	50	50

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

	Consolidated	
	2006 \$	2005 \$
<b>Non-current assets</b>		
Exploration and development expenditure	5,475,205	5,078,259
<b>Total non-current assets</b>	5,475,205	5,078,259
<b>Total assets</b>	5,475,205	5,078,259

**19. Subsidiaries**

Name of entity	Country of incorporation	Ownership interest	
		2006 %	2005 %
<b>Parent entity</b>			
Reed Resources Ltd	Australia		
<b>Subsidiaries</b>			
Mount Finnerty Pty Ltd	Australia	100	100

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

**20. Segment information**

The consolidated entity is engaged in mineral resource exploration, development and production carried out in Western Australia.

## 21. 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 19 to the financial statements.

### (b) Key management personnel remuneration

Details of key management personnel remuneration are disclosed in note 4 to the financial statements.

### (c) Key management personnel equity holdings

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

	Balance@ 1/7/05	Granted as remuneration	Received on exercise of options	Net other change	Balance@ 30/6/06	Balance held nominall y
	No.	No.	No.	No.	No.	No.
David Reed	18,604,115	-	-	2,000,000	20,604,115	-
Christopher Reed	2,180,000	-	-	50,000	2,230,000	-
Peter Collins	285,705	-	-	-	285,705	-
Ian Junk	250,000	-	-	925,000	1,175,000	-
David Potter	102,200	-	-	7,500	109,700	-
	21,422,020	-	-	2,982,500	24,404,520	-

	Balance@ 1/7/04	Granted as remuneration	Received on exercise of options	Net other change	Balance@ 30/6/05	Balance held nominall y
	No.	No.	No.	No.	No.	No.
David Reed	19,004,115	-	-	(400,000)	18,604,115	-
Christopher Reed	2,243,180	-	-	(63,180)	2,180,000	-
Peter Collins	285,705	-	-	-	285,705	-
Ian Junk	-	-	-	250,000	250,000	-
David Potter	-	-	-	102,200	102,200	-
	21,533,000	-	-	(110,980)	21,422,020	-

#### Executive share options of Reed Resources Ltd

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

	Bal @ 1/7/04	Granted as remuneration	Exercised	Bal @ 30/6/05	Bal vested @ 30/6/05	Vested but not exercisable	Vested and exercisable	Options vested during year
	No.	No.	No.	No.	No.	No.	No.	No.
Christopher Reed	1,000,000	-	-	1,000,000	1,000,000	1,000,000	-	1,000,000
Peter Collins	500,000	-	-	500,000	500,000	500,000	-	500,000
Ian Junk	500,000	-	-	500,000	500,000	500,000	-	500,000
David Potter	250,000	-	-	250,000	250,000	250,000	-	250,000
	2,250,000	-	-	2,250,000	2,250,000	2,250,000	-	2,250,000

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 4 and 5 to the financial statements.

## 21. Related party disclosures (cont'd)

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

The profit from operations includes the following items of revenue and expense that resulted from transactions other than compensation, loans or equity holdings, with key management personnel or their related parties:

	Consolidated	
	2006	2005
	\$	\$
Service fees	40,406	26,879
Rent	85,200	85,200
Royalties	5,032	-
Total recognised as expenses	130,638	112,079

### (e) Transactions with other related parties

Other related parties include:

- the parent entity;
- entities with joint control or significant influence over the consolidated entity;
- associates;
- joint ventures in which the entity is a venturer;
- subsidiaries;
- key management personnel of Reed Resources Ltd
- former key management personnel; and
- other related parties.

#### Transactions involving the parent entity

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

The parent entity has loaned funds to its subsidiary. The loan totaled \$1,097,565 at 30 June 2006 (\$440,615 at 30 June 2005)

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 \$125,606 (2005: \$112,079).

Mr P Collins provides geological consulting services to the Company. The total amount for the year was \$16,524 (2005: \$7,254).

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

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

### (f) Controlling entities

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

## 22. Subsequent events

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

**23. Notes to the cash flow statement**

**(a) Reconciliation of cash and cash equivalents**

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

Cash and cash equivalents

	Consolidated		Company	
	2006 \$	2005 \$	2006 \$	2005 \$
	1,612,963	2,353,606	1,612,963	2,353,606

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

Cash restrictions exist on \$64,707 of the cash balance as at 30 June 2006. The cash restrictions relates to unconditional performance bonds issued by National Australia Bank in favour of the Minister of State Development. A term deposit of \$64,707 has been restricted in its use to ensure it serves as a guarantee.

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

Loss for the period  
(Gain)/loss on sale or disposal of non-current assets  
Depreciation of non-current assets  
Amortisation of non-current assets  
Equity settled share-based payment  
Impairment of non-current assets  
Increase/(decrease) in deferred tax balances  
(Increase)/decrease in assets:  
    Current receivables  
Increase/(decrease) in liabilities:  
    Current payables  
Other non-cash expenses  
Net cash from operating activities

	Consolidated		Company	
	2006 \$	2005 \$	2006 \$	2005 \$
	(986,182)	(655,900)	(1,092,659)	(643,223)
		(1,000)		(1,000)
	81,745	53,500	81,745	53,500
	51,872	-	51,872	-
	80,000	18,147	80,000	18,147
	115,735	-	102,632	-
	(543,947)	(335,405)	(424,367)	(329,927)
	(124,704)	38,502	(124,704)	38,502
	146,207	96,377	146,207	96,377
	3,739	-	3,739	-
	(1,175,535)	(785,779)	(1,175,535)	(767,624)

## 24. Financial instruments

### (a) Financial risk management objectives

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

### (b) Significant accounting policies

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset, financial liability and equity instrument are disclosed in note 1 to the financial statements.

### Maturity profile of financial instruments

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

2006	Weighted average effective interest rate %	Variable interest rate \$	Maturity dates			Non interest bearing \$	Total \$
			Less than 1 year \$	1-5 years \$	More than 5 years \$		
<b>Financial assets:</b>							
Cash and cash equivalents	4	-	1,612,960	-	-	3	1,612,963
Trade and other receivables	-	-	-	-	-	142,800	142,800
			<u>1,612,960</u>	<u>-</u>	<u>-</u>	<u>142,803</u>	<u>1,755,764</u>
<b>Financial liabilities:</b>							
Trade payables	-	-	-	-	-	217,867	217,867

The following table details the consolidated entity's exposure to interest rate risk as at 30 June 2005:

2005	Weighted average effective interest rate %	Variable interest rate \$	Maturity dates			Non interest bearing \$	Total \$
			Less than 1 year \$	1-5 years \$	More than 5 years \$		
<b>Financial assets:</b>							
Cash and cash equivalents	4	-	2,353,603	-	-	3	2,353,606
Trade and other receivables	-	-	-	-	-	39,331	39,331
			<u>2,353,603</u>	<u>-</u>	<u>-</u>	<u>39,334</u>	<u>2,392,937</u>
<b>Financial liabilities:</b>							
Trade payables	-	-	-	-	-	96,377	96,377

### (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 measures credit risk on a fair value basis.

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.

## 25. Impacts of the adoption of Australian equivalents to International Financial Reporting Standards

The consolidated entity changed its accounting policies on 1 July 2005 to comply with Australian equivalents to International Financial Reporting Standards ('A-IFRS'). The transition to A-IFRS is accounted for in accordance with Accounting Standard AASB 1 'First-time Adoption of Australian Equivalents to International Financial Reporting Standards', with 1 July 2004 as the date of transition.

An explanation of how the transition from superseded policies to A-IFRS has affected the company and consolidated entity's financial position, financial performance and cash flows is set out in the following tables and the notes that accompany the tables.

### Effect of A-IFRS on the balance sheet as at 1 July 2004

	Note	Consolidated			Company		
		Superseded policies*	Effect of transition to A-IFRS	A-IFRS	Superseded policies*	Effect of transition to A-IFRS	A-IFRS
		\$	\$	\$	\$	\$	\$
<b>Current assets</b>							
Cash & cash equivalents		2,003,686	-	2,003,686	2,003,686	-	2,003,686
Trade & other receivables		77,441	-	77,441	341,200	-	341,200
<b>Total current assets</b>		<b>2,081,127</b>	<b>-</b>	<b>2,081,127</b>	<b>2,344,886</b>	<b>-</b>	<b>2,344,886</b>
<b>Non-current assets</b>							
Property, plant and equipment		301,778	-	301,778	301,778	-	301,778
Mining tenements		8,070,950	-	8,070,950	7,197,489	-	7,197,489
Other financial assets		-	-	-	625,317	-	625,317
Deferred tax assets	b	-	583,613	583,613	-	579,459	579,459
<b>Total non-current assets</b>		<b>8,372,728</b>	<b>583,613</b>	<b>8,956,341</b>	<b>8,124,584</b>	<b>579,459</b>	<b>8,704,043</b>
<b>Total assets</b>		<b>10,453,855</b>	<b>583,613</b>	<b>11,037,468</b>	<b>10,469,470</b>	<b>579,459</b>	<b>11,048,929</b>
<b>Current liabilities</b>							
Trade & other payables		(392)	-	(392)	3,348	-	3,348
Other financial liabilities		13,713	-	13,713	13,713	-	13,713
<b>Total current liabilities</b>		<b>13,321</b>	<b>-</b>	<b>13,321</b>	<b>17,061</b>	<b>-</b>	<b>17,061</b>
<b>Total liabilities</b>		<b>13,321</b>	<b>-</b>	<b>13,321</b>	<b>17,061</b>	<b>-</b>	<b>17,061</b>
<b>Net assets</b>		<b>10,440,534</b>	<b>583,613</b>	<b>11,024,147</b>	<b>10,452,409</b>	<b>579,459</b>	<b>11,031,868</b>
<b>Equity</b>							
Share capital		12,005,179	-	12,005,179	12,005,179	-	12,005,179
Retained earnings	c	(1,564,645)	583,613	(981,032)	(1,552,770)	579,459	(973,311)
<b>Total equity</b>		<b>10,440,534</b>	<b>583,613</b>	<b>11,024,147</b>	<b>10,452,409</b>	<b>579,459</b>	<b>11,031,868</b>

\* Reported financial position for the financial year ended 30 June 2004.

### Effect of A-IFRS on the income statement for the financial year ended 30 June 2005

	Note	Consolidated			Company		
		Superseded policies*	Effect of transition to A-IFRS	A-IFRS	Superseded policies*	Effect of transition to A-IFRS	A-IFRS
		\$	\$	\$	\$	\$	\$
Revenue		-	-	-	-	-	-
Other income		105,441	-	105,441	105,441	-	105,441
Employment expense	a	(463,227)	(18,147)	(481,374)	(463,227)	(18,147)	(481,374)
Occupancy expenses		(73,927)	-	(73,927)	(73,927)	-	(73,927)
Administration expenses		(369,066)	-	(369,066)	(369,066)	-	(369,066)
Finance costs		(5,116)	-	(5,116)	(5,116)	-	(5,116)
Other expenses		(167,263)	-	(167,263)	(149,108)	-	(149,108)
<b>Loss before income tax expense</b>		<b>(973,158)</b>	<b>(18,147)</b>	<b>(991,305)</b>	<b>(955,003)</b>	<b>(18,147)</b>	<b>(973,150)</b>
Income tax benefit	b	-	335,405	335,405	-	329,927	329,927
<b>Loss for the period</b>		<b>(973,158)</b>	<b>317,258</b>	<b>(655,900)</b>	<b>(955,003)</b>	<b>311,780</b>	<b>(643,223)</b>

\* Reported financial results for the year ended 30 June 2005.

## 25. Impacts of the adoption of Australian equivalents to International Financial Reporting Standards (cont'd)

### Effect of A-IFRS on the balance sheet as at 30 June 2005

Note	Consolidated			Company		
	Superseded policies* \$	Effect of transition to A-IFRS \$	A-IFRS \$	Superseded policies* \$	Effect of transition to A-IFRS \$	A-IFRS \$
<b>Current assets</b>						
	2,353,606	-	2,353,606	2,353,606	-	2,353,606
	39,331	-	39,331	479,946	-	479,946
	<b>2,392,937</b>	<b>-</b>	<b>2,392,937</b>	<b>2,833,552</b>	<b>-</b>	<b>2,833,552</b>
<b>Non-current assets</b>						
	332,826	-	332,826	332,826	-	332,826
	8,813,990	-	8,813,990	7,781,668	-	7,781,668
	-	-	-	625,317	-	625,317
	-	919,019	919,019	-	909,387	909,387
	<b>9,146,816</b>	<b>919,019</b>	<b>10,065,835</b>	<b>8,739,811</b>	<b>909,387</b>	<b>9,649,198</b>
	<b>11,539,753</b>	<b>919,019</b>	<b>12,458,772</b>	<b>11,573,363</b>	<b>909,387</b>	<b>12,482,750</b>
<b>Current liabilities</b>						
	96,377	-	96,377	99,957	-	99,957
	<b>96,377</b>	<b>-</b>	<b>96,377</b>	<b>99,957</b>	<b>-</b>	<b>99,957</b>
	<b>96,377</b>	<b>-</b>	<b>96,377</b>	<b>99,957</b>	<b>-</b>	<b>99,957</b>
	<b>11,443,376</b>	<b>919,019</b>	<b>12,362,395</b>	<b>11,473,406</b>	<b>909,387</b>	<b>12,382,793</b>
<b>Equity</b>						
	13,981,179	-	13,981,179	13,981,179	-	13,981,179
	-	18,147	18,147	-	18,147	18,147
	(2,537,803)	900,872	(1,636,931)	(2,507,773)	891,240	(1,616,533)
	<b>11,443,376</b>	<b>919,019</b>	<b>12,362,395</b>	<b>11,473,406</b>	<b>909,387</b>	<b>12,382,793</b>

\* Reported financial position for the financial year ended 30 June 2005.

### Effect of A-IFRS on the cash flow statement for the financial year ended 30 June 2005

There are no material differences between the cash flow statement presented under A-IFRS and the cash flow statement presented under the superseded policies.

### Notes to the reconciliations of income and equity

(a) Share-based payments

For the financial year ended 30 June 2005, share-based payments of \$18,147 (company: \$18,147) which were not recognised under the superseded policies were recognised under A-IFRS, with a corresponding increase in the employee equity-settled benefits reserve.

These adjustments had no material tax or deferred tax consequences.

(b) Income tax

Under superseded policies, the consolidated entity adopted tax-effect accounting principles whereby income tax expense was calculated on pre-tax accounting profits after adjustment for permanent differences. The tax-effect of timing differences, which occur when items were included or allowed for income tax purposes in a period different to that for accounting were recognised at current taxation rates as deferred tax assets and deferred tax liabilities, as applicable.

Under A-IFRS, deferred tax is determined using the 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 their corresponding tax bases. Accordingly a deferred tax asset has been recognised for the tax losses carried forward where it is probable the losses will be utilised.

The effect of the above adjustments on the deferred tax balances are as follows:

	Consolidated		Company	
	1 July 2004 \$	30 June 2005 \$	1 July 2004 \$	30 June 2005 \$
Deferred tax not recognised under previous GAAP	583,614	919,019	579,459	909,387
Net increase/(decrease) in deferred tax balances	583,614	919,019	579,459	909,387

**25. Impacts of the adoption of Australian equivalents to International Financial Reporting Standards (cont'd)**

(c) Retained earnings

The effect of the above adjustments on retained earnings is as follows:

	Note	Consolidated		Company	
		1 July 2004	30 June 2005	1 July 2004	30 June 2005
		\$	\$	\$	\$
Expensing share-based payments	a	(18,147)	(18,147)	(18,147)	(18,147)
Adjustments to tax balances	b	583,613	919,019	579,459	909,387
Total adjustment to retained earnings		583,613	900,872	579,549	891,240

**26. Additional company information**

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

**Registered office**

Reed Resources Ltd  
97 Outram Street  
West Perth WA 6005

**Principal place of business**

Reed Resources Ltd  
97 Outram Street  
West Perth WA 6005

## Additional stock exchange information as at 24 August 2006

The shareholder information set out below was applicable as at 24 August 2006

### Distribution of equity securities:

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

Range	Total Holders	Units	% Issued Capital
1 - 1,000	34	24,058	0.03
1,001 - 5,000	248	868,649	1.08
5,001 - 10,000	268	2,392,913	2.99
10,001 - 100,000	470	17,330,229	21.64
100,001 - 9,999,999,999	104	59,484,151	74.26
Rounding			0.00
Total	1,124	80,100,000	100.00

### Top 20 holders of ordinary shares:

Rank	Name	Units	% of Issued Capital
1	MR DAVID JOHN REED	11,892,115	14.85
2	TRUCKING NOMINEES PTY LTD <D J REED SUPER FUND A/C>	5,512,000	6.88
3	PETER BOWMAN NOMINEES PTY LTD <BOWMAN SUPERANNUATION FUND>	5,000,000	6.24
4	TRUCKING NOMINEES PTY LTD	3,200,000	4.00
5	TERAN NOMINEES PTY LTD	2,200,000	2.75
6	MR CHRISTOPHER JOHN REED	1,629,917	2.03
7	ROBMOB PTY LTD <ROBINSON SUPER FUND ACCOUNT>	1,400,000	1.75
8	RONDELUR PTY LTD	1,400,000	1.75
9	ROCK SECURITIES LIMITED	1,100,000	1.37
10	SPLICER NOMINEES PTY LTD	1,100,000	1.37
11	MR TIMOTHY CHARLES REED <ENTERPRISE A/C>	900,000	1.12
12	MR SIMON RAYNAUD + MRS ESTELLE RAYNAUD	700,000	0.87
13	MISS JENNIFER ANNE REED	700,000	0.87
14	MAXINE ANN ARDAGH	600,000	0.75
15	THOMAS BERNARD ARDAGH	600,000	0.75
16	MR ROBERT STANLEY LINFOOT <THE LINFOOT S/F NO 2 A/C>	600,000	0.75
17	PRIAC INVESTMENTS PTY LIMITED <PRICE ACKLING S/FUND A/C>	600,000	0.75
18	RS LINFOOT INVESTMENTS PTY LTD	530,000	0.66

19	AURORA PROSPECTS PTY LTD <AURORA FAMILY A/C>	500,000	0.62
20	DURKIN ENTERPRISES PTY LTD <NO 2 SUPER FUND ACCOUNT>	500,000	0.62
<b>Top 20 holders of ordinary shares (grouped) as at 04 Aug 2006</b>		<b>40,664,032</b>	<b>50.75</b>

### Substantial holders

Substantial holders in the company are set out below:

<b>Ordinary Shares</b>	<b>Number</b>	<b>Percentage</b>
D J Reed	20,604,115	25.73%
Peter Bowman Nominees	5,000,000	6.24%

### 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 secretary is Mr Christopher Reed.

The address of the principal registered office in Australia is:  
97 Outram Street, West Perth, Western Australia 6005.  
Telephone: (08) 9322 1182,  
Facsimile (08) 9321 0556,  
Website [www.reedresources.com](http://www.reedresources.com)

Registers of securities are held at the following addresses  
97 Outram Street, West Perth, Western Australia 6005

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