

REED RESOURCES LIMITED

RDR

Thursday, 30 August 2007

Diverse and well managed portfolio

Recommendation

Speculative Buy

Overview

RDR is progressing a full feasibility study on the Barrambie vanadium deposit that is located 80 km north of Sandstone in Western Australia. The study follows on from a pre-feasibility study that was completed on the project in February 2006 and showed a net present value of \$379 million for an operation treating 2 million tonnes per year and producing 20 million pounds of vanadium pentoxide (V₂O₅) per year using a 12% discount rate. The estimated capital cost was \$256 million and operating costs were estimated at \$2.67 per pound of V₂O₅. RDR subsequently entered into a MOU with one of the world's leading commodity traders to market and sell the total vanadium output at the project for the first ten years from practical completion.

Recent test work that is being supervised by Sinclair Knight Merz has shown that through beneficiation, involving gravity and magnetic separation, both the grade and recovery of the vanadium can be significantly improved over the pre-feasibility study results. The increase in recovery will greatly reduce the mill throughput rate needed to achieve the 20 million pounds of V₂O₅ per year. This will have significant capital cost benefits for the project. In addition, the increase in grade will lower operating costs.

The Barrambie deposit is interpreted as a layered intrusive disrupted by faulting, and has been subdivided along its strike into an Eastern Band and Central Bands. The Eastern Band characteristically is a relatively continuous massive magnetite band with high titanium values, which has been further subdivided into a high grade mineralised zone containing high vanadium values, and a low grade mineralised zone containing low vanadium values. The Central Bands are characterised by low grade disseminated mineralisation with internal narrow bands of magnetite containing high grade vanadium mineralisation. The base of oxidation occurs at about 50 to 70 metres below surface over the majority of the deposit which is anticipated to be mined by open cut methods. The current resource estimate of 23.6 million tonnes averaging 0.82% V₂O₅ covers a 5 km length of an interpreted 11 km strike length of vanadiferous-titaniferous magnetite mineralisation at the project. The deposit remains open to the north and south, and at depth. The full feasibility study is expected to be completed in June 2008.

At the company's Comet Vale gold project, located between Kalgoorlie and Leonora, private company Kingrose is earning a 50% interest in the Sand Queen mine by funding development and production costs. The resource is currently 360,000 tonnes averaging 11.8 g/t gold and containing 136,000 ounces of gold. Stage 1 of the development envisages production of 65,000 ounces over the next three years with net cash flow of \$5 million per year to RDR.

Portman Mining (PMM) has earned an 80% interest in the iron ore rights at RDR's Mt Finnerty project and is targeting five to ten million tonnes of direct shipping ore within trucking distance of its Koolyanobbing mine. PMM has interpreted potential channel iron deposits that are to be followed up with RAB and RC drilling. The project is also prospective for nickel and Western Areas (WSA) is earning a 65% interest in the nickel rights through expenditure of \$3 million over 5 years. WSA has identified four high order soil geochemical anomalies coincident with a basal ultramafic/basalt contact.

Impact

RDR has a diverse well managed portfolio of mineral interests. Its current feasibility study on the Barrambie vanadium deposit has shown the potential for significant capital and operating cost savings. In addition the company has entered into a sales agreement covering the first ten years of production. Elsewhere, the company has attracted Portman Mining and Western Areas to its Mt Finnerty project seeking iron ore and nickel respectively and gold production from its Comet Vale underground mine is ramping up. Cash flow from that operation should enable the timely completion of the Barrambie feasibility study.

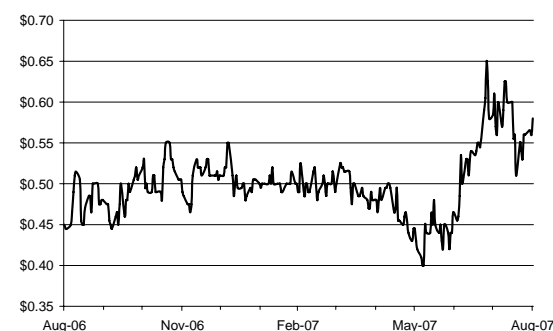
Snapshot

Last Price	\$0.56
Market Cap (m)	\$54.3
52 Week High	\$0.69
52 Week Low	\$0.38
Sector	Metals & Mining

Investment Fundamentals

Cash reserves	\$4.3 million
Shares on issue	97.0 million
Options on issue	6.0m unlisted
Directors	David Reed (Exec Chairman) Christopher Reed Peter Collins (non-exec) Ian Junk (non-exec)
Major shareholders	Directors & Founders 30%

Price Chart



Business Description

RDR is a mineral exploration and mining company with projects in Western Australia. The company has farmed out several of these while it progresses a feasibility study on a 20 million tonnes per year vanadium project.

Analyst: Paul Goody

INTERSUISSE

INVESTMENT RESEARCH

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