

Gold, Lithium, and Vanadium make for a potent mix

A New Diversified Miner

- Initiation of Coverage:** Reed Resources Ltd (RDR) is a small diversified mining company with lithium, gold, vanadium and base metals projects in Western Australia. Reed has a very experienced Board and management team and it has been very canny in acquiring assets that add value to the company.
- The first project is the Mount Marion Lithium mine which will be in production in the September quarter of this year producing Spodumene (6% Lithium) at a rate of 220ktpa.
- The second project is the Meekatharra Gold project which we expect to enter into production in the March quarter of 2013. It was recently acquired for less than \$30m but besides 2.4Moz of gold resources, it has an established 200 man camp, 3Mtpa mill and other facilities which have a replacement cost of \$100m. Our DCF valuation, which includes a 3-year mine life from published reserves, is over \$100m. We expect increased value to be released as more resources are identified and the mine life is extended.
- The third project is the Barrambie Vanadium project. With a new, lower, fixed-price contract expected before the end of the FY11 we believe that the economics of Barrambie will improve markedly. There is a very interesting commercial synergy between the lithium and vanadium projects. Future battery technology will use Lithium and Vanadium together because of higher energy density and Reed is in an uncommonly attractive position for any battery manufacturers seeking secure metal supply for two key components.
- The near term catalysts for the stock include project development completion for Mount Marion over the next 9 months, gold resource increases and upgrades over the course of 2011 at Meekatharra as well as the completion of studies on the re-start of gold mining. A lower construction cost at Barrambie could see a major re-evaluation.
- The management team have assembled, cheaply, a group of assets with a potent mix of commodities. There are few companies with these kinds of assets and this kind of management team and it is trading at a big discount to our valuation, based on conservative assumptions. Accordingly, we initiate coverage with a price target of \$1.02 per share and a BUY recommendation.

Year End June 30	2009A	2010A	2011F	2012F	2013F
Reported NPAT (\$m)	(2.5)	(2.7)	(4.6)	0.8	48.6
Recurrent NPAT (\$m)	(2.5)	(2.7)	(4.6)	0.8	46.6
Recurrent EPS (cents)	(1.8)	(1.6)	(2.1)	0.4	21.8
EPS Growth (%)	na	na	na	na	5,524.3
PER (x)	(34.7)	(38.8)	(29.2)	161.4	2.9
EBITDA (\$m)	(2.1)	(2.6)	(3.4)	5.9	78.8
EV/EBITDA (x)	(36.8)	(38.7)	(51.5)	33.8	2.0
Capex (\$m)	0.0	0.0	11.0	17.1	6.1
Free Cashflow	(10.7)	(6.4)	(19.8)	(21.5)	41.5
FCFPS (cents)	(7.8)	(3.9)	(9.3)	(10.1)	19.4
PFCF (x)	(8.0)	(16.1)	(6.8)	(6.2)	3.2
DPS (cents)	0.0	0.0	0.0	0.0	0.0
Yield (%)	0.0	0.0	0.0	0.0	0.0
Franking (%)	100.0	100.0	100.0	100.0	100.0

3 February 2011

12mth Rating		BUY
Price	A\$	0.63
Target Price	A\$	1.02
12m Total Return	%	62.8

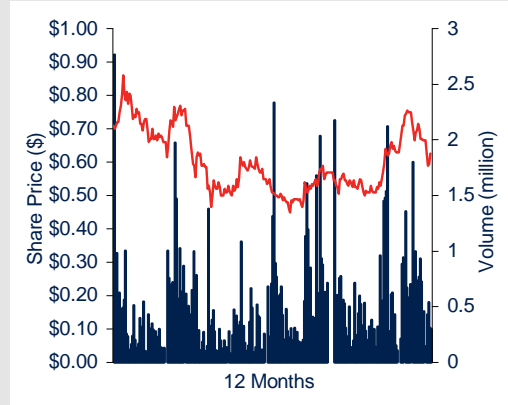
RIC: RDR.AX		BBG: RDR AU
Shares o/s	m	193.3
Free Float	%	87.1
Market Cap.	A\$m	120.8
Net Debt (Cash)	A\$m	-4.4
Net Debt/Equity	%	na
3m Av. D. T'over	A\$m	0.35
52wk High/Low	A\$	0.86/0.45
2yr adj. beta		1.14

Valuation:		DCF
Methodology		DCF
Value per share	A\$	1.02

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Patersons Securities Limited acted as Lead Manager to a Placement that raised \$6.4m and Lead Manager and Underwriter to a SPP that raised \$4.5m in August 2009 and Lead Manager to a Placement that raised \$7.5m in July 2010. It received a fee for this service

12 Month Share Price Performance



Performance %	1mth	3mth	12mth
Absolute	-16.9	11.3	-19.7
Rel. S&P/ASX 300	-14.2	7.7	-33.4

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Investment Case

Reed Resources (RDR) is small West Australian based mining company developing a near term lithium project and a gold project in 2013. It also holds a number of other projects. The company has a market capitalisation of only \$115m (\$0.62 per share) compared to our DCF valuation of \$217m (\$1.02 per share) based on conservative assumptions for metals prices, start-up dates, and production volumes. Reed has a lot of work in front of it but it has a very experienced Board and management team and it has been very canny in acquiring assets that add value to the company. The spread of commodities includes gold, lithium, vanadium, iron, and nickel, all of which are in strong demand at the moment.

The first project is the Mount Marion Lithium mine which will be in production in the September quarter of this year producing Spodumene (6% Lithium) at a rate of 220ktpa.

The second project is the Meekatharra Gold project which we expect to enter into production in the March quarter of 2013. It was recently acquired for less than \$30m but besides 2.47Moz of gold resources, it has an established 200 man camp, 3Mtpa mill and other facilities which have a replacement cost of \$100m. Our DCF valuation, which includes a 3-year mine life from published reserves, is over \$100m. We expect increased value to be released as more resources are indentified, which previously had an \$800/oz cut-off, and the mine life is extended.

The third project, which is not yet on an immediate development programme, is the Barrambie Vanadium project. With a new, lower, fixed-price contract expected before the end of the FY11 we believe that the economics of Barrambie will improve markedly though we have not yet built it into our assumptions.

We want to highlight that though there are no operational synergies between the 3 main projects there are some very interesting commercial synergies between the lithium and vanadium projects. Both are now used in battery technologies but future battery technology will use Lithium and Vanadium together because of higher energy density. Reed is in a position to produce both commodities which puts it in an uncommonly attractive position for any battery manufacturers seeking secure metal supply for two key components.

The near term catalysts for the stock include project development completion for Mount Marion over the next 9 months, the gold resource increases and upgrades over the course of 2011 at Meekatharra as well as the completion of studies on the re-start of gold mining. We would also note the progress towards a lower construction cost at Barrambie could see a major re-evaluation of the Vanadium project.

The cash position of RDR, at \$4.4m is sufficient for ongoing work but the acquisition of Meekatharra will require \$26m in further funding, either entirely through the equity markets or debt and equity. We have run a sensitivity test to understand the potential dilution from an equity raising and this shows approximately a 15% dilution in valuation to just under 90 cents per share. We emphasise that the Meekatharra project economics are very strong and the purchase is highly NPV accretive to RDR and well worth doing.

From our point of view the management team have assembled, cheaply, a group of assets with a potent mix of commodities. Production is very near term at one of them with the others are progressing along a defined development path. There are few companies with these kinds of assets and this kind of management team and it is trading at a big discount to our valuation. Accordingly, we initiate coverage with a price target of \$1.02 per share and a BUY recommendation.

Risks

Major risks for miners are commodity prices and currency fluctuations. These can greatly impact on the earnings of exporters but they tend to move in sympathy with each other. So as commodity prices fall so does the Australian Dollar, this will offset the loss from lower prices, and vice versa. Reed has no gold or foreign currency hedging.

Estimation Risk: Patersons DCF valuation is based on assumptions which are primarily driven by management's best estimates. It is important to note that not all the estimates provided by RDR are yet to the subject of a BFS and are therefore at risk of material change.

Valuation

We have used an NPV methodology to value Reed's near-term projects and have attributed an in-ground value to Barrambie and the other assets that are not mined. We use 10% real discount rate on free cashflows for all projects except gold, where we use 8%. Our total valuation is \$217m or \$1.02 per fully-diluted share. We are pre-empting somewhat the company's Feasibility studies, in particular for Meekatharra, and so have used our best estimates for WA mining costs and our existing commodity price forecasts. In both cases, but especially in prices, we believe that we have been conservative.

Our NPV valuations for the RDR's Mount Marion project are \$73m, for Meekatharra \$101m, and for Barrambie we have ascribed a value of \$25m. Our modelling assumptions are detailed in the following asset descriptions. For the remaining non-mined gold and iron resources we have ascribed a total exploration value of \$25m. Cash on hand amounts to \$4.4m and there is no debt.

Figure 1: Valuation Breakdown (attributable to RDR)

Valuation	A\$m	A\$/sh
Mount Marion Lithium	83.0	0.39
Meekatharra Gold	101.5	0.47
Barrambie Vanadium	25.0	0.12
Exploration	25.0	0.12
Unpaid capital	0.0	0.00
Corporate	(21.5)	(0.10)
Forwards	0.0	0.00
Cash	4.4	0.02
Debt	0.0	0.00
NPV	217.5	1.02
(@ 10% discount rate, 8% for gold)		
Price Target		1.02

Source: PSL

Sensitivity Analysis

As one would expect the greatest impact on the valuation of the company comes from changes in commodity prices and currency. A 10% change across the board for all gold prices would see the DCF valuation change by about 11%. For Lithium, a similar 10% change would see a valuation shift of 9%. However since the AUD cuts across all of the company's sales, changes in the strength of the AUD versus the USD have bigger impacts, of about 18%. Our valuation is much less sensitive to our discount rate assumptions. See below for a chart showing the much steeper slope of the currency line compared to gold or lithium.

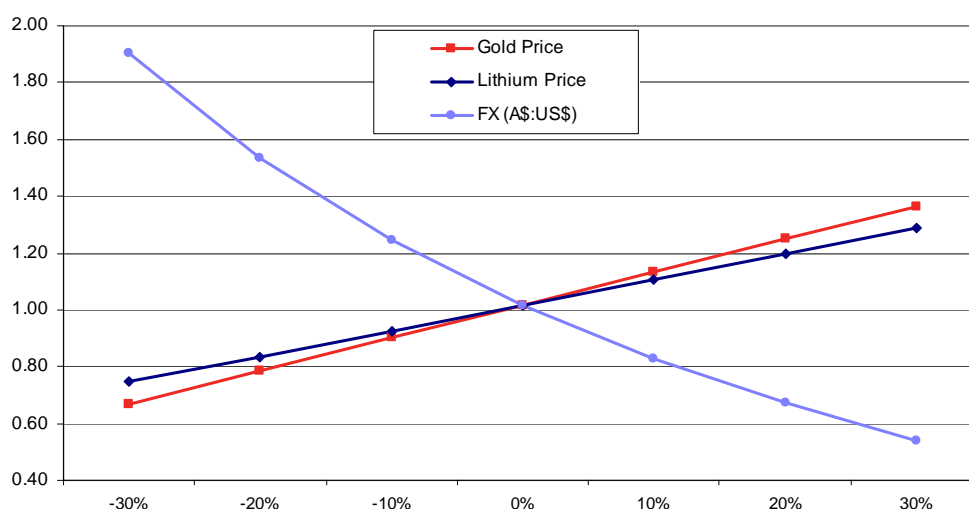
Figure 2: RDR Valuation Sensitivities (\$ per share)

	-10%	Base Case	+10%
Lithium Price	0.93	1.02	1.11
Gold Price	0.90	1.02	1.13
Currency	1.25	1.02	0.83

Source: PSL

The cash position of RDR, at \$4.4m excluding bonds etc, is relatively weak. It is sufficient for ongoing work but the acquisition of Meekatharra will require \$15m and \$11m in further funding by 31 March 2011 and 30 June 2011 respectively. We suspect that the company will have raise funds either entirely through the equity markets or as a combination of debt and equity. For modelling simplicity we have assumed capex will be funded by debt but we have run a sensitivity test to understand the potential dilution from an equity raising at around the current share price sufficient to complete the Meekatharra acquisition. This results in approximately a 15% dilution in valuation to just under 90 cents per share from 102 cent per share. We emphasise that the Meekatharra project economics are very strong as we have outlined below, and the purchase is highly NPV accretive to RDR and well worth doing.

Figure 3: RDR Valuation Sensitivities



Source: PSL

Peer Comparison

Reed is an uncommon company and it is difficult to find reasonable comparable peers. On a gold resource basis junior gold companies trade at around A\$65/resources ounce. This would value RDR at almost \$160m for the gold project alone compared to the market cap of the whole firm, which includes a number of other assets, of only \$115m at the current share price.

Likewise, using Galaxy Resource (GXY), which is developing its own spodumene mine and has an enterprise value of approximately \$300m and resources of equivalent to 170kt of Lithium, results in a value of \$1,740/t of resource. Using that as a benchmark produces a value for Reed of \$250m. Again for the Lithium alone.

The Reed Business and Assets

Reed Resources is small mining company with an uncommon mix of commodities. On top of the near term lithium and gold projects, RDR can boast of a vanadium project and an iron/nickel project in its group of assets. We view these as a particularly potent mix of assets with a very supportive backdrop for precious metals like gold, environmental/hi-tech metals like lithium and vanadium and the strong demand iron and nickel for steel making. The company has had a strategy of acquiring cheaply old assets in Western Australia that have now become economic due to the much higher prices for commodities.

The first project will be the Mount Marion Lithium project which we expect will have first production in the September quarter of this year. The recently acquired Meekatharra project will be in production by the start of 2013. The Barrambie vanadium and Mount Finnerty iron/nickel project are still under evaluation and represent cheap/free options on any improvement in commodity prices.

We rate the Chairman and Managing Director, David Reed and Christopher Reed respectively, as highly capable appraisers and very well-connected in the West Australian mining community, especially in and around Kalgoorlie. They are the driving forces behind RDR but they have, with the expansion of the group, appointed some highly capable managers to drive forward the separate gold (Craig Fawcett), lithium (Bill Crossley) and vanadium (Tony Simpson) divisions.

Project Locations

Figure 4: RDR main Project Locations in Western Australia



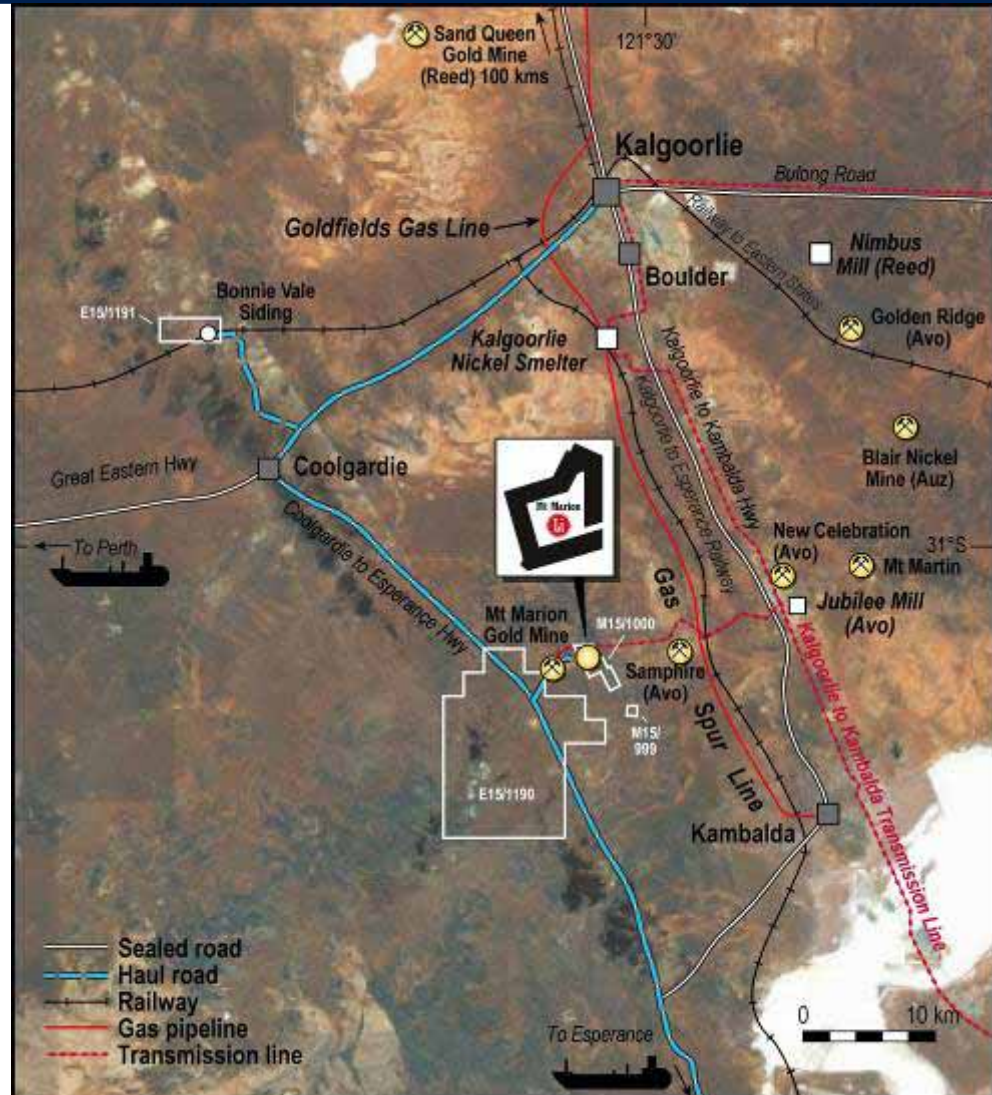
Source: RDR

RDR's projects are all located in Western Australia. The company's flagship project is Mt Marion, a high grade, hard rock lithium project located 40km south from Kalgoorlie. The project is being developed in JV with Mineral Resources Ltd and first production is planned for the September quarter of calendar 2011. RDR's other projects include the Barrambie ferrovanadium project, for which RDR is undertaking a DFS to produce 6,300tpa of vanadium and is in the process of securing approvals. The company is also considering recommencing underground production at the Comet Vale gold mine and is exploring for iron ore in a JV with Cliffs Natural Resources at Mt Finnerty. The company's most recent addition, the Meekatharra gold project, is located in central Western Australia. The project is a wholly owned entity of Reed Resources Ltd, acquired in January 2011.

Mount Marion Lithium Project

Mt Marion is one of the most advanced major high-grade lithium spodumene projects anywhere in the world. Mt Marion is differentiated by the exceptionally low capital expenditure (estimated at circa \$20m) required to bring the project on stream. Following a re-estimation of the resource in August, the Mt Marion resource stands at 10.5Mt at 1.4% Li₂O (above a cut off grade of 0.3% Li₂O). Of this, 2.1Mt at 1.5% Li₂O is now a Measured Resource. There is also an additional exploration target of a further 10-15Mt. The company expects to receive its mining approvals (which have been delayed) very shortly and first production is due in the September quarter.

Figure 5: Mount Marion Project Map



Source: RDR

The resource is comprised of five shallow, gently dipping deposits which all remain open along strike and at depth. We note that RDR has drill tested large areas of outcropping pegmatite, although a significant portion of the licence (southern half of M15/1000) has not yet been explored under cover. RDR has potential to significantly expand the current resource base with further drilling, once in production. The project is being jointly developed by RDR and Mineral Resources Ltd (MIN) to extract the hard rock mineral spodumene.

In our valuation of \$83m (\$138m 100% basis) we have used a minelife of 10 years mining at a rate of 1Mtpa with a 22% mass recovery. The mine will produce 220kt of Spodumene (6% lithium product) at a cash cost of approximately A\$190/t. In our modelling we are

using a long term real price of Lithium Carbonate of US\$6,000/t and assuming a price for Spodumene that is only 5% of the Lithium Carbonate price.

There is potential for a substantial uplift in value if RDR were to develop a Lithium Carbonate plant and convert its spodumene to a higher value product. Consultants Hatch showed very positive economics for such a plant in a pre-feasibility study. The study included a plant construction cost of only US\$70m and produced an NPV of over US\$400m. RDR is currently considering the feasibility of such a plant (more than likely in Malaysia) but we have not yet included this in our modelling.

The Mineral Resources Partnership

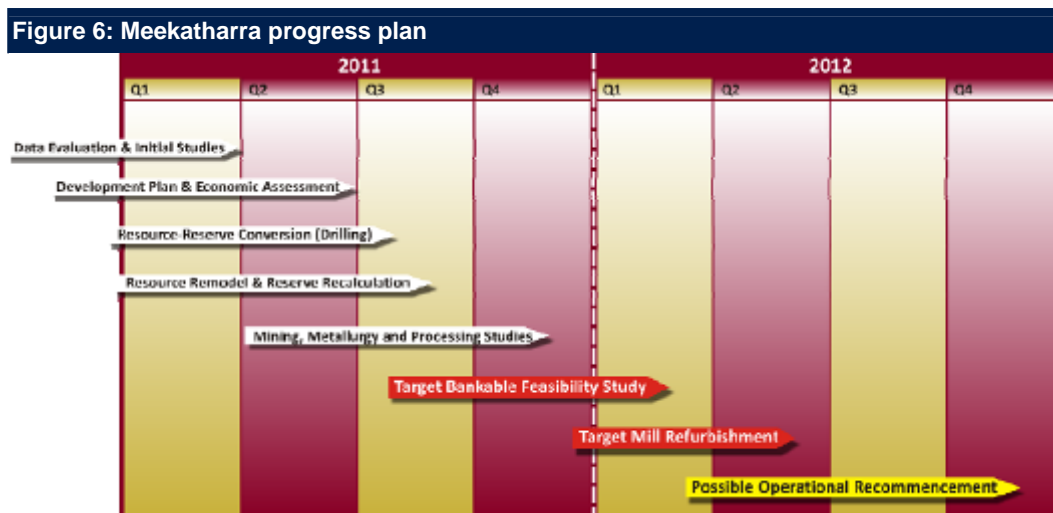
RDR has a joint-venture with Mineral Resources Ltd (MIN) at Mt Marion, whereby MIN is earning a 40% interest in profit from the open pit operation in return for MIN funding, building and operating the mine. Plant construction is in progress and production is expected to commence in Q3 CY11. The JV partners have agreed to develop Mt Marion to produce 200,000t/y of spodumene concentrate, containing an estimated 13,000t of lithium oxide (Li₂O) at 6.5% Li₂O.

Lithium - Hard rock versus brines

Producers from hard rock are higher cost than brine producers. The major South American lithium producers, produce from large reserves of lithium in brines and have the potential to increase production more easily. Not all brines are equal, as the chemistry of the brine governs the ease and cost of extraction of the lithium. The pegmatite deposits suffer a cost disadvantage when compared to brines, which have no mining costs (pumping is cheap compared to moving rock) and no crushing costs but the market for lithium will easily support additional supply as electric battery installations increase. Pegmatites also produce soluble lithium chemicals which are readily transformed into batteries. Further, pegmatite producers such as RDR have the potential to produce saleable by-products to compete with brines to offset the higher cost of production. For RDR these are Tantalum and Mica but at this stage we have excluded them for our revenue calculations.

Meekatharra Gold Project

RDR, at the start of 2011, acquired the Meekatharra gold project in the Murchison region of Western Australia from Mercator Gold Australia for \$26.7 million in cash and 2 million RDR shares. The project includes +800km² of tenure, including 2.47Moz resources (44.68Mt at 1.7 g/t Au), 0.42Moz in reserves and a 3Mtpa processing plant. We note that the acquisition was in line with RDR's broader plans to increase its resource base with drilling and potentially spin out its gold assets into a new vehicle – Gold Mines of Kalgoorlie Ltd.



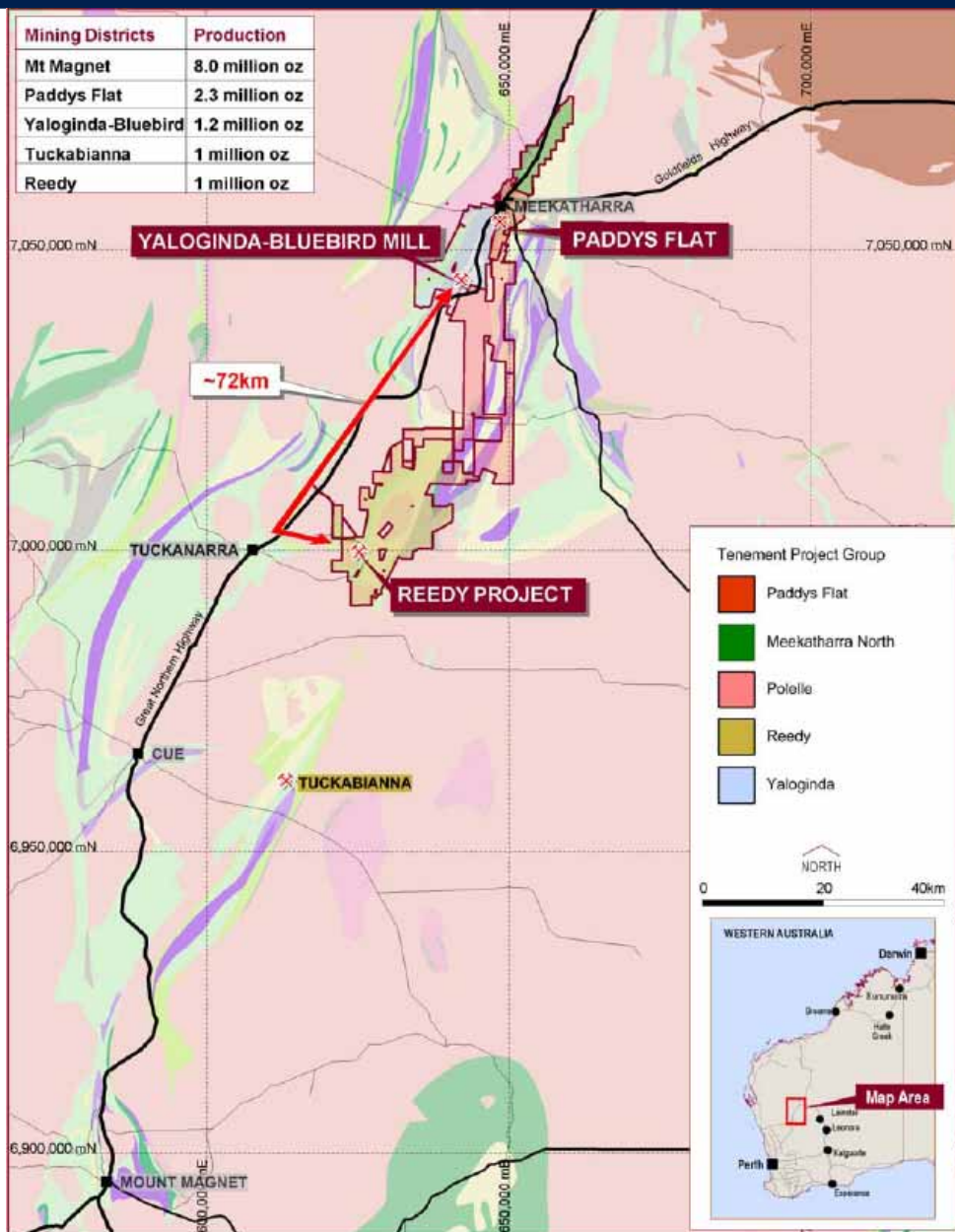
Source: RDR

RDR intends to add reserves with drilling at the project and a re-estimation of the known resources and mine plan at the current gold price of circa US\$1,300/oz. The previous reserve calculation was estimated when the gold price was circa US\$800/oz and RDR

expects a significant increase in reserves will follow at the prevailing gold price (circa US\$1,350/oz). We anticipate that gold resource increases will be forthcoming within the next 6 months and reserve upgrades before the end of the 2011. From our perspective these are easy improvements in value on what is already a very cheaply acquired asset.

On top of the existing gold resources, Meekatharra comes with a completed 200-man camp and the 3Mtpa mill which have replacement value of \$100m alone.

Figure 7: Meekatharra Project Location and historical gold production



Source: RDR

RDR is aiming to reduce the risk of being dependent on a single ore source, by developing new pits, particularly at the Paddys Flat and Reedy's mining centres (see below). The five principal pits at Reedy's all have significant intersections beneath the existing workings and further drilling is required to prove up additional resources. We note that planned cutbacks were scrapped during the last mining attempt in 1997 when the gold price was circa US\$300/oz and there is potential to revisit these mine plans at the current gold price.

We note that there is limited drilling beneath 100m on the properties and an initial review of some of the existing workings at the Meekatharra project has identified potential for immediate expansion, in addition to known resources. The mines in the region have

historical production of 13.5Moz (4.5Moz from Meekatharra) and still has remaining resources of approximately 6.8Moz.

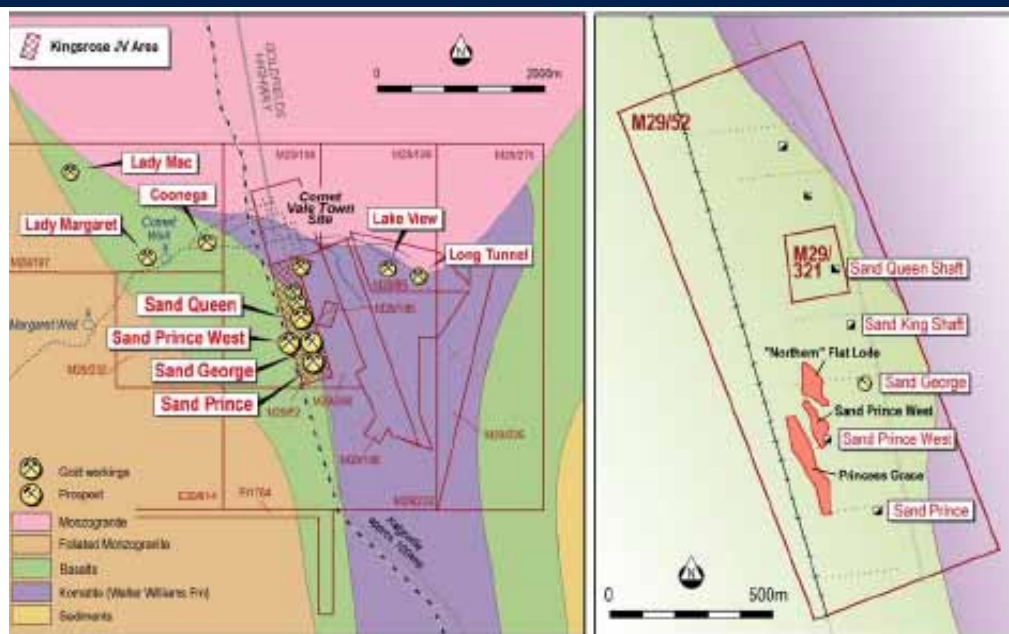
The company has no gold hedging.

In our valuation of \$101m, or 47cps, we have used the current reserve of 422koz at a grade of 3.4g/t producing for only 3 years starting in the March quarter of 2013. Starting from 2012 we expect that refurbishment and sustaining capex for the life of mine will be about \$33m. Following from the above expectations of easy reserve upgrades we have run a sensitivity with 700koz reserve. This results in a 5-year mine life and valuation of \$154m, or 72cps for Meekatharra.

Comet Vale Gold Project

The Comet Vale gold project was in production until last year but is currently on care and maintenance. It is located 100km north of Kalgoorlie and covers an area of 25km². The project includes a high grade resource of 186,000oz at 10.8g/t Au. The gold lodes at Comet Vale have been drilled to a vertical depth of 400m. We have ascribed only a small notional value for Comet Vale, which is included our prospective resources heading.

Figure 8: Comet Vale project map



Source: RDR

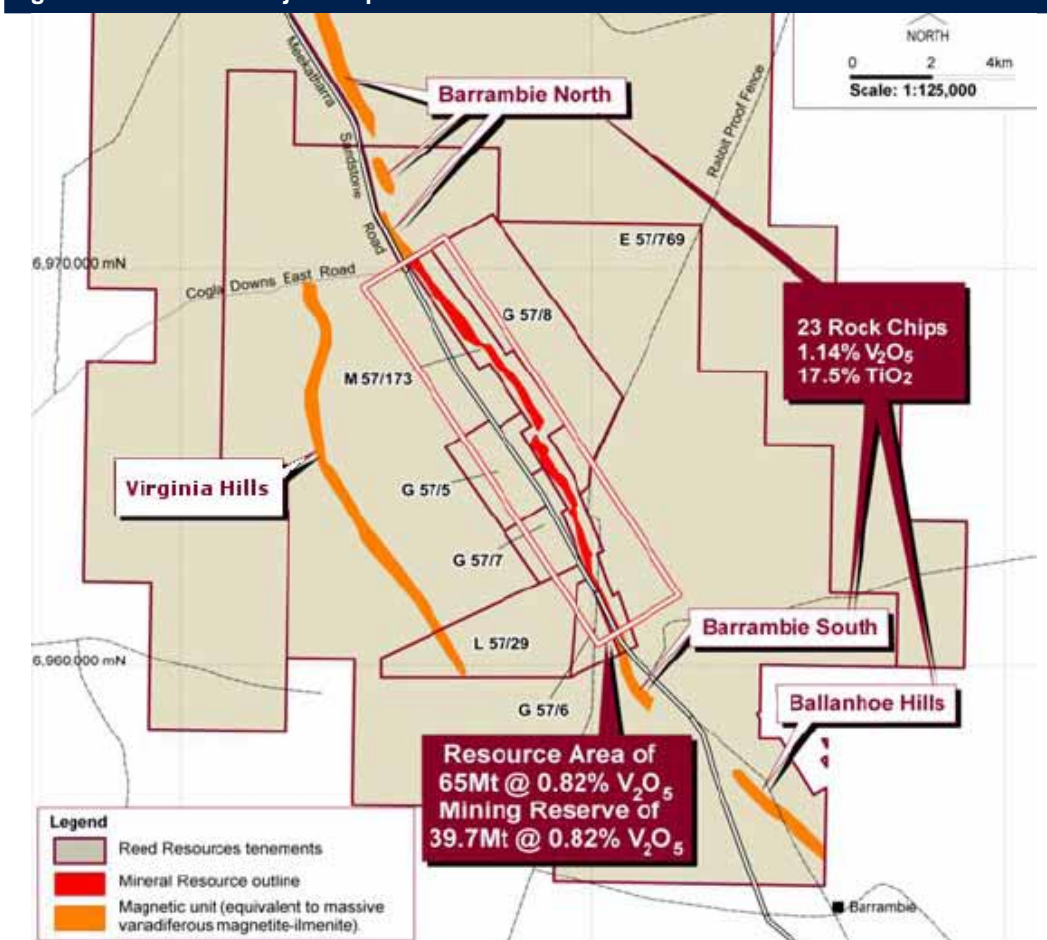
RDR's strategy is to expand the existing resource base at Comet Vale with drilling and delineate sufficient reserves to resume underground production at the Sand Queen Gold Mine as a mechanised decline operation. A staged drilling programme targeting both the existing Sand Queen/Sand George Lodes and a new parallel Sand Prince/Princess Grace lode system was completed in 2010.

Barrambie Vanadium Project

The Barrambie vanadium project is located 125km north-east of the Windimurra Vanadium project in the Murchison region of Western Australia. The project is 100% owned by RDR and includes a resource of 65.2Mt at 0.85% V₂O₅ and a reserve of 39.7Mt at 0.82% V₂O₅.

A DFS was completed in May 2009, outlining potential for a 12.5 year mine life with annual production of 6,200t of V. At the time RDR anticipated operating costs of <US\$20/kg, A\$456m direct construction costs, A\$630m total costs, and A\$186m annual EBITDA at 5 year average vanadium price of about \$45/kg. However, since then the rise in the AUD to parity with the USD, and the fall in vanadium prices to less than half of their 2008 peaks have made the project uneconomic.

Figure 9: Barrambie Project map



Source: RDR

In November 2010 RDR signed an agreement with China Nonferrous Metal Industry's Foreign Engineering and Construction Co Ltd (NFC) and Australian firm Arcon Pty Ltd, covering an engineering procurement and construction contract (EPC) and project financing assistance for Barrambie. NFC and Arcon are expected to provide a revised, fixed price EPC estimate, at considerable savings to the original DFS capital cost estimate of \$628.9million. RDR is in discussions with lenders and potential equity financing partners.

We believe that Chinese pre-fab construction is likely to substantially lower the capex for the project. We have modelled the Barrambie project with the May 2009 DFS assumptions except running our more conservative long term Vanadium price of US\$30/kg (\$30,000/t) which resulted in a negative NPV. However with, say, a 30% saving on capex and a higher long term Vanadium price closer to \$40/kg the project NPV becomes substantially positive. At this stage we have ascribed only a \$25m valuation for Barrambie as an in-ground resource but acknowledge that an updated project development plan could significantly alter our treatment and provide new details to re-assess the valuation.

The catalyst for this change, the fixed-price contract, could come before the end of FY11. Following that, we expect that RDR will move quickly to establish the debt and equity funding that will be required in order to develop the project.

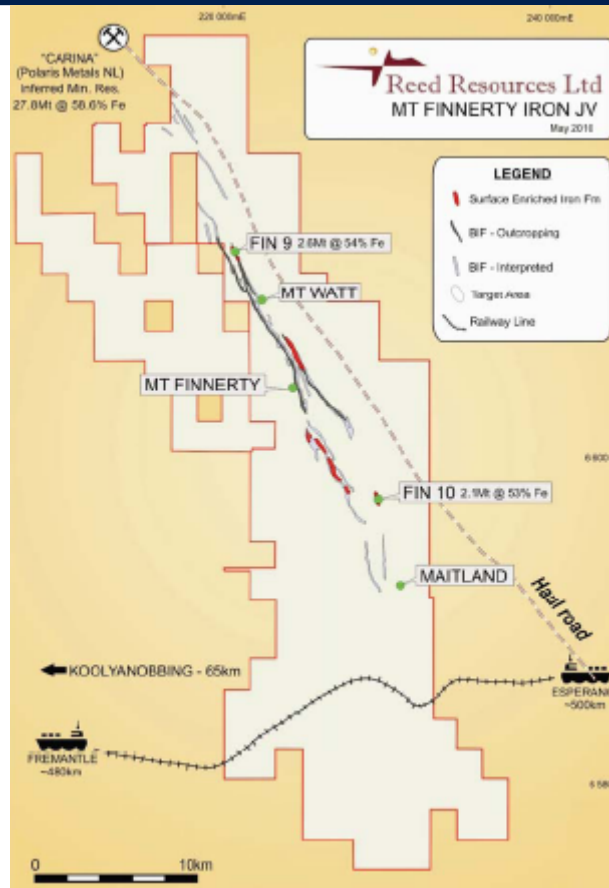
Mount Finnerty Project

The Mt Finnerty iron project is located 65km east of the town of Koolyanobbing in Western Australia. An airborne geophysical survey has identified a number of palaeochannels with potential for large channel iron deposits. The project contains a small JORC-compliant inferred resource of 4.66Mt at 53.5% Fe.

The project is being advanced under a JV agreement with Cliffs Natural Resources (80%) and RDR (20%) and drilling is in progress to test two new prospects outside the existing

resource. Drilling at the Fin9 prospect is aimed at testing a northerly extension to mineralisation. The new prospects, Mt Watt and Maitland, are a focus for testing. Complex geology has been identified at these sites and RDR believes magnetite destruction may have occurred in the faulting process forming hematite. Further drilling is expected to confirm the presence of any economic occurrence of iron ore.

Figure 10: Barrambie Project map



Source: RDR

Cliff Natural Resources JV

RDR has a JV with iron ore producer Cliffs Natural Resources to explore and develop iron ore deposits in the Mt Finnerty region. Cliffs has now earned an 80% interest in the project and RDR (20%) may now either elect to contribute or revert to a 10% interest free carried up to a decision to mine.

Barranco Resources Nickel Farm-in

Mount Finnerty is also prospective for Nickel and RDR has entered into a farm-in with Barranco Resources to identify an economic nickel deposit.

RDR Statement of Resources

Figure 11: RDR

Mt Marion	Tonnes (Mt)	Lithium Grade (%Li2O)	Iron Grade (%Fe2O3)
Measured	2.1	1.5	1.1
Indicated	3.9	1.4	1.2
Inferred	4.5	1.3	1.9
Total	10.5	1.4	1.4
Meekatharra	Tonnes (Mt)	Gold (g/t Au)	Ounces (koz)
Yaloginda	13.55	1.7	755
Paddys Flat	25.8	1.6	1,335
Meekatharra North	0.88	1.3	35
Reedys	4.45	2.4	341
Total	44.7	1.7	2,466
Comet Vale	Tonnes (Mt)	Gold (g/t Au)	Ounces (koz)
Sand Queen	0.534	10.8	186
Barrambie	Tonnes (Mt)	Vanadium (% V2O5)	
Barrambie	65.2	0.82	
Mt Finnerty	Tonnes (Mt)	Iron Grade (%Fe)	
Mt Finnerty JV	4.66	53.5	

Source: RDR

The Lithium Market

Lithium products are not traded on any exchange and prices are generally negotiated between producers and customers. As such, a price spike is unlikely, although a rebound to the \$6,500/t range and a stable price going forward is likely according Roskil, one of the main industry study groups. Roskill anticipates prices will increase to \$6,500/t by 2012. The introduction of a lithium Exchange Traded Fund (ETF) is another positive development for the lithium sector and provides recognition of lithium's growing appeal as an investment opportunity. We are using a long-term real price of US\$6,000/t in our modelling.

Demand in electric vehicles powered by lithium-ion batteries is expected to triple over the next decade. The automotive industry has committed increasingly to electrified vehicles to provide sustainable mobility in the next ten years and lithium-ion is the preferred current battery technology to power these vehicles. As such, demand is largely dependent on the rate at which the world converts to electric cars.

The Gold Market

We remain bullish on gold while to stay above US\$1,000/oz over the coming years. The precious metal has been a major beneficiary of sovereign debt issues, and associated currency risks. We are using a US\$800/oz long term real gold price.

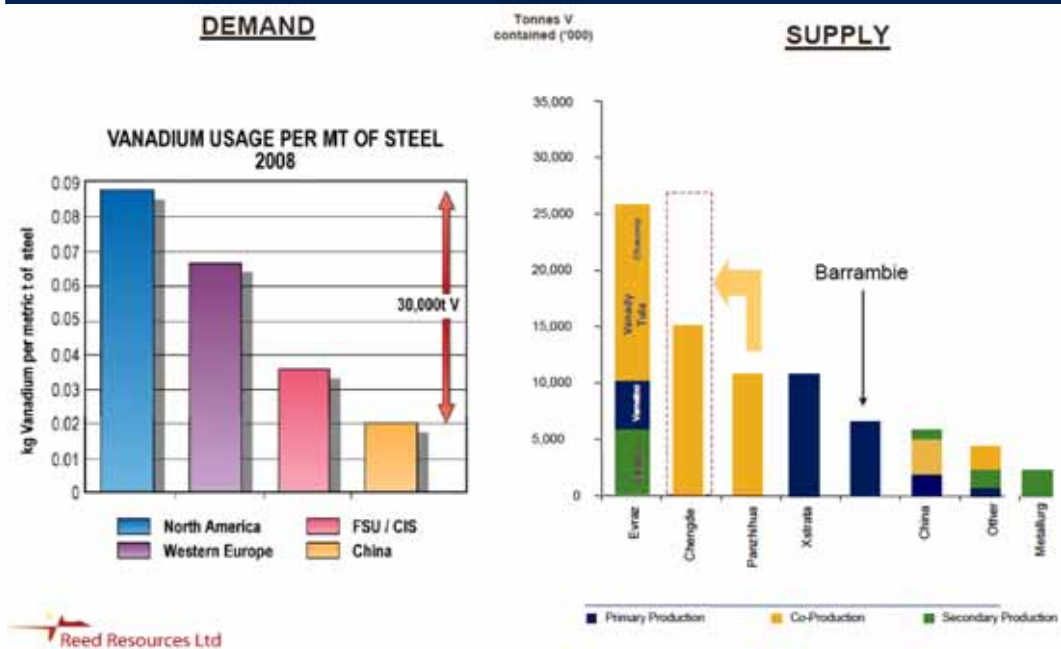
Gold has also benefited from record investment demand aided by the emergence of dedicated investment vehicles such as ETFs; production declines in traditional mainstays such as South Africa, as well as internalisation of production from emerging jurisdictions such as China. We believe that the macro-economic factors, highlighted by the ongoing "quantitative easing" in Europe and the US, remain supportive for gold. Some suggest that an improving US economy will erode demand for precious metals as an alternative investment, however, we suspect that then inflation risks will re-emerge and the structural problems in the sovereigns and the financial system are not yet fixed.

The Vanadium Market

About 85% of vanadium is used in hardening steel alloys. The Vanadium market has become very volatile since Chinese steel production began to dominate the expansion of total world steel output. The growth of both steel output and the improvement in quality required by regulators in China is expected to keep prices well supported in the vanadium market because more Vanadium in steel means stronger steel. Notably, over the last decade China has also become the main producer and consumer of vanadium. Chinese demand for vanadium increased by 13% per annum between 2003 and 2009 as steel output rose, according to Roskill. We are using a relatively conservative long-term real price of \$30/kg.

Future demand is expected to be buoyed by the potential for use in battery production. Vanadium can be used as a lower cost alternative in fast-charging batteries in an array of applications from electronic devices to hybrid and electric automobiles and also as energy storage for renewable energy such as solar, wind and power generation. It is currently used in Vanadium Redox Batteries (VRB) in large (1MW+) units but in the future the Lithium Vanadium battery is the next step from the Lithium-Ion battery because of its higher voltage and energy density.

Figure 12: The Vanadium Market



Source: RDR

RDR Capital Structure

Reed is listed on the ASX with 193m fully paid ordinary shares, giving a market capitalisation of \$115m. There are 20.45m options outstanding which are held by Directors and employees and have various strike prices from \$0.75 up to \$1.20 per share, and exercise dates up to December 2013. The company has no debt, and at last report had \$4.4m in cash excluding bonds and security deposits.

Directors and Senior Management

David Reed, Executive Chairman

David was born and raised in Kalgoorlie. He commenced stockbroking in 1963, qualified as an accountant in 1967 and became a member of the Perth Stock Exchange in 1971. His firm RW & DJ Reed merged with TE Eyres in 1981 and became Eyres Reed Ltd which was subsequently purchased by CIBC Wood Gundy in 1997. David was a director and Chairman of CIBC Australia Limited. David has been a prospector, former secretary of the Amalgamated Prospectors and Leaseholders Association and private mine owner. In 1984 David founded Mt. Martin Gold Mines NL, which with partner Newmont Australia developed the million ounce New Celebration Gold Mine. Mt. Martin merged with nickel producer Titan Resources NL (ASX Code:TIR) where David was Chairman from 1991 to 1997. In 1998 David was admitted as a Fellow of the Certified Practising Accountants. In recognition of his service to the community he was awarded the Order of Australia Medal in 2002.

Steven Cole, Deputy Chairman

Steven has 35 years of professional, corporate and business experience through senior legal consultancy, as well as a range of executive management and non executive appointments. His extensive boardroom and board sub-committee experience includes ASX listed, statutory, proprietary and NFP organisations covering the industrial, financial, educational, professional services, health and resources sectors.

Christopher Reed, Executive Director

Chris started in the mining industry in 1990 and co-founded Reed Resources in 2001. Chris holds a Bachelor of Commerce from the University of Notre Dame and a Graduate Certificate in Mineral Economics from WA School of Mines. He is a Member of the AusIMM and Vice-President of the Association of Mining & Exploration Companies.

Peter Collins, Non-Executive Director

Peter has over 25 years experience as a geologist in Tasmania and Western Australia. Peter holds a Honours degree and Doctorate in Geology from University of Tasmania. Peter joined Curtin University of Technology in 1987 where he lectures economic geology. Peter was responsible for the discovery of the Sand George deposit at Comet Vale and brings considerable experience in quality geological investigations.

Ian Junk, Non-Executive Director

Ian joined the board in December 2003. Ian is a highly respected mining engineer with considerable experience in narrow vein underground mining and project development. Ian holds a Honour degree in Mining Engineering from the Western Australian School of Mines and a First Class Mine Managers Certificate. Ian was instrumental in the purchase and management of the Miitel and Wannaway nickel mines from WMC for the Miitel Joint Venture, involving Clough Mining and Mincor Resources NL. Ian and his brother Leigh were chosen as national finalists in the 2003 Ernst & Young - Young Entrepreneur of the Year for their successful implementation of innovative mining methods at the Miitel nickel mine. Ian is a member of the Australian Institute of Mining and Metallurgy.

Jason Carone, Company Secretary

Jason holds a Bachelor of Commerce in Accounting and Business Law from Curtin University, WA and has been a member of the Institute of Chartered Accountants since 2000. Jason joined Reed in September 2007 as Financial Controller and in March 2009 was appointed joint Company Secretary. Jason brings to Reed over 10 years experience working in various professional and corporate capacities in Australia and South East Asia.

Financial Summary

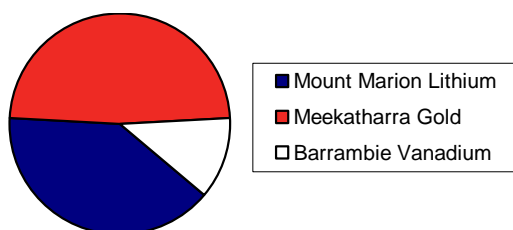
Reed Resources Limited (RDR)

\$0.63

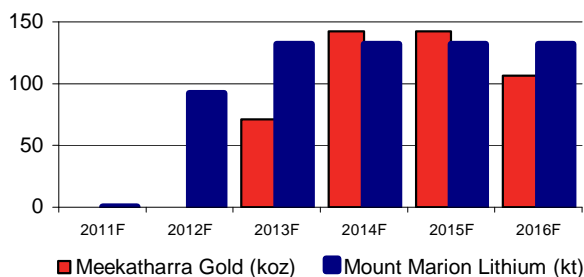
Valuation	A\$m	A\$/sh
Mount Marion Lithium	83.0	0.39
Meekatharra Gold	101.5	0.47
Barrambie Vanadium	25.0	0.12
Exploration	25.0	0.12
Unpaid capital	0.0	0.00
Corporate	(21.5)	(0.10)
Forwards	0.0	0.00
Cash	4.4	0.02
Debt	0.0	0.00
NPV	217.5	1.02
(@ 10% discount rate, 8% for gold)		
Price Target		1.02

Hedging	koz	1-Year	3-year	% Reserve
	0	0	0	0

Valuation Summary of Operating Assets



Production Summary



Reserves & Resources

Resources	Mt	Grade	Au koz
Mount Marion Lithium	10.5	1.4	
Meekatharra Gold	44.7	1.7	2,443
Comet Vale Gold	0.5	10.8	185
Barrambie Vanadium	62.5	0.8	
Mount Finnerty Iron	4.7	53.5	
Reserves			
Mount Marion Lithium	1.5	1.7	
Meekatharra Gold	3.8	3.4	422
Barrambie Vanadium	39.7	0.8	

Directors

Name	Position
David Reed	Executive Chairman
Steven Cole	Deputy Chairman
Christopher Reed	Executive Director
Peter Collins	Non-Executive Director
Ian Junk	Non-Executive Director
Jason Carone	Company Secretary
Substantial Shareholders	
	%
David Reed	21.1
Christopher Reed	2.7
Coal Holding	0.6
Ian Junk	0.5

Commodity Assumptions	2010A	2011F	2012F	2013F	2014F
AUD/USD	0.93	0.98	0.95	0.93	0.80
Gold (US\$/oz)	1093	1336	1321	1308	1034
Lithium (US\$/t)	6,125	6,008	6,106	6,229	6,354
Vanadium (US\$/t)	28,288	29,963	30,529	31,144	31,771

Valuation Sensitivity	+10%	Change
FX (AUD/USD)	0.83	-18%
Gold Price	1.13	11%
Lithium Price	1.11	9%

Production Summary	2010A	2011F	2012F	2013F	2014F
Attributable Production					
Mount Marion Lithium (kt)	0	0	92	132	132
Meekatharra Gold (koz)	0	0	0	71	142
Barrambie Vanadium (t)	0	0	0	0	0

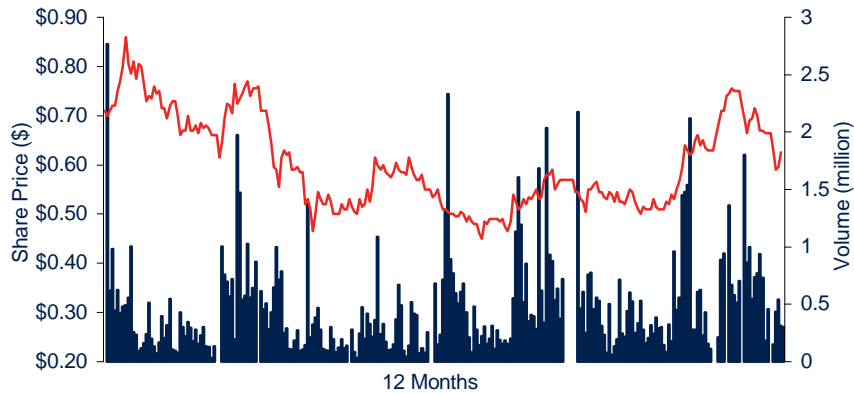
Profit & Loss (A\$m)	2010A	2011F	2012F	2013F	2014F
Sales Revenue	2.9	1.9	29.7	145.1	236.4
Other Income	0.5	(0.0)	0.3	0.5	3.4
Operating Costs	0.9	0.1	18.4	63.5	101.7
Exploration Exp.	0.0	0.5	0.9	1.2	1.6
Corporate/Admin	5.2	4.8	4.9	5.0	5.1
EBITDA	(2.6)	(3.4)	5.9	75.8	131.5
Deprn & Amort	0.7	0.0	0.2	10.9	21.6
EBIT	(3.3)	(3.4)	5.7	64.9	109.9
Interest	0.1	1.2	4.8	5.4	4.0
Operating Profit	(3.5)	(4.6)	0.8	59.5	105.9
Tax expense	(0.8)	0.0	0.0	16.9	31.8
FX Adjustment	0.0	0.0	0.0	0.0	0.0
Abnormals					
NPAT	(2.7)	(4.6)	0.8	42.6	74.1
Normalised NPAT	(2.4)	(3.2)	0.6	41.7	74.1

Cash Flow (A\$m)	2010A	2011F	2012F	2013F	2014F
Adjusted Net Profit	(2.4)	(3.2)	0.6	41.7	74.1
+ Interest/Tax/Expl Exp	(0.7)	1.6	5.8	23.6	37.3
- Interest/Tax/Expl Inc	4.0	7.2	10.9	28.6	42.1
+ Deprn/Amort	0.7	0.0	0.2	10.9	21.6
+/- Other	0.0	0.0	0.0	0.0	0.0
Operating Cashflow	(6.4)	(8.8)	(4.4)	47.6	91.0
- Capex (+asset sales)	0.0	11.0	17.1	7.1	7.2
- Working Capital Increase	0.0	0.6	0.0	0.0	0.0
Free Cashflow	(6.4)	(20.4)	(21.5)	40.5	83.8
- Dividends (ords & pref)	0.0	0.0	0.0	0.0	0.0
+ Equity raised	10.7	7.1	0.0	0.0	0.0
+ Debt drawdown (repaid)	0.0	51.0	17.1	(2.3)	(21.0)
Net Change in Cash	(8.0)	6.9	(4.4)	38.3	62.7
Cash at End Period	1.3	8.2	3.8	42.1	104.8
Net Cash/(LT Debt)	1.3	(42.8)	(64.3)	(23.8)	60.0

Balance Sheet (A\$m)	2010A	2011F	2012F	2013F	2014F
Cash/Bullion	1.3	8.2	3.8	42.1	104.8
Total Assets	57.3	110.6	131.0	181.9	244.2
Total Debt	0.0	51.0	68.1	65.8	44.8
Total Liabilities	3.2	52.6	72.5	81.7	69.9
Shareholders Funds	54.1	58.0	58.5	100.2	174.3

Ratios	2010A	2011F	2012F	2013F	2014F
Net Debt/Equity (%)	na	73.8	109.9	23.7	na
Interest Cover (x)	na	na	1.2	12.0	27.6
Return on Equity (%)	na	na	1.4	42.5	42.5

Recommendation History



Date	Type	Target Price	Share Price	Recommendation	Return
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