SHAW Research

Company Report

21 September, 2007

Reed Resources Ltd (RDR)

Not Rated

Creating a Steel Minerals Business

The recent frenzied bidding war over Consolidated Minerals (CSM) serves to highlight how valuable steel minerals have become in recent times, in an era of massive investment and growth in the global steel business, essentially unimagined ten years ago. What this emphasises to us is the length global commodity traders, resource houses and others are willing to go in acquiring resources to feed the steel industry.

With the global steel industry set to produce more product in the next twenty years than was produced since WWII, we consider it timely to introduce a company which may be well placed to serve the industry in coming years, with its diverse portfolio of assets which are not dissimilar to CSM.

Perth-based Reed Resources (RDR) has quietly been going about its business over the last 5 years, and has made substantial progress. RDR is looking to commence a BFS into the Barrambie Vanadium project later in 2007, where a resource of 24mt@0.82% V_2O_5 has been established. An earlier pre-feasibility study indicated a potential mine life of 12 years, based on 20mlbspa production. An offtake agreement is currently in place with a major trading house covering 10 years of production, anticipated from 2011.

RDR has a 20% interest in Portman Mining's Mt Finnerty iron ore project, where the Company believes resources of some 30mt may be delineated, with good potential to provide significant cashflow to RDR in coming years.

At Comet Vale in WA, RDR are currently mining high grade gold in a 50% JV with private company Kingrose, and have a JV with Western Areas (WSA) over the Mt Finnerty nickel tenements. WSA has recently announced an A$3m regional exploration budget, following up highly anomalous nickel-copper geochemical targets and nickel intersections from previous RAB drilling.

Whilst it may appear to many investors that the Barrambie project is high risk, in an environment where assets are scarce and as we have seen, competition often fierce, it is worth being aware of companies with potential to service the steel business. Reed Resources could be well placed.

Whilst we have refrained from making a specific recommendation at this point, we will be keeping an eye on developments with interest.

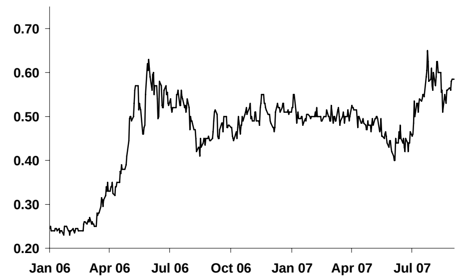
FY 30Jun US$M	2008 (F)	2009 (F)	2010 (F)	2011 (F)	2012 (F)
V_2O_5 Prod (Mlbs)	0.0	0.0	14.3	21.4	21.4
Price (V_2O_5; US$lb)	5.5	5.0	5.0	5.0	5.0
Revenue (US$m)	13.2	16.7	20.2	93.5	127.7
EBITDA (US$m)	5.9	6.7	10.1	47.9	61.4
Op. Cash. (US$m)	6.7	10.7	40.0	42.3	46.5
NPAT (US$m)	3.6	7.6	28.1	32.6	37.2
-EPS (US$cps)*	6.1	5.6	5.9	13.2	14.5
-P/E ratio: Diluted*	11.1	10.6	4.7	4.3	3.8

*Allows for progressive dilution towards issued capital in 2010 of 250m shares. Conceptual financial model only.

Investment Summary

Share Price $ps	$0.62
Target Price $ps	NA
Materials	
www.reedresources.com	
Issued Capital M	103M
Market Cap $M	$60M
Gearing	NA
Analyst Name	Geoff Muers

Share Price Chart



Year Hi-Lo $ps	$0.69 - $0.38
Avg Monthly Vol (M)	0.2

Shareholders	%
Reed, D J	20.0%
RAB Special Situations (Master) Fund	6.4%

Company Activities

RDR is a mineral exploration/development company with projects located within the Yilgarn Craton in Western Australia.

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55 Phillip Street Parramatta NSW 2150 Tel (02) 9891 5644

Steel Minerals & CSM

Only weeks ago brokers were valuing CSM not far north of $2.00, with even the Company's own independent expert valuation touting a mid-range valuation of $2.55ps. Now, with yet another bidder emerging, the shares have more than doubled from where there were just months ago.

Strategic value of assets not understood by market

No doubt many have been shaking their heads in amazement at the lengths global commodity traders, resource houses and others are willing to go in acquiring minerals and mines to feed the steel industry. The strategic importance of many assets appears not fully understood by the market, with buyers willing to pay a multiple of what fundamental valuation techniques may indicate is fair value. CSM has a relatively unique portfolio of assets, with nickel, manganese, chromite and iron ore interests. For those not aware, CSM produces around 10% of the world's seaborne manganese trade (0.9mt), 2.5% of the world's chromite (0.25mt) and 4kt of nickel per year. It also has investments in base metal producer Jabiru Metals (JML) iron ore hopeful BC Iron (BCI) and Pilbara Iron Ore (50% FMG) . Future plans include expanding nickel production towards 15ktpa.

Barrambie Vanadium (RDR 100%)

RDR acquired the project from Precious Metals Australia (PMA) in 2003, and released the results of a pre--feasibility study (PFS) in February 2006, indicating a potential mine life of 12 years, 20mlbspa production (10000t) and NPV of $A379m based on capex of A$256m and opex of A$2.67/lb. The titaniferous magnetite is similar in metallurgical structure to PMA's Windimurra ore. PMA plan to produce around 6400t of ferrovanadium and 1000t of vanadium pentoxide from mid 2008, and they have a present market cap around A$200m.

We expect the project dynamics have changed since the PFS in light of rising industry costs, however based on recent announcements it appears the Company is revising mining plans which could see it process higher grade ore at a lower tonnage, thus going some way to preserve the cost/benefit relationship. Due its visual clarity, the ore is easily recognisable and we consider the proposal of minimising dilution at the feedstock level feasible.

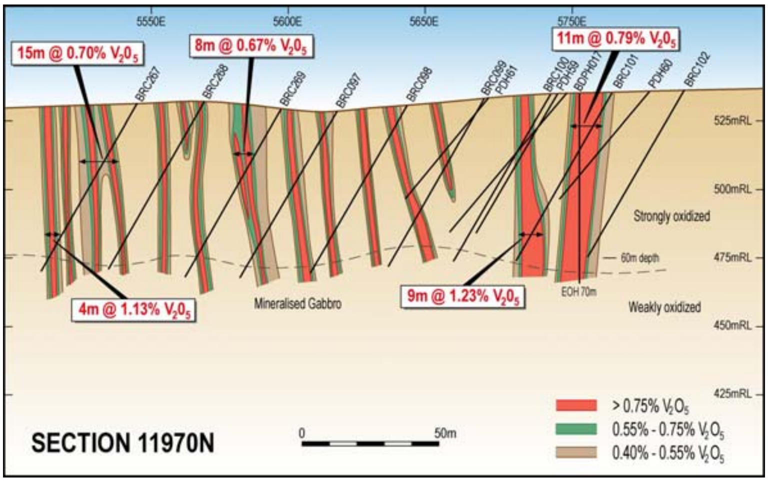
Marketing agreement in place with major metals trading house

Recent metallurgical testwork indicates V_20_5 concentrate grades of 1.68% are achievable, with 64% mass recovery. The processing is conventional, with crushing, grinding and gravity/magnetic separation. The concentrate is then subject to salt roast-leaching, producing vanadium pentoxide.

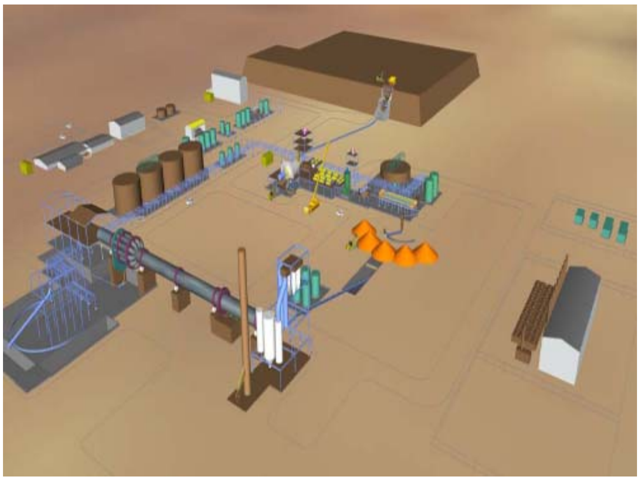
An offtake agreement is currently in place with a major trading house covering 10 years of production, which is not anticipated until 2011. RDR may need to raise some money to finalise the BFS into the Barrambie Vanadium project by June 2008

We have undertaken to prepare our own financial model on Barrambie, and have assumed production at a rate of 1.5mtpa, with a head grade of 0.81%. Recovery is estimated at 80% to produce 9700t of V_20_5 or just over 21mlbspa. Capital cost is estimated at $US200m (A$247m) based on a 1.5mtpa plant capacity. This compares with PMA's A$300m plant with >3.5mtpa capacity.

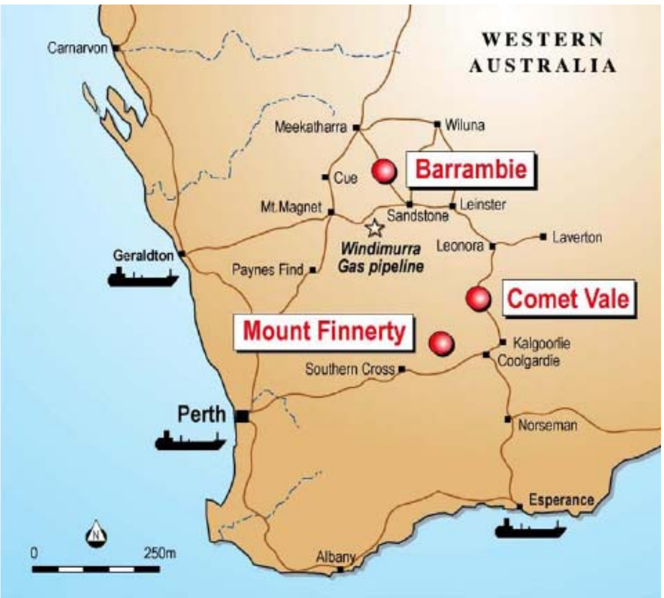
The 2006 PFS estimated operating costs of around A$2.67/lb of contained vanadium, however we have upgraded our operating costs to reflect the continued inflation across the industry. We have adopted A$3.12/lb of recovered vanadium as a reasonable number, 20% above previously estimated costs. This works out at US$35/t of ore mined.



Steeply dipping, narrow magnetite bands hosting V_20_5



PFS plant design (2006)



Portman JV (RDR, 20%)

In February 2005, RDR entered into a JV with Portman Mining to explore for and develop iron ore resources at the Mt Finnerty Project, where 30km of banded iron formation is present along strike, similar to that mined by Portman at Koolyanobbing, 80km to the north-west. RDR have elected to maintain their interest at 20% by contributing towards drilling, with a new program to commence shortly.

Portman has stated they are targeting small deposits of between 5-10mt within trucking distance of their existing operations, with geophysics and RAB/RC drilling undertaken revealing the potential for significant channel iron deposits within the tenements.

The ore within RDR's leases is comparatively low in phosphorous, and well suited to blending with Portman's existing ore. The JV has accelerated work on the project, and RDR believes they will be in a position to make a decision to mine in 2008, with likely rate of mining to be between 1mtpa and 2.5mtpa initially.

Whilst resources are yet to reach JORC compliance, drilling is underway shortly to prove up an initial 10mt of direct shipping haematite ore. In addition, the Company believes the tenements may host significant deposits of detrital/alluvial and channel iron deposits.

The anticipated margin to RDR is forecast at around A$4-5/t of ore sold, with potential to generate cashflow of A$5-10mpa.

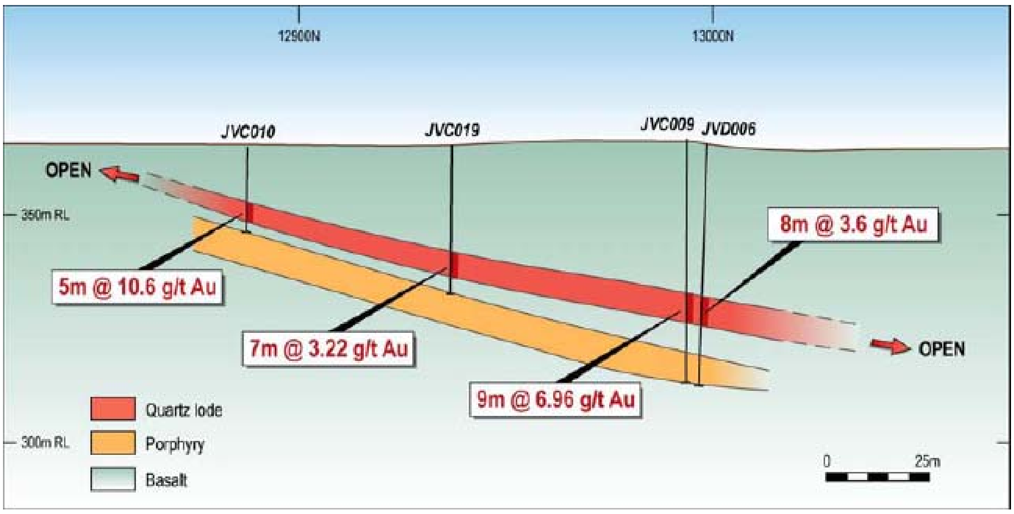
Gold Projects (RDR, 50%)

Underground mining at the Sand Queen gold mine continues, with full production currently underway at a rate of 20000kozpa. The last gold pour was in August 2007 with recent cash costs per ounce are reported at around A$450, leaving a healthy margin at recent prices. Total resources established at the project are just under 360kt at a relatively high grade of 12g/t Au. Total contained ounces are approximately 136koz, which represents 100% growth since 2006, at a discovery cost around A$7/oz.

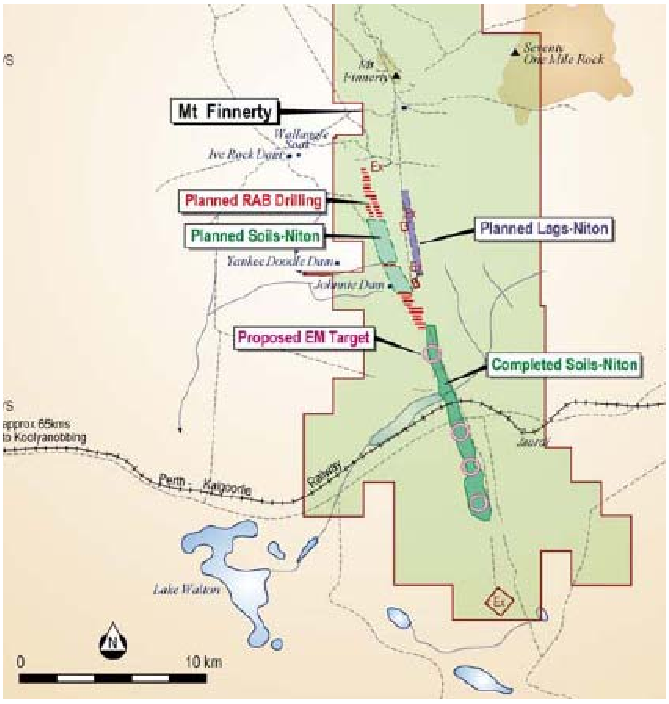
Resources are currently open at depth, and along strike with exploration ongoing. RDR's JV partner, private Company Kingrose is planning to list on the ASX at some stage, and has a right to earn 60% of resources below 242m depth.

A shallow, potential open-cut resource of around 25koz has been delineated (334kt@2.4g/t), with studies currently underway on the best approach for development (Diagram below).

We believe the gold project is a minor component of RDR's assets, and in the future decisions will likely need to be made as to future ownership or expansion plans. In the meantime, the project has potential to generate cashflow up to A$5mpa to RDR, and is not anticipated to place any near-term stress on the company's finances. Exploration potential is good.



Cross-section of the Princess Grace deposit



Mt Finnerty Nickel (RDR, ~35%)

Western Areas (WSA) are presently earning 65% of nickel rights in the Mt Finnerty district, the focus of a recently announced A$3.0m funding package to accelerate exploration on underexplored anomalous nickel prospects. WSA is a top-200 Australian company, listed on both the ASX and TSX.

Under the deal announced in February 2007, WSA can earn an initial 51% of the nickel rights after expenditure of A$1.5m, with a further 14% on expenditure of an additional A$1.5m. It is anticipated the earn-in will be achieved in substantially less time.

Exploration work planned prior to Christmas includes detailed soil sampling to follow up four Ni-Cu anomalous areas coincident with the ultramafic/basalt contact over a 10km strike length, ground IP/EM and where suitable, programs of RAB and angled RC drilling.

Other targets include earlier shallow RAB drilling revealed nickel and copper (up to 1%Ni and 0.4% Cu) in strongly weathered ultramafics, and favourable geological settings where intact basal contacts with interpreted embayments remain untested by previous drilling.

Geologically, the primary targets are basal contacts of high-MgO ultramafic sequences, considered highly prospective for nickel. The targets are mostly untested since earlier limited shallow drilling was carried out for gold some time ago.

To date, work has involved compilation of processing of geophysical data, including aeromagnetics, refinement of soil sampling and EM targets along with target generation and planning of drilling campaigns.

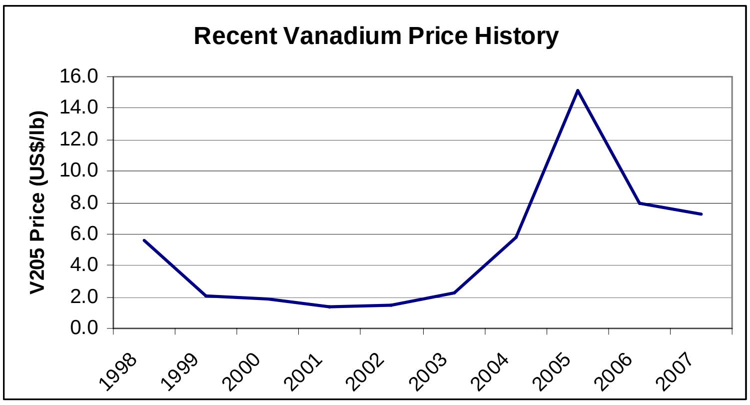
Drilling is anticipated in 3Q/4Q 2007.

Vanadium Market

The largest vanadium producer in the world is Highveld, producing 70,000kt @ 0.22% of Vs05 in slag. In 2006 Highveld's profit was down 31% with profits from vanadium and ferroalloys, despite the price being double the long term average. The EU has directed Evraz, who recently took over Highveld, to sell the vanadium division, and many of the synergies may be lost according to commentary.

Much of the Chinese production is via small operations, which are heavily taxed. At prices much below current levels these producers are deemed to be uneconomic due to the high production cost.

Vanadium demand is forecast to grow by an annualised rate of between 5% and 7% until 2015, linked to increasing demand for steel, intensity of use in developing countries, and continued strong growth in the aerospace market. Once re-substitution (from niobium) and closure of small polluting plants and producers are added to the equation, demand may again outstrip supply, causing short term shortages and strong pricing in the future.



Management & Board

RDR is lead by Chris Reed, with 14 years experience in the mining business and degrees in commerce and mineral economics. Prior to co-founding RDR in 2001, Chris has held various commercial responsibilities within mining companies in Western Australia and worked in the finance industry.

Executive Chairman and co-founder is David Reed (OAM), a well known WA identify and former stockbroker, supported by non-executive directors Dr Peter Collins, a geologist with over 25 years experience and Ian Junk. Ian is a mining engineer who developed the miitel nickel mine, later sold to Mincor.

Barrambie vanadium: Sensitivity

NPV@10% ($Am)*		V205 Price ($US)		$/share**
$	94	$	4.50	0.38
$	**172**	**$**	**5.00**	**0.69**
$	250	$	5.50	1.00
$	327	$	6.00	1.31

*Assume capex of A$250m, opex of A$3.12lb. AUD 0.80. **Based on estimate of 250m issued capital.

NPV Summary (conceptual)

	A$/share*	A$m
Barrambie	0.69	171.5
Gold Projects (50%)	0.11	27.3
Portman JV	0.21	52.5
Nickel Exploration	0.04	10.0
Cash	0.01	3.0
Debt	0.00	0.2
Tax/Corporate	-0.32 -	80.5
Total	**$ 1.06**	**$ 184**

*High risk valuation. Assumes long term vanadium at US$5.00/lb. Based on future fully diluted shares of 250m shares (currently 97m).

Outcrop of the Barrambie vanadium deposit

Valuation methodology

Our valuation methodology primarily concerns the Barrambie Vanadium project and is high risk in that we are pre-empting the results of the BFS, due out in 2008.

We have taken some of our assumptions from the PFS released this year, and combined this with recent metallurgical testwork results, and indications from the Company regarding potential operating and capital costs.

Based on our assumption of capex of A$250m, and opex of around US$2.45 per pound of recovered V_20_5 (US$35/t ore processed) we value the project at around US$140m (or $A172m@US$0.80) utilising a 10% discount rate. Our valuation is based on a long term price of US$5.00/lb for V_20_5, which is below recent pricing closer to US$8.00/lb.

As shown in the sensitivity analysis (adjacent) the valuation of the project is highly sensitive to our price assumption. We have allowed for a 1.5mtpa operation producing approximately 21mlbs of product, over 17 years. Total ore recovered in 25mt to produce 162kt of V_20_5.

Based on our assumptions the project is not particularly robust from an IRR perspective, however there may be potential to increase the production rate, and reduce costs thus providing upside to our valuation.

Our valuation for the Portman JV involves considerable extrapolation from currently identified resources within the tenements. It assumes eventual resources of over 30mt are identified both as banded iron formation and alluvial deposits. Assuming 30mt of iron ore is sold over a 9-10yr period, at an average margin to RDR of US$2.80/t our valuation for the project is around A$50m.

Valuation for the gold project assumes recovery of 130koz over the next 6yrs at a cash cost of US$330/oz. Valuation for the nickel project is subjective only, as shown in the NPV summary (adjacent).

Our valuation is diluted for future capital raisings, including funding of the BFS and capital cost of the Vanadium project. Our assumption is a total of 250m shares on issue by 2010, allowing for around US$100m of equity raised at a share price average of A$1.00. There is a high degree of uncertainty regarding funding structures and timing, particularly around the Vanadium project.

Conclusion

Whilst we consider that it is relatively early days for Barrambie, there is potential for a large amount of news flow in 2008, not just relating to the Vanadium project. The diverse portfolio of assets and strategic nature of the steel-based commodities RDR are involved in mean that the stock may attract a higher degree of attention as projects move forward.

We recognise that RDR represents a high-risk investment, and we have taken a degree of license with projected revenues and forecasts, particularly for the iron ore project. As such, the assumptions we have utilised in our valuation and commentary are subject to a high degree of variation as the Company works through the details leading up to finalisation of the BFS for Barrambie, and progression of both the iron ore and gold projects.

Whilst the risk is acknowledged, the solid shareholder base, agreements with major companies and diversity of the portfolio means the Company appears well placed to progress development of all projects over the coming twelve months. Access to cashflow from the gold project, and limited spending through the JV arrangements mean future capital raisings should be put to good use.

Investors in Reed Resources have enjoyed significant gains over the last twelve months, and with drilling ongoing, and a favourable outlook for a number of commodities the Company is involved in, investors may continue to see further gains into 2008.

Due to the uncertainties regarding the timing and development of projects, and the significant level of supposition incorporated into our valuation, we are prevented from making a specific recommendation regarding the stock at this point, however will be keeping an eye on the Company going forward. Primarily related to market capitalisation, on-market daily liquidity is limited.

Company Directors

Mr David John Reed (Ch)
Mr Christopher John Reed
Dr Peter Lionel Fleury Collins
Mr Ian Junk

Company Activities

Reed Resources Ltd (RDR) is a minerals exploration company with projects located within the Archaean Yilgarn Craton in Western Australia. The company's main focus is on the exploration of the Comet Vale Gold Project.

Information for Company Activities is sourced from Huntley Investment Information Pty Ltd.

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