

## This Week

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## Reed Resources - New Vanadium Player (RDR)

### Capital Structure

ASX Code	RDR
Shares	97 m.
Options	8 m.
Cash (est)	5 m.
Share Price	\$ 0.61
Market Cap	\$ 58.7 m.

### Recommendation:

*Reed Resources represents a speculative buy.*

Reed Resources' Barrambie vanadium project holds significant potential to add value for its shareholders. Vanadium has been a fickle commodity for smaller companies with a relatively small world market and strong commodity players. A booming steel industry,

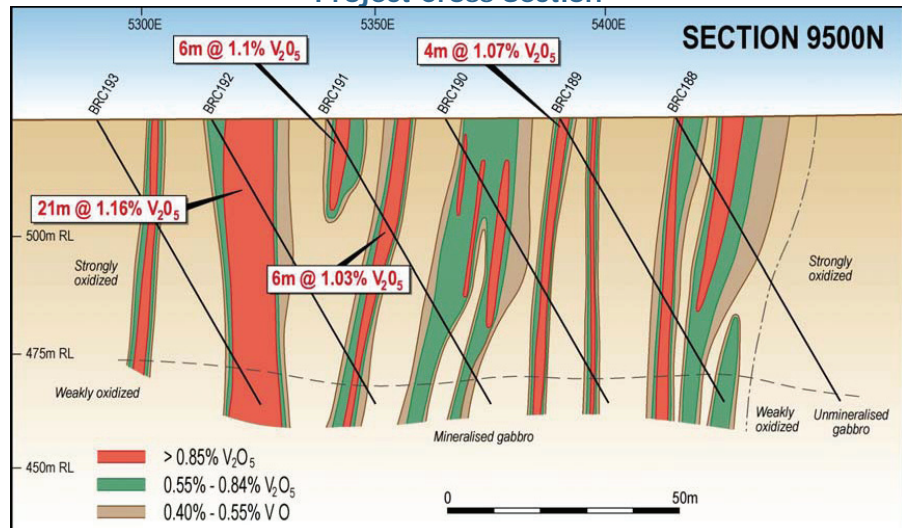
especially in Asia opens up an opportunity for a low cost new entrant. Recent drilling shows wide zones grading +1% V<sub>2</sub>O<sub>5</sub> and with continuity along an 11 kilometre mineralised structure, the project is not resource constrained.

The company has structured gold project development and production at its Comet Vale project so as to limit its downside. The market will be watching to see if sustained and profitable production can be established as new stopes are opened up for production, so as to deliver a targeted \$4-5 m pa.



Source: Reed Resources Ltd.

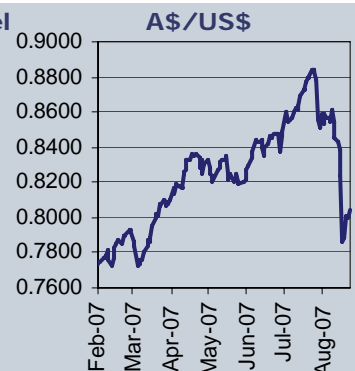
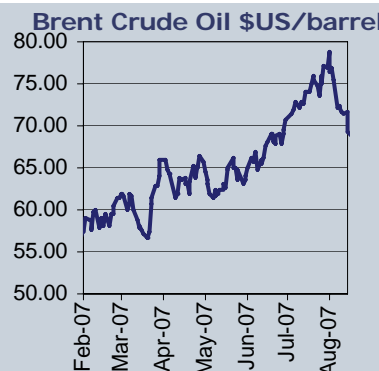
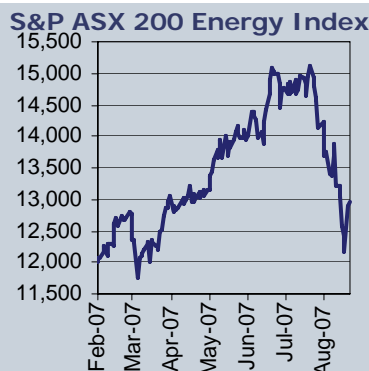
### Project Cross Section



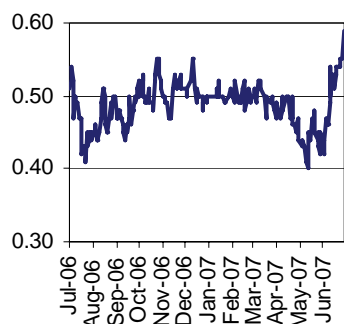
Source: Reed Resources Ltd.

(Continued on page 2)

Indices & Prices	
All Ordinaries	5,997.40
Energy Index	12,965.40
Brent US\$/bbl	67.82
AUS\$/US\$	0.8043
As at Close August 22nd	



**Reed Resources Special  
August 23rd 2007  
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Joint venture funding for nickel and iron mineralisation limits cash outflow. Development of a direct shipping, hematite operation could contribute \$2-4 million tonnes pa to the company, post 2010. These assets hold potential to provide good, medium term cash flow and add to the overall valuation story.

**Vanadium**

Reed Resources is working towards a feasibility study which could see it develop a 9,000 tpa V<sub>2</sub>O<sub>5</sub> operation by early 2011. Internal project economics indicate low operating costs and an NPV of A\$370 million. The company is funded for its current phase of feasibility work.

**Gold**

Its Comet Vale mine could provide useful early cash flow as gold production ramps up, while exploration in the region indicates several prospects for further drilling and the potential for vat leaching of open pit ore.

**Iron Ore**

Up to 10 million tonnes of iron mineralisation is being targeted at 20% held Mt Finnerty project by JV partner Portman, with a view to mining 1 mtpa within 2-3 years, to blend with its nearby Koolyanobbing ore.

**Exploration**

The company control a huge permit in the prospective Musgrave region where early geophysical studies followed by ground sampling could lead to a farm-out for detailed exploration.

**Risk Adjusted Target Valuation**

Asset	\$m
Comet Vale Mine	8.5
Comet Vale Open Pit	0.5
Comet Vale Exploration	1.9
Barrambie *	120
Mt Finnerty Iron	8.4
General Exploration	8.0
Corporate + Cash/Options	-0.5
	<u>147</u>

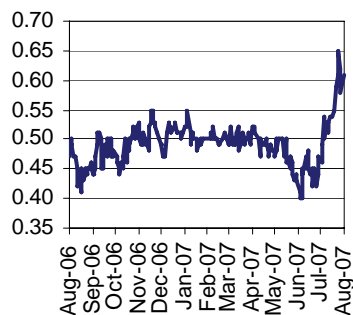
**Valuation**

StockAnalysis calculates a risk adjusted target value of around \$147 million, which compares favourably with its current market capitalisation of just \$59 million.

If Barrambie were to meet the company's timeline for development ramping up production through 2011, at a vanadium oxide price of A\$7/lb, the project could see Reed deliver full year earnings after tax of around \$32 million in 2012. Capitalising profit at 9 times and discounting at 12% pa, produces a discounted capitalisation target value of \$182 million for the company.

\*Risked at 40%

Source: Strachan Corp. Pty Ltd.



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## Reed Update (RDR)

The Reed Resources' quarterly report reveals progress at its Mt Finnerty iron and nickel projects, while drilling at the Barrambie vanadium project has outlined large areas of relatively high grade material with a V<sub>2</sub>O<sub>5</sub> content of around 0.9%.

At Mt Finnerty, Portman achieved a huge coup by earning an 80% interest in iron ore rights by spending just \$300,000. This must be the deal of the decade for Portman, since the project area looks set to yield at least 10 million tonnes or high grade hematite for blending with its Koolyanobbing mineralisation. Reed was not in a position to develop a standalone project at Mt Finnerty. Effectively giving 80% of the area to Portman, so that the project could go ahead, ultimately made sense to Reed and should see both companies benefit, though Reed will now be heads up at 20% for future evaluation work.

The Barrambie project has lost its initial technical project leader, since he moved on to float his own company, but a new project leader has been appointed. One of the challenges faced by Reed is to man-up this project in an environment where skills are at a premium.

**Reed is cashed up to complete a feasibility study on Barrambie by mid 2008 and will be trying to position itself for project funding by that time.**

## Reed Resources Moves on Barrambie (RDR)

On 25<sup>th</sup> of July, StockAnalysis outlined advances being made by Reed Resources on several fronts. Predictably, the company saved some good news for the Diggers & Dealers, when it announced an initial estimate of Mineral Resources by Snowden Mining Industry Consultants Pty Ltd for its Barrambie Vanadium Project. These calculations confirm Barrambie as a high grade deposit with 0.82% V<sub>2</sub>O<sub>5</sub> using a 0.5% V<sub>2</sub>O<sub>5</sub> block cut off. This is the highest grade of any of the major vanadiferous magnetite deposits in Australia. The total Indicated and Inferred Mineral Resource is estimated at 23.6 Mt at 0.82% V<sub>2</sub>O<sub>5</sub>, 17.9% TiO<sub>2</sub> and 48.5% Fe<sub>2</sub>O<sub>3</sub> at a block cut off grade of 0.5% V<sub>2</sub>O<sub>5</sub>. If a block cut off of 0.3% V<sub>2</sub>O<sub>5</sub> is applied there is a substantial increase in tonnage to an estimated 79.8 Mt but at a much reduced grade of 0.50% V<sub>2</sub>O<sub>5</sub>. The company continues to drill out its 11 kilometer long zone of mineralisation and is undertaking pilot plant processing trials to formulate a final metallurgical process route.

Metallurgical work so far has achieved a 22% increase in concentrate grade to 1.68% V<sub>2</sub>O<sub>5</sub> and a 77% increase in mass recovery to concentrate to 64%.

### Contact

Peter Strachan:  
Pex Publications:

[Peter@stockanalysis.com.au](mailto:Peter@stockanalysis.com.au)

[oilinfo@pex.com.au](mailto:oilinfo@pex.com.au)

5/1 Almondbury Rd Mt Lawley, WA 6050

Tel: 08 9272 6555 Fax: 08 9272 5556

Website: [www.stockanalysis.com.au](http://www.stockanalysis.com.au)

[www.pex.com.au](http://www.pex.com.au)

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