

Transocean is pleased to provide investors with an update of Reed Resources Ltd's (ASX: RDR) activities for the month of January as well as outlining some key events which we expect will produce exciting news flow for Reed shareholders over the coming months.

#### Highlights from Quarterly Activities Report

- **Vanadium**
  - Commenced Phase 2 of DFS at Barrambie
  - Exceptional metallurgical recoveries from roast-leach test work results
  - New project manager appointed
- **Iron Ore**
  - Completion of Initial drilling program of 240 RAB/AC holes for 4,619m
  - Successfully tested interpreted paleochannels with near-surface iron enrichment in several of the drill-tested channels
- **Nickel**
  - Completion of intensive bedrock RAB drilling (126 holes for 3,956m) over 2.8km strike at the highly prospective Richies Reward prospect
  - Ground EM/IP surveys over the most anomalous ground are being used to identify specific geophysical targets for follow up RC drilling
- **Gold**
  - Ore production ramp-up continuing including completion of 3 Level access through the Sand George lodes
  - Preliminary results from treatment of a 4,000t ore parcel indicate significantly higher grades than any of the previous ore parcels
- **Corporate**
  - Key aspects of Barrambie Vanadium Project completed
  - Reed has a significant working capital position with \$14.5 million in cash
  - Reed has no debt

#### Upcoming Highlights

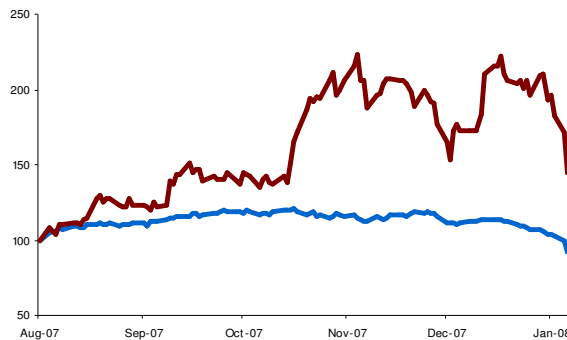
- **Vanadium**
  - Barrambie revised resource – March 2008
  - Barrambie reserve – May 2008
- **Iron Ore**
  - Drilling program over high priority FIN 9, 10 and 11 targets – February 2008
  - Drilling program over prospective channel iron deposits – June 2008
- **Nickel**
  - Preliminary results on high priority nickel sulphide targets – 1<sup>st</sup> Quarter 2008
- **Gold**
  - Gold crush – late January 2008
  - Resource expansion drilling program – July 2008



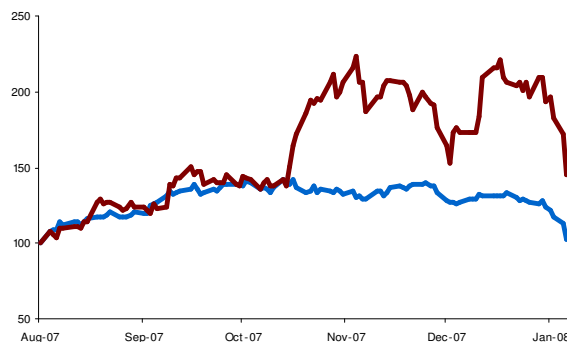
### Reed Continues to Outperform the Market...

Reed continues to outperform both the S&P/ASX All Ordinaries and S&P/ASX 300 Metals & Mining indices into the new calendar year despite concerns about the US economy and tightening in global credit markets (see charts below).

**RDR vs. S&P/ASX All Ordinaries**



**RDR vs. S&P/ASX 300 Metals & Mining**



While equity markets have now taken a breather from their spectacular run over the past few months, companies with sound projects continue to attract capital and strong support from investors. Windimurra Vanadium Limited (ASX: WVL) is testament to this fact having recently secured A\$145 million in debt funding from Merrill Lynch and Noble Group for the development of their Windimurra Vanadium Project.

This bodes extremely well for Reed as the Barrambie is the highest grade of any major vanadiferous deposit in Australia (nearly double that of Windimurra), Reed will be one of the lowest cost primary producers of vanadium pentoxide in the world and Reed also has a marketing agreement in place with the world's largest buyer of vanadium.

This setting provides Reed shareholders with a unique opportunity to be part of a diversified, well funded and highly focused company positioning itself to be an important supplier of steel inputs into China and on course to be one of the lowest cost producers of vanadium in the world

## Market Psychology 101...

Over the past few months the S&P/ASX All Ordinaries Index has provided a perfect example of irrational investor behaviour:



Source: IRESS

On the 22<sup>nd</sup> of January 2008 the S&P/ASX All Ordinaries Index experienced its single largest decline since the crash of October 1987. At the end of trade the S&P/ASX All Ordinaries Index dropped 408.9 points or 7.26% which translates to \$110 billion in value wiped out in a single day.

Selling on the Australian market was kicked off by the US sub-prime mortgage crisis which has led to tightening across global credit markets. This selling was then exacerbated by increasing fears and media speculation of a US-led recession based on weakened US manufacturing and economic data.

These factors coming out of the US, combined with heavy selling throughout Asia and Europe, have created an environment ripe for panic selling where any news is seen as bad news and investors turn away from company fundamentals and trade on panic, emotion and the desire to limit their short-term losses. Transocean believes that this environment of fear and volatility is likely to remain in the short-term.

Whilst it is likely a global equity correction was due, the massive losses suffered since the market high on 1<sup>st</sup> November 2007 provides a genuine contrarian investment opportunity to those investors with cash and a long-term belief that the commodity boom is here to stay. Transocean believes that the commodity cycle is still in an early stage.

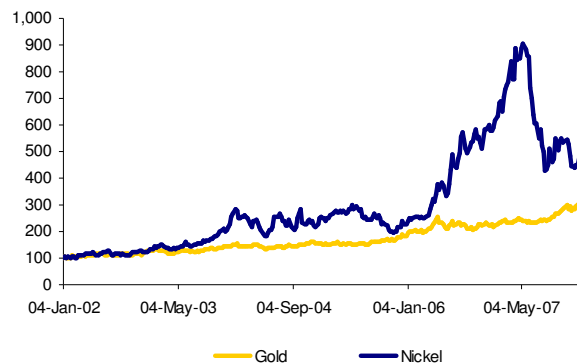
### Market Psychology 102...

Below is a list of ASX-listed mid- and large-cap mining companies who have experienced large declines in share price since their 2007/08 peak and the market high on 1<sup>st</sup> November 2007. All of these companies (ex Grange) are stable producers.

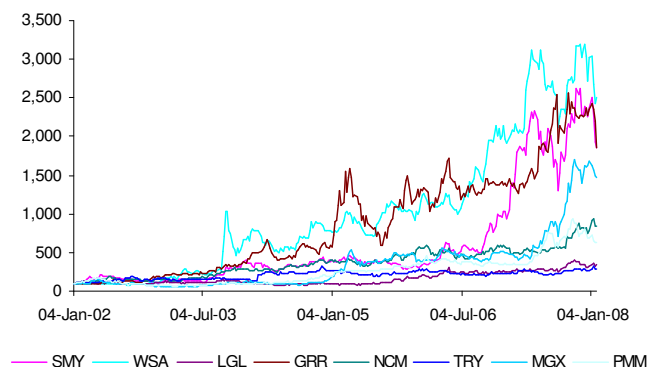
ASX CODE	NAME	SHARE PRICE	DoD CHANGE	JAN 1 LOSS	MARKET HIGH LOSS (NOV 1 07)	PEAK	VALUE	PEAK LOSS	COMMODITY
RDR	Reed Resources	\$0.74	-15%	-33%	-12%	20-Nov-07	\$1.14	-35%	GOLD/NICKEL/IRON ORE
SMY	Sally Malay Mining	\$3.65	-10%	-32%	-40%	01-Nov-07	\$6.12	-40%	NICKEL
ZFX	Zinifex	\$8.40	-12%	-32%	-50%	09-Jul-07	\$21.32	-61%	ZINC & LEAD
WSA	Western Areas	\$3.84	-19%	-30%	-35%	19-Nov-07	\$6.15	-38%	NICKEL
LGL	Lihir Gold	\$3.00	-14%	-17%	-30%	29-Oct-07	\$4.42	-32%	GOLD
GRR	Grange Resources	\$2.12	-9%	-21%	-17%	14-Aug-07	\$2.86	-26%	EXPLORER
NCM	Newcrest Mining	\$31.74	-10%	-4%	-5%	09-Jan-08	\$39.28	-19%	GOLD
TRY	Troy Resources	\$2.89	-6%	-9%	-12%	15-Jan-08	\$3.90	-26%	GOLD
MGX	Mount Gibson Iron	\$2.10	-14%	-25%	-27%	31-Oct-07	\$2.97	-29%	IRON ORE
PMM	Portman	\$8.00	-10%	-24%	-41%	31-Oct-07	\$13.55	-41%	IRON ORE
MMX	Murchison Metals	\$2.33	-18%	-33%	-57%	24-Jul-07	\$6.02	-61%	IRON ORE

Source: IRESS (close of market 22<sup>nd</sup> January, 2008)

What sets these companies apart is the fact that the decline in their market value far outweighs any change in the price of the commodities they produce. For example, during this period the nickel price has continued to remain steady whilst the gold price has experienced further strengthening.



In comparison, six of the above companies that have operated since January 2002 have all posted strong returns yet declined significantly during the previous three months.



## The China Growth Story...

In a recent research note to investors, Charlie Aitken of Southern Cross Equities succinctly noted that the US economy never initiated the current commodity super cycle and that neither will a US recession result in its demise. Although the US economy remains the largest and most important in the world, it is no longer the case that a cough in its economy will result in a cold elsewhere.

Specifically, there is mounting evidence that BRIC economies are decoupling from the US and are growing through a combination of domestic growth and diversified value-added exports as opposed to solely on US trade. According to a recent IMF report, China and India accounted for approximately 34% and 10% of global real GDP growth, respectively, in 2007 with the US responsible for only 7%. In total, the BRIC coalition was responsible for approximately 50% of global growth.

These factors reflect the reality that economic growth drivers in the 21<sup>st</sup> century are likely to be different to those of the 20<sup>th</sup> century.

### China Quick Facts (source: CIA, BBC)

- **Population:** 1.3 billion
- **Population Growth Rate:** 0.61% (almost half of Australia's population each year)
- **Labour Force:** 803 million
- **Area:** 9.6 million km<sup>2</sup>
- **Foreign Direct Investment:** US\$83 billion (2007, +14% on 2006)
- **Life expectancy:** 70 years (men), 73 years (women)
- **GDP:** +US\$7 trillion
- **GDP Real Growth Rate:** +11% p.a.
- **Industrial Production Growth Rate:** 13% p.a.
- **Main exports:** Manufactured goods, including textiles, garments, electronics, arms

In recent years Chinese growth has been driven by the urbanisation of a massive peasant population. According to Southern Cross Equities, this urbanisation has been supported by growth in fixed asset investment with 26% growth in this sector in 2007 and estimated growth of 23.5% in 2008.

Moreover, as urbanisation in China accelerates and more economically advanced industries begin to develop, its per capita steel demand will undergo large increases not unlike those experienced by Japan in the 1970s which will place additional pressure on such metals as vanadium, nickel and iron ore.

These economic factors provide an alternative perspective on Australian equity markets for investors who believe in commodity strength and the strength of high-quality Australian producers.

For exposure to the China growth story, Transocean recommends Reed Resources, an established gold producer in the final stages of a feasibility study on its flagship Barrambie Vanadium Project, who also offers strong exploration upside from its iron ore and nickel joint venture projects.



## The Reed Story...

When Transocean first became involved with Reed its share price was \$0.40. The share price subsequently rose to a high of \$1.16 as the company developed on the back of strong investor support, a focused and prudent management team, sound project fundamentals and surging commodity prices.

Of specific note, Reed has retained the initial NPV figure on its Barrambie Vanadium project of A\$379 million. Transocean believes this is very conservative given:

1. The project's grade and size has increased to 24Mt @ 0.82% V<sub>2</sub>O<sub>5</sub> making it the highest grade vanadiferous deposit in Australia
2. Exceptional metal recoveries from Barrambie continue to exceed expectations
3. Vanadium prices have increased to over US\$8.00/lb and market indicators continue to suggest demand will outstrip supply in the long term

Reed has also seen significant improvements at its producing Comet Vale gold mine. The project is a JV with Kingrose Mining (ASX: KRM) and additional exploratory drilling is underway alongside an expansion in production from 3,000 tonnes per month to 5,000. This expansion is congruent with the strength in gold prices and will likely provide a boon to Reed's income over the coming year in excess of the target \$5 million per annum.

On the nickel and iron ore front Reed's respective joint venture partners have expanded exploration and ramped up their current work schedules. The Mount Finnerty Iron Ore Joint Venture with Portman Mining (ASX: PMM) has identified multiple targets for large channel iron deposits whilst the Mount Finnerty Nickel Joint Venture with Western Areas (ASX: WSA) has identified high priority nickel sulphide targets over a 10km strike with additional targets expected. Both of these JVs are now being accelerated.

Reed's achievements over the past 12 months have seen the company transform from a small-cap gold producer to a serious contender as a mid-cap diversified miner. Since the US sub-prime mortgage crisis hit global equity markets excess amounts of volatility and emotion has seen speculative investors dump high quality stocks in fear, not because of fundamentals.

Reed is a perfect case in point. As discussed above, although economic weakness out of the US has increased, the voracious demand of the Chinese and other emerging markets has not been sated. Due to this demand, there will be strength in commodity prices going forward into the future which we are already seeing in the price of gold as a safe-haven and expect to see in the price of iron-ore following the yearly contract negotiations between suppliers and international steel mills.

Fundamentals would logically say that there should not be a decline in the share price of companies such as Reed, and if there is, this represents a buying opportunity. Given that significant drilling and work programs across all of Reed's projects will continue over the coming months, providing investors with strong and exciting news flow, Transocean believes Reed Resources represents an excellent buying opportunity for the medium to long term.



### Investment Summary

- **Reed Resources and other similar producers continue to represent good value**
  - BRIC and other developing economies increasing their contribution to International growth and becoming less dependent on the US
  - Strong demand for commodities expected to continue given large investments in civil infrastructure and industrial facilities across emerging markets
  - Current environment of irrational market behaviour may provide astute investors with an opportunity to purchase high quality stocks below their fundamental value
- **Favourable outlook for commodities**
  - Transocean is bullish on gold with analyst sentiment forecasting prices to reach US\$1,000oz in 2008
  - Consensus forecast by global investment banks are for an increase in iron ore prices of 30-70%
  - Whilst nickel has declined from its highs of early-2007, an average forecast price from investment banks of US\$27,000t remains well above historical prices and provides good margins for producers

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- Transocean, its associates, Principals and employees own shares and options in Reed and these holdings can change over time subject to the requirements of the Corporations Act 2001 and other regulatory bodies

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