

ASX Release
21 January 2010

Positive Duchess Paradise Project Pre-Feasibility Study Results

Highlights

- **Positive Pre-feasibility study outcome meets initial concepts**
- **Initial operations of 2Mtpa from trench highwall mining generates:**
 - **IRR of 34% at current coal prices and exchange rates**
 - **NPV = \$88 million at A\$/US\$: 90c and \$161 million at A\$/US\$: 80c**
- **Low capital costs of A\$113 million**
- **Production to commence in 2013**
- **Rey has committed to Definitive Feasibility Study on the trench highwall mining system**
- **Additional conceptual studies of underground operations demonstrate potential for good economics at production rates above 6Mtpa**
- **Studies on the larger underground project are continuing**

About Rey:

Rey Resources (REY) is focusing on the development of its thermal coal properties. It owns coal, oil and gas tenements in the Canning Basin region near Derby in Western Australia that have excellent potential for medium to large scale development. The company aims to create shareholder value through the development of its coal properties and the divestment or joint venturing of its other properties. Rey Resources was listed on the Australian Stock Exchange in June 2006.

1. Duchess Paradise Project Pre-Feasibility Study

Rey Resources Limited (ASX:REY, "Rey Resources") is pleased to announce that the Pre-Feasibility Study ("PFS") on Rey's 100% owned Duchess Paradise Project demonstrates a strong economic case for development.

The Duchess Paradise Project is part of the Company's Canning Basin Coal Project which encompasses over 8,000 kilometres squared in the Fitzroy Trough of the Canning Basin in Western Australia (Figure 1). Duchess Paradise is located approximately 175 kilometres south-east of the port of Derby.

The PFS was prepared by consulting engineer Mr. AJ Lodge (FAusIMM) on the Company's behalf and is based on the 511 million tonne JORC resource that was reported in 2009. It builds on conceptual studies that envisage mining and transport of coal by truck along the Great Northern Highway to the port of Derby and then trans-shipment by barges into larger vessels for export to Asian thermal coal markets.

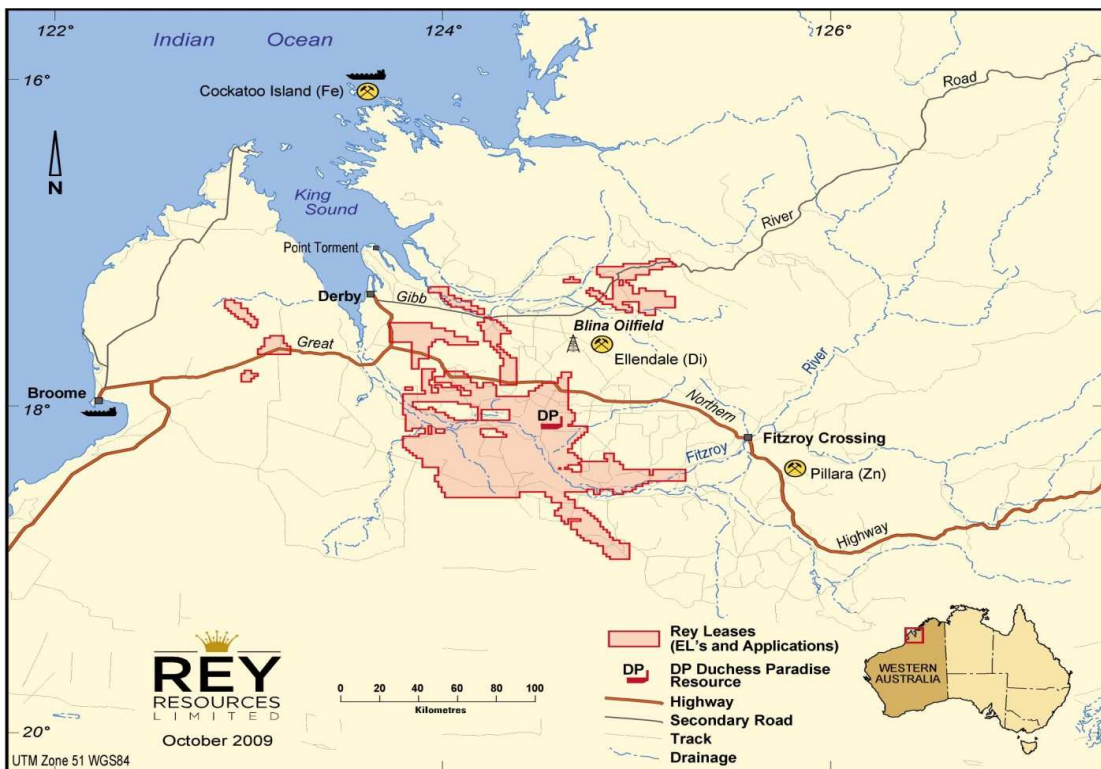


Figure 1: Location of Duchess Paradise Project

Initial Mining Operations

The PFS concludes that an initial, relatively simple operation producing two million tonnes per year of saleable thermal coal from trench highwall mining is the optimal and most financially robust approach to begin commercialisation of the resource at Duchess Paradise. Once established, this can be followed by larger underground mining operations as detailed below.

The PFS proposes that initial mining operations will comprise Highwall Miners operating from a series of trenches cut into the P1 coal seam from the outcrop. Mining is to occur entirely from Measured and Indicated Resources. The ROM production will be washed and trucked along the Great Northern Highway to Rey's existing wharf at Derby, which then will be transported by barge to ships for export to Asian power generation markets. The operating parameters are presented in Table 1 below.

Duchess Paradise Trench Highwall Mining		
Specific Energy avg	kcal/kg gar	5,528
ROM production	Mtpa	2.5
Sales	Mtpa	2.0
Life of Mine Sales	Mt	15.9
Mine life	yrs	8
Yield	%	80

Table 1. Trench Mining- key operating parameters

Financial Performance of Trench Highwall Mining Operations

The PFS concludes that the trench highwall mining generates positive financial returns at current coal prices and exchange rates, with coal price assumptions derived by adjustment relative to the benchmark coal price of US\$ 79.90/t (6,200kcal/kg gar Newcastle). The financial valuation parameters are summarised in Table 2 below. Cashflow, NPV and IRR estimates are derived from un-escalated, pre tax and all equity cashflow projections. Construction is assumed to start in 2012, with a full year of operation in 2013.

Duchess Paradise Trench Highwall Mining			
Cash costs	A\$/t FOBT	60	
Capex	A\$M	113	
		at A\$/US\$ = 0.80	at A\$/US\$= 0.90
Cashflow avg	A\$Mpa	61	42
NPV @ 10%	A\$M	161	88
IRR	%	50	34
Payback	years	2.0	2.5

Table 2. Key valuation parameters for trench highwall mining with exchange rate sensitivity

Capital Expenditure for Trench Highwall Mining

Capital expenditures are estimated at \$113 million. The estimate supports Rey's expectations that the project design and location would see capital costs being modest compared with some other thermal coal projects.

The largest components of the capital expenditure estimates are: wash plant (\$31 million); construction of a mine haulage road to the Great Northern Highway (\$12 million); and purchase of highwall mining equipment (\$28 million). The trucking operation is assumed to be undertaken by contractors. The cost of a Definitive Feasibility Study is estimated at \$10 million and is included in the total capital expenditure estimate.

Full feasibility study commenced

The Company's Board has approved the PFS and has committed to a Definitive Feasibility Study (DFS) for the Duchess Paradise surface operations. The Company intends to apply for a Mining Licence and continue with environmental and community discussions. The DFS will include reserve definition, engineering and hydrological drilling as well as combustion testing and environmental and marketing studies. The Company is in the process of recruiting a team to undertake the DFS. The DFS will be funded from the December 2009 capital raising.

Development Strategy

The PFS has demonstrated a robust low capital entry method for unlocking the potential of the large coal deposits in the Canning Basin. The development strategy of the Company envisages initial mining of near surface resources for modest capital while studies continue on the existing larger underground resource and conceptual exploration targets. Drilling will continue to establish further near surface resources amenable to highwall mining while defining a larger resource on the extensive land package. This strategy will enable a staged entry to larger mining operations.

Exploration for near surface coal

The board has approved an exploration program of approximately 18,000 metres along the predicted outcrop of the coals to the north of Paradise to explore for additional near surface coals suitable for trench highwall mining. This coal would be closer to the Great Northern Highway and could reduce initial transport costs below those adopted in the PFS. Drilling is expected to commence in April/ May following conclusion of the wet season and subject to Heritage and Government approvals.

2. Conceptual Longer Term Operations

The trench highwall mining operations at Duchess Paradise are expected to use only approximately 20 million tonne of the available resources of 511 million tonnes (281 million tonnes in the P1 seam, refer Table 4). In order to commercialise additional resources at Duchess Paradise underground mining methods must be employed. Two conventional mining concepts have been investigated: bord and pillar mining and longwall mining. These studies are conceptual in nature and have lower engineering confidence at this stage than the trench highwall mining examined in the PFS and include both Inferred Resources and coal in previously announced exploration targets in the conceptual mine plans.

In both methods all coal is derived from the P1 seam. Production is assumed to be washed and then trucked along a new private road to a conceptual new barge loading facility. The cost of the road is estimated at \$170 million and a new barging facility is estimated to cost \$36 million. Construction of a deep water loading facility and alternative transport options have not been considered at this time and will be subject to further study. The operating and parameters of these cases are presented in Table 3 below.

Underground Operations		Bord & Pillar		Longwall
ROM production	Mtpa		2.0	4.4
Sales	Mtpa		1.6	3.2
Life of Mine Sales	Mt total		33	65
Mine life	Yrs		21	21
Yield	%		81	72
Cash costs	A\$/t FOBT		63	48
Capex (1)	A\$M		167	579

(1) Pre production capital- excludes new road and loading facility costs

Table 3. Summary of operating and financial parameters for conceptual underground mining cases

The conceptual underground mining cases examined suggest that positive financial returns can be generated before taking into account the required new transport infrastructure. When transport infrastructure estimated at \$206 million is included, the conceptual studies demonstrate that a scale of above approximately six million tonnes per year is required to generate economic returns.

Studies for larger operation

In terms of the larger underground operations the Company will extend the conceptual studies to include additional transport options and more detailed underground mining studies and investigate upgrading and extending the Duchess Paradise resource to support mining operations at this scale. This will form the basis for a definitive feasibility study on the underground operations, assuming a positive result from these studies.

Trench Mining

Trench mining is a well known variant of highwall mining and has been used since the late 1980s. Highwall mining was originally undertaken using augers but eventually, the continuous miners used in the underground mining of coal were developed and outfitted to recover coal from highwalls. This spurred the development of new highwall mining machine systems such as the Terex SHM, the Highwall Hog, and the ADDCARr System developed in 1990 by Addington, a medium-sized Kentucky-based coal mining company.

A standard highwall miner or mining system) involves driving a typically rectangular shaped entry or section out of an exposed highwall seam by remote control. Advanced highwall mining systems such as the Terex SHM are self-contained, hydraulically-powered, tracked mobile units with electric drive. The SHM highwall mining was the first unit that could mine parallel entries in coal seams with a thickness ranging from 76 centimetres to five metres to pre-determined depths of up to 300 metres. The mined coal is then transported back to the machine by two counter-rotating screw conveyors positioned inside the pushbeams. The SHM system is highly efficient, with the capability of producing an output of 15,000 to 50,000 tonnes of coal per month, depending on the height of the seam.

Terex estimates there are 25 of its machines operating currently around the world with the USA and Russia being the main areas of activity. International Coal Group Inc estimates there are over 20 of its ADDCAR systems operating worldwide.

In Trench mining, instead of using the highwall from an open cut coal mine, a box cut or slot is cut and the highwall miner is moved into the box cut and then mining is carried out from either side. The slots can be along strike with the mining carried out down dip or the slots down dip with the mining carried out along strike.

Trench mining can be carried out at a lower capital cost than conventional open pit mining due to not needing a large pre-strip. It also offers better control over coal quality due to selective mining. It is capable of substantial coal production levels with good productivity.

Sources include:

- www.ritchiewiki.com.../Highwall Mining
- AMC Consultants - Digging Deeper May 2004
- The Australian Coal Review November 1997
- Terex – Company Website

Resource Statement

Seam	Measured	Indicated	Inferred	Total
	(Mt)	(Mt)	(Mt)	(Mt)
P1	18.3	101.9	160.5	280.8
P2	16.9	41.7	171.0	229.6
Total	35.2	143.6	331.5	510.5

Table 4. Duchess Paradise Resources by category as at June, 2009

Geological Accreditation

The information in this report that relates to Exploration Results or Mineral Resources is based on information compiled by Bruce C Preston who is a member of The Australian Institute of Geoscientists ("AIG"). Dr Preston has sufficient experience to qualify as a Competent Person for the purposes of the 2004 Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves. Dr Preston is the Technical Director of Rey Resources Limited and he consents to the inclusion in the report of the matters based on their information in the form and context in which they appear. Dr Preston has a beneficial interest in 6,072,025 shares or 2.3% of the issued capital of Rey Resources Limited.

The estimation of the Duchess Paradise Coal Resources has been provided by Mr Richard Campbell, who is a Member of The Australasian Institute of Mining and Metallurgy ("AusIMM") and is an employee of Blackrock Mining Solutions Pty Ltd who were contracted to provide the JORC estimate. Mr Campbell has sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity which he is undertaking to qualify as a Competent Person as defined in the December 2004 Edition of the "Australian Code for Reporting of Mineral Resources and Ore Reserves" (The JORC Code). Mr Campbell has over 10 years of coal specific experience including coal exploration, resource modelling, estimation and assessment, and geotechnical assessment and modelling. Mr Campbell consents to the inclusion in the report of the matters based on their information in the form and context in which they appear.

Cautionary and PFS Notice

The PFS results for the Trench Highwall Mining and the conceptual studies of the Underground Operations are indicative only. They are based on various assumptions considered reasonable by Rey Resources and its external technical consultants, but which may or may not be ultimately achieved. The final decision to proceed with development of the Duchess Paradise Project will be based on the DFS which will include the preparation of a formal ore reserve estimate. Accordingly, at this PFS stage, there is no certainty that the Trench Mining Project will be developed or, if developed, will be economically viable. Rey Resources is not declaring an ore reserve estimate as part of the PFS or conceptual studies, with this work being scheduled for the DFS. Estimates of resources used for Trench Highwall Mining comprise 100% Measured, and Indicated material.

For more information contact:	
Rey Resources Limited	Pesel & Carr
Kevin Wilson – Managing Director	Glenister Lamont – 0417 541 305
Tel: +61 2 9299 9357	Barbara Pesel – 0418 548 808