



fatPROPHETS™

Hannans Reward Limited 13 Jan 10



HNR

AUD \$0.22



Thank goodness for the shareholding in Atlas Iron.

The market is valuing the company at \$A29.5m. Hannans is a Top 10 shareholder of Atlas Iron with 8.33m shares currently valued at \$A18m. With around \$5m in cash, the market is valuing the company's exploration assets at only \$3m, a paltry sum. The company is better defining 13 priority geophysical targets at its Forrestania Ni-Au Project north of the Flying Fox nickel mine, where it now has a contiguous strike length of 100km.

Members may recall that the last time we reviewed the company was in FAT-MIN-190 when we recommended Members to take up a SPP entitlement at 15.5c, which was early September 2009. At the time the share price was recovering from a low of 5 cents after falling from over A\$1.00 in 1H07.

The funds raised under the SPP were used to fund Hannans' West Australian exploration activities at the Forrestania nickel and gold project, the Lake Johnston nickel and gold project, and the Jigalong multi-commodity project, east of Newman. During 3Q09 the company raised a total of \$A5.5m.

At the end of 3Q09 the company had \$A6.3m in cash. In that quarter the company spent \$0.7m on exploration and \$0.3m on administration. At that level of cash burn, the company is adequately funded through to mid-2010, allowing for increasing exploration expenditure.

Meanwhile, the company's Queen Victoria Rocks nickel and gold project, southwest of Coolgardie, is being funded and managed by Vale and the company's Sunday gold project, east of Leonora, is being funded and managed by ASX-listed Triton Gold Ltd.

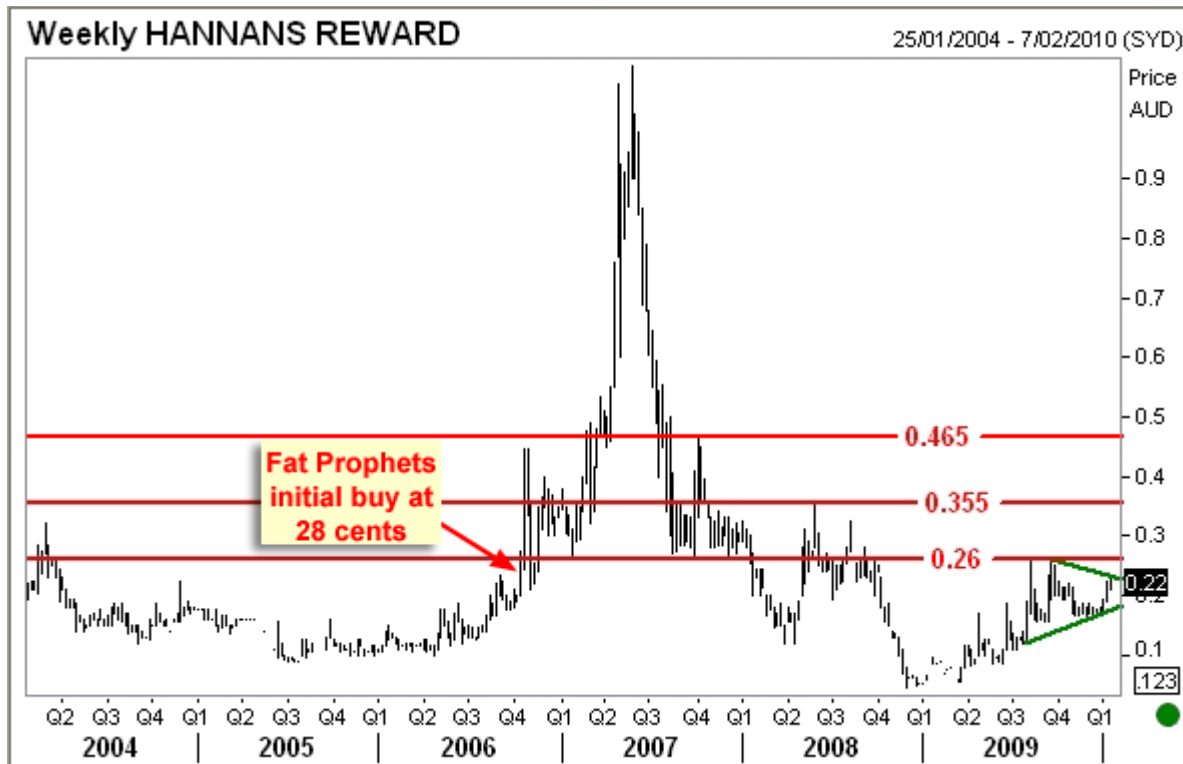
SHARE PRICE AND COMMENTS:

Fat Prophets initially recommended buying HNR at \$0.28 in November 2006 (Fat Mining 050). Our last review of this stock was in September (Fat Mining 190).

Our last coverage saw HNR trade at 15.5 cents, since then HNR has posted further gains reaching a high of 26 cents in early August 2009 representing an increase of 10.50 cents (+67.74%).



Hannans has retraced since reaching the 26 cents high and currently is in the process of forming a 'symmetrical triangle'. The symmetrical triangle is essentially a continuation pattern of the current trend. Thus, in Hannans case, as the trend is up, we would anticipate for Hannans to break to the upside of this triangle. The formation is confirmed upon break of the high at 26 cents. Should this occur, overhead resistance lies at 35.5 cents which is the late May 2008 high, followed by 46.50 cents, the early October 2007 high.



When we first looked at the company in November 2006, we described the state of play as: "The company is at a very exciting stage, with exploration success potentially just around the corner". The company has been unlucky and is still seeking a major discovery to transform the company.

Exploration companies need both prospective geology and a lot of good luck. The company certainly has the former but it desperately needs the latter.

Within the Forrestania Project the company is exploring for nickel, starting 7km north of the Flying Fox nickel mine. Here an earlier geophysical survey (VTEM) outlined 13 priority targets. These are being followed up by a fixed-loop electromagnetic survey which will better define the targets to locate drill holes to test the best targets.

Flora and heritage surveys have been completed, and drilling will hopefully be allowed to begin during 1Q10.

The company has reached agreements with St Barbara and Kagara that extend its footprint at Forrestania. These gave the company a 100% interest in nickel rights, up from 85%. But Hannans had to assume Kagara's existing royalty and nickel treatment obligations.

These royalties are not insignificant with Franco-Nevada taking 2% of gross revenue. Murrin Murrin Resources takes 5% of net revenue, and Norilsk takes another 1% of gross.

However, it is important that the Forrestania Project tenements now exceed 100km in strike length. This provides a range of options to advance exploration projects within the tenement package. Better still the most prospective parts of the project area 100% owned.

At the Jigalong Project in the Pilbara, drilling has intersected low grade zinc mineralisation. The better results were below 1.4% zinc. This was a positive result indicating that perhaps

there is something better to find. Hannans is selling the rights to manganese at Jigalong with funds probably better spent at Forrestania.

Drilling at the Sunday Project has intersected high-grade gold mineralisation. To confirm results and to get a better handle on the style of mineralisation, previous 4m samples were re-split and 1m samples assayed. Triton is operator and reported an intercept of 1m grading 78.97 g/t gold. The original 4m intersection from drill hole MSRCH021 averaged 16.68 g/t gold from 108m.

Triton can earn a 72% interest in the gold rights by funding \$0.5m on exploration which it will accelerate. Its early days but it seems there is potential for a significant strike length over 400m.

At this point in time we definitely agree with management that the downside risk is small and the leverage to exploration success is very high.

There is still a lot of upside in Atlas Iron and we expect a sharp rise in the Atlas share price when the company is in a position to disclose the outcomes from discussions concerning direct shipping ore from Wodgina and the introduction of a partner to develop the 2bn tonne Ridley magnetite deposit. These are expected soon.

The valuation of the company is currently underwritten by cash and its holding in Atlas Iron.

We would not like to see the company sell its stake in Atlas until capturing further expected capital gains, and then, only to advance a project with more merit.

2010 should shape up as an exciting year for the company. Exploration will proceed apace at Forrestania and the Sunday Project is looking good. The company is currently well funded. All it needs is luck on the exploration front.

The risk to reward ratio is favourable.

With little downside risk we recommend the company as a speculative buy for Members that do not already own the stock.

Snapshot HNR

Hannans Reward

The company is as an aggressive explorer focused on Western Australian. The company has a number of exploration projects that are being ignored by investors. At this point in time, the key asset is a major stake in Atlas Iron, which accounts for most of the company's market capitalisation. Atlas Iron will generate considerable medium- to long-term value for shareholders. There are four exploration projects, all in WA. The Forrestania Ni-Au project is perhaps the most interesting, although JV partner Triton Resources is having success at the Sunday Project (gold). The other projects are Queen Victoria Rocks, and Jigalong which hosts zinc and manganese mineralisation.

Market Capitalisation	\$A27.6m
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