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Hannans Reward Limited 17 Mar 10

HNR

Drilling imminent at Forrestania

The company is waiting for approvals to start drilling at Forrestania. The plan is to drill approximately 20 RC holes for 5,000 metres starting in March 2010. This program will probe high priority targets within the interpreted northern extension of the western ultramafic unit that hosts the high grade Flying Fox nickel mine 7km to the south. The market however seems to be preoccupied with the company's investment in Atlas Iron.

In our last review of the company in FAT-MIN-207, we revised our recommendation from HOLD to BUY for all members at $A0.22. The market was only attributing around $A3M to the exploration assets at the time, this has increased to $A4M but the driver continues to be the company's 8.13M shares in Atlas Iron.

Atlas has delivered more value to shareholders of Hannans after announcing the proposed merger with Aurox Resources. A merger between Atlas and Aurox creates a significant iron ore company with 187Mt of direct shipping ore and other resources including two magnetite deposits. More importantly, the merged entity has 33Mtpa of port capacity.

As usual, the volatility in the Atlas share price is straight away reflected in the market's valuation of Hannans. The share price of Hannans recently spiked from $A0.21 to $A0.26, a rise of 24% before pulling back with Atlas and the market in general.

Hannans MD Mr Damian Hicks has a target for the company to achieve a market capitalisation of $A100M versus today's $A30M which mainly reflects the investment in Atlas and cash of around $A5M. The target is certainly possible if exploration is successful at Forrestania.

With the value of the company largely underwritten by cash and the investment in Atlas the company is highly leveraged to any good exploration results. There will be many potential catalysts for re-rating when drilling at Forrestania gets underway. Now is not the time to sell the stock but to wait and see what exploration brings.

SHARE PRICE CHARTS 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.

STATE OF PLAY

Elsewhere the JV with Vale has come to an end at Queen Victoria Rocks. Vale spent $A0.6M on this nickel play but the results must have been below their expectations. Hannans will review all the data collected by Vale before deciding what steps to take next.

The company has greatly increased its technical expertise through the services of Don Huntly a geologist, and Ben Jones a geophysicist. Huntly and Jones formally held very senior positions with Xstrata Nickel Australasia. The company has also acquired the services of Dr Nigel Brand, a geochemist. Huntly and Jones were focused on Xstrata's Jubilee Mines (nickel), whilst Dr Brand was a consultant to Xstrata and Jubilee.

The new technical team has only been on board since early 2010. After reviewing all the data, there is now a better understanding of the geology which is a part of the heavily mineralised Forrestania nickel sulphide belt.

Ten new anomalies have been identified at the Forrestania Project after a review of geophysical data.

There are four new priority EM anomalies at the Stormbreaker Prospect, plus another two targets identified from the final interpretation of the VTEM data. Two new targets are identified at both the Skeleton Rocks Prospect and Lucy Rocks

Prospect.

The next step is to further define the ten new targets with ground surveys as soon as possible. Probing these targets will be **Phase Two** exploration.

The drilling of 13 **Phase One** targets will begin soon with a budget of $A550,000 for the 5,000 metres.

Although parts of the project area have been previously explored, Hannans can conduct systematic exploration because the company controls most of the ground. The Exploration potential at Forrestania is believed to be far from exhausted.

Hannans is in a strong financial position. The company will spend its cash reserves on exploration before selling down its holding in Atlas.

The risk to reward ratio is excellent -- there is little downside risk and the upside potential is very great if there is a success at Forrestania.

This is one of our favourite explorers and as such Hannans Reward will remain firmly held in the Portfolio.

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	**$A30.76M**