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Hangin' My Hat on the HAT

A Monday Morning Musing from Mickey the Mercenary Geologist

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The short-lived uranium bubble burst last fall with collapse of the spot price from \$138 in late June to \$75 in early October 2007. Junior uranium stocks were devastated and have continued their dramatic declines thru the recent market malaise. Most are trading at less than 10% of their highs last June. And most of those that will not (or have not) survive *hung their hats* on sampling a high-grade boulder or vein, staking millions of hectares in a “new Athabasca-style basin” play somewhere else in Canada’s remote far north, or acquiring low grade pounds-in-the-ground that will still be low grade pounds-in-the-ground in ten years. That won’t cut it even in the best of times.

I prefer to *hang my hat* elsewhere.

Uranium is not a particularly rare metal: It is the 48th most common element in the Earth’s crust, is enriched in common granitic and rhyolite rocks, and because of multiple valence states sensitive to oxidation and reduction, is geochemically very mobile. As a result, small high grade occurrences are multitudinous and occur in many geological environments. But the mighty and energetic “U” occurs in exploitable concentrations in only four significant deposit types worldwide. The most attractive are high grade unconformity-style deposits in northern Saskatchewan’s Athabasca Basin. The “Basin” is the world’s largest historic (over 350 million pounds U₃O₈) and current producer with 23% of 2007 production.

Despite the demise of many uranium *wanna-be*’s, there are near term junior producers on the horizon in Wyoming that are extremely undervalued now. Examples include Strathmore Minerals (STM.V), UR-Energy (URE.T), and Uranerz Energy (URZ.T). I am a shareholder of the former and the latter are both on my glow-in-the-dark radar screen.

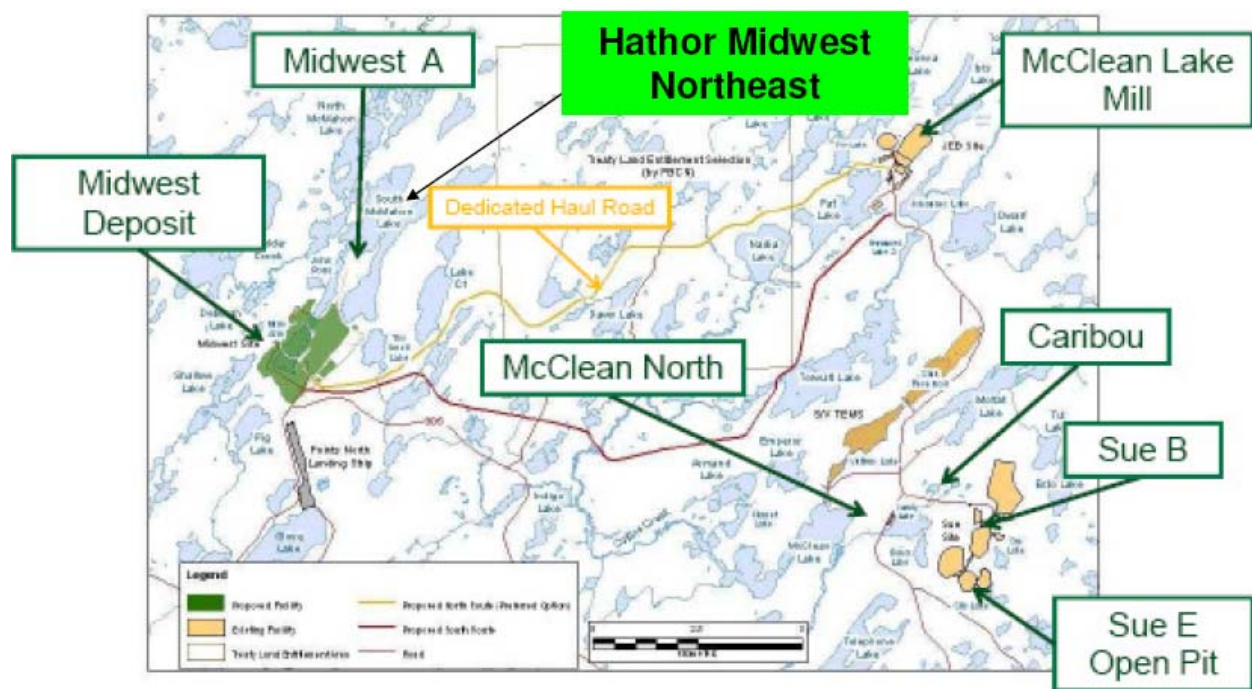
However, one uranium play literally fluoresces an order of magnitude brighter than all others: Hathor Exploration Limited (HAT.V). The “HAT” has made one helluva discovery in the eastern Athabasca Basin. It’s called the Roughrider Zone within their 90% owned Midwest Northeast project, and it has potential to become a world class uranium deposit.

At Rich Radez’ recent [Chicago Resource Expo](#), I was able to meet with Dale Wallster, the geologist-pro prospector who acquired the project and vended his private company to Hathor in July 2006. Dale has a resulting large stock position in HAT.V and is obviously biased. But he is a straight shooter and we spent over an hour and a half talking about the project and the company.

Note that I own shares of Hathor and so I'm biased too. Also remember that I put my Mercenary money where my mouth is.

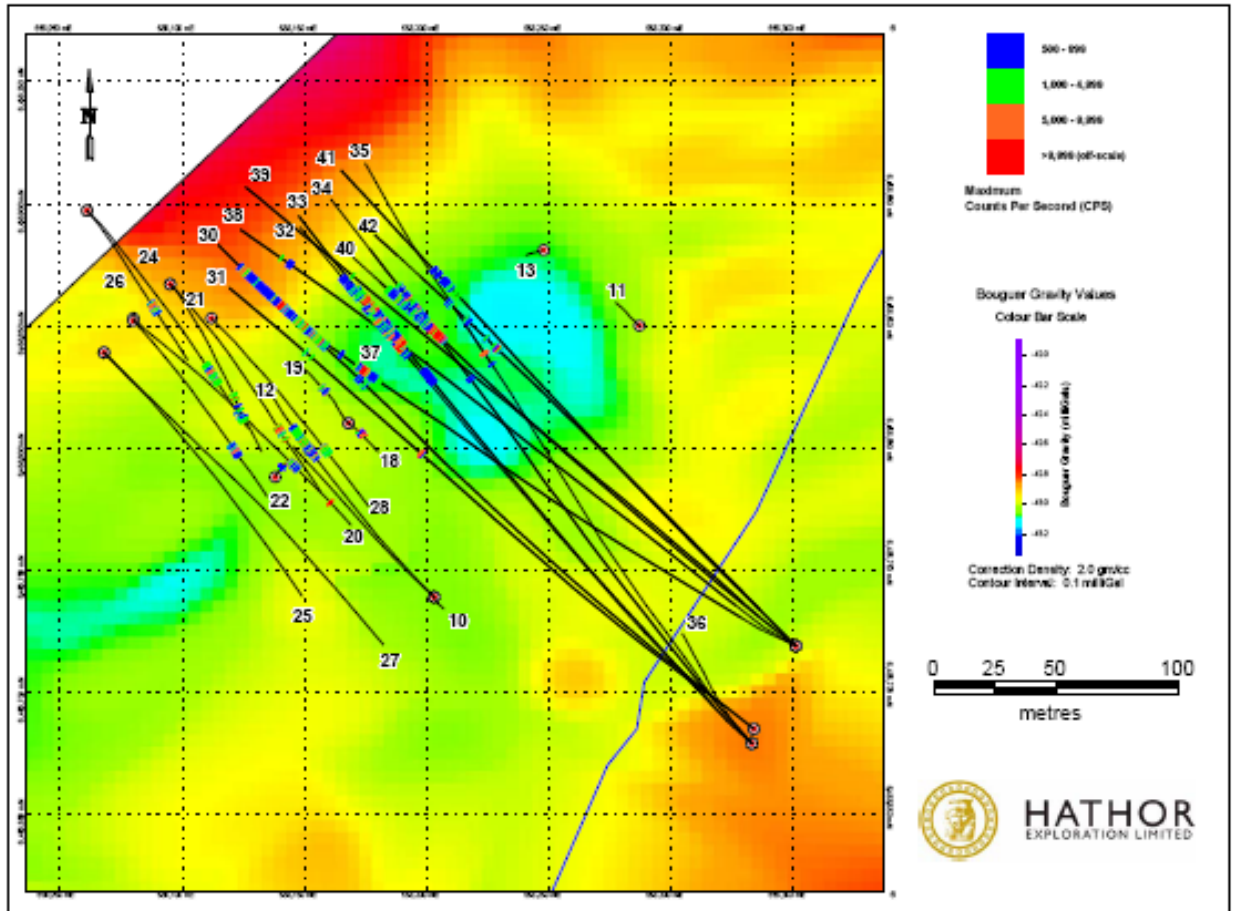
If you want background on the discovery, its geological setting, and nearby infrastructure, visit the company's website: www.hathor.ca.

Suffice to say, this is all about location, location, location: Hathor's Midwest Northeast project is about 11 km from the AREVA-operated McClean Lake mill, 25 km from Cameco's Rabbit Lake mill, eight km from the regional service centre and airstrip at Points North, 4.7 km from AREVA-Denison's Midwest deposit and 1.6 km from their Midwest A deposit.

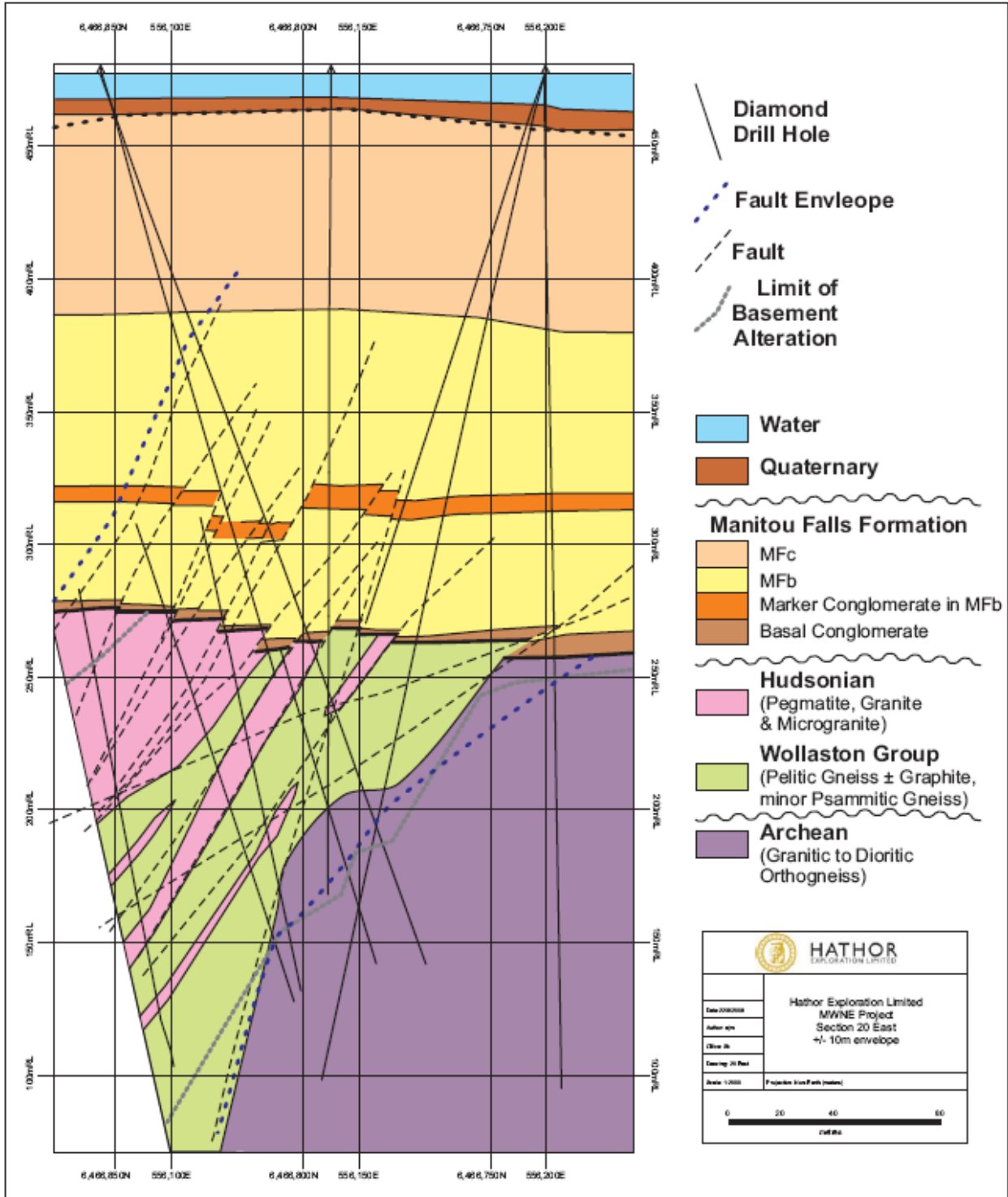


Hathor's discovery in hole 12 of an initial drill program was announced in late February and assays were released on March 3: 11.9 m of 5.29% U_3O_8 . The 2008 winter program consisted of 29 holes totaling 10,650 m and encountered significant ore grade-thickness intercepts in 12 of 16 holes on the Roughrider Zone.

HAT's summer drill program, 13 holes totaling 5320 m, was severely constrained by geographically and geometrically difficult locations from three land-based platforms. This is illustrated by the following plan map and section. Note that the fault and basement alteration envelopes containing the deposit appear to trend northeast and dip steeply to the northwest while the drill holes were spudded 200 meters away to the southeast:



Roughrider Zone drill holes, intercepts, and gravity low targets to northeast and southwest.



Given the length of the holes, shallow angles, hole deviations, and targets that dip away from the drill direction, it is surprising that the summer program was successful. However, significant intercepts of high grade uranium over wide thicknesses were encountered in nine of 12 holes. Best result was 23 m of 11.2 % U_3O_8 in hole 40. True thicknesses are conjecture at this time and the geometry of the zone is still unclear.

Based on drilling to date, significant mineralization is contained within an alteration envelope with a strike length of about 115 m x 40 m width by 80 m depth. Although this is a small volume of about 370,000 cubic meters, Dale pointed out the Midwest A deposit, located 1.6 km to the southwest, contains all-in resources of 10.1 million pounds of U₃O₈ of which *4.3 million pounds are contained in 9200 tonnes grading 21% U₃O₈, a volume of 3300 cubic meters.*

Folks, these deposits are miniscule, the proverbial needles in a haystack, and they are incredibly rich. In fact, they are the richest orebodies on the Earth. For example:

AREVA-Denison's Midwest ore body, located 4.7 km southwest of Roughrider, has an in-situ uranium value of \$3.34 billion in 346,000 tonnes of 5.46% U₃O₈ ore or *\$9650 per tonne*, using an average long term contract price of \$80/lb U₃O₈. That does not include by-product credits for nickel (4.37%) or cobalt (0.33%) which will be substantial if process metallurgy is successfully cracked.

These basement-hosted deposits, including Midwest and Roughrider, are in contrast to typical unconformity-style deposits from which most historic Athabasca production has come. Although exploration for unconformity deposits in the Basin is mature, exploration for basement-hosted ore bodies is in its infancy and more discoveries are sure to come. They are more difficult targets to find, not only because of their extremely tiny footprint but they often lack the typical airborne electromagnetic signature from graphite conductors in unconformity deposits.

But there are good guides to ore including regional basement fault zones and coincident gravity and resistivity lows associated with intense clay alteration within these structural envelopes. Hathor has done an excellent job integrating historic and recent core logging, alteration and geochemical studies, and seismic, magnetic, gravity, and resistivity surveys to develop a geological model using the adjacent Midwest A deposit as a prototype to guide exploration on the Midwest Northeast project.

Untested, coincident gravity and resistivity lows are located immediately northeast of the currently drilled Roughrider zone (see previous map). By analogy with Midwest A, it is postulated that a sandstone-hosted zone significantly larger than the currently drilled basement-hosted mineralization may exist at the contact of the unconformity and the projection of mineralization contained in the basement fault envelope.

There is also an undrilled gravity anomaly southwest of the discovery hole that will be tested this winter.

Dale and I discussed the company's plans for follow-up drilling of Roughrider commencing in early January. All targets are under shallow water so exact start-up date will depend on the Saskatchewan winter weather and ice thickness. Hathor plans to employ at least three core rigs and to drill absolutely as much as possible in the \pm three month ice season; about 20,000 m is their goal. Drilling will focus on delineating the Roughrider Zone but they plan to test targets within the entire property position of over 500 hectares. This program should result in calculation of a 43-101 qualified resource estimate at the end of Q2 2009.

Metallurgical testing is in progress and some HQ core will be cut this winter to provide additional material for the program. Preliminary results are expected in early Q2 2009. Based on multi-element geochemical results released to date, Roughrider is likely a polymetallic deposit with significant uranium, nickel, cobalt, copper, molybdenum, lead, and gold values. The currently operating McClean Lake uranium mill, located 11 km east of Roughrider, has spent about \$40 million to develop nickel and cobalt recovery from the AREVA-Denison Midwest deposit, scheduled for mining in mid-2011.

Hathor Exploration has working capital of about \$36 million including a recently closed, oversubscribed, flow thru financing with institutions totaling \$8 million at \$3.10 per share. The planned winter drill program, metallurgical testing, and resource estimate will cost about \$6-8 million with results expected about the end of Q2 2009. At that point, the company will still be in an enviable position with \$28-30 million left in the bank.

Encouragement in the uranium sector came this week with the announced buy-out agreement of Forsys Metals Corp (FSY.T) by a private Belgian-led company, George Forrest International Afrique. Price is C\$579 million or \$7.00 per share. Forsys' flagship property is the Valencia deposit in Namibia with a June 2007 43-101 qualified, pre-feasibility reserve estimate of 30.6 million lbs U₃O₈. Subsequently Forsys conducted 30,000 m of drilling to expand the resource with reported positive results but no published update. If no resources were added, the purchase price is over \$15/lb U₃O₈. Assuming it has increased a generous 50%, the purchase price is still over US\$10/lb.

Hathor's corporate goal is to get taken out within the next year. Likely suitors are many and competition could be fierce. Obvious candidates are Cameco, producing from the world's highest grade mine at McArthur River and also at Rabbit Lake, AREVA with its mill at McClean Lake, now operating at 30% capacity, Denison perhaps desiring to obtain more than its current minority positions in the Basin, and big uranium producer Rio Tinto which may want a foothold in the world's premier uranium district. Also don't count out other major mining companies or Asian sovereign funds and power companies who aspire to become significant uranium producers or secure supply thru an off-take agreement.

Hathor has come off significantly from its high of \$4.40 in September and is now trading at about \$1.80. We will know so much more about the potential of Roughrider by mid summer of next year with 20,000 m of new drilling, preliminary metallurgical results, and a 43-101 qualified resource estimate. But by then, the stock could be much higher.

Speculative risk is still very high for investors. Four risk factors come to mind:

- The geometry of the zone is unclear. Since it appears to be controlled by steeply dipping basement faults cross-cutting steeply dipping metamorphic foliation, Roughrider could be highly irregular in shape and grade, resembling an amoeba, and continuity could be problematic. Various analysts' and newsletter writers' calculations of 30 to 40 million pounds-in-the-ground are purely *pie in the sky* at this juncture.

But this will be resolved in due course: Winter ice gives the ability to drill the deposit and possible strike extensions with shorter vertical or steeply inclined holes. Drill delineation testing continuity and extent of the uranium mineralization is on the horizon. The upcoming drill program at Roughrider will likely *make it or break it from the exploration side*.

- As with all polymetallic uranium deposits, toxic or deleterious metals can be difficult to separate, suppress, or dispose of. *Process metallurgy is a potential fatal flaw*.
- If successful, Hathor Exploration, though cash-rich for a junior, presently does not have *the funds necessary to move the deposit thru a feasibility stage*.
- The predicted worldwide near to mid-term shortage of uranium, long lead times to production, and supply destruction due to on-going water problems at Cigar Lake and McArthur River bode well for the future price of the metal. However, uncertain world economic conditions could lead to scuttling or delay of proposed nuclear power plant construction and expansions resulting in *decreased demand and a depressed uranium price*.

Forsys Metals' recent take-out clearly raises the bar for Hathor Exploration Limited. Assuming speculative pounds-in-the-ground are confirmed with a resource estimate, process metallurgy is favorable, and given current peer valuations and a favorable price for uranium, Hathor could be a big winner in relatively short order.

I have and will continue to accumulate HAT.V on weakness because of Roughrider's potential to become a world class uranium deposit. I'm willing to take on this high risk versus high reward scenario.

I'm hangin' my hat on the HAT.

And folks, that is solely a personal investment decision. Borrowing an acronym from my Latin American-based blog buddy, Otto Rock at [IncaKolaNews](#):

DYODDD: Do your own due diligence, dude.

Ciao for now,

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The [Mercenary Geologist Michael S. "Mickey" Fulp](#) is a Certified Professional Geologist with a B.Sc. Earth Sciences with honor from the University of Tulsa, and M.Sc. Geology from the University of New Mexico. Mickey has over 29 years experience as an exploration geologist searching for economic deposits of base and precious metals, industrial minerals, coal, uranium, and water in North and South America and China.

Mickey has worked for junior explorers, major mining companies, private companies, and investors as a consulting economic geologist for the past 21 years, specializing in geological mapping, property evaluation, and business development. In addition to Mickey's professional credentials and experience, he is high-altitude proficient, and is bilingual in English and Spanish. From 2003 to 2006, he made four outcrop ore discoveries in Peru, Nevada, Chile, and British Columbia.

Mickey is well-known throughout the mining and exploration community due to his ongoing work as an analyst for public and private companies, investment funds, newsletter and website writers, private investors, and investment brokers.

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