

Falcon Minerals Limited 10 Feb 10

FCN

• AUD \$0.20



4Q 2009 Activity Report to 31 December 2009

The last time that we reviewed the company was in FAT-MIN-193 when we considered the company's exploration potential which is certainly above average.

Most junior explorers, and Falcon is no exception, forge ahead with limited funding. Falcon had \$2.51M in cash at the end of 4Q09. Cash burn is low, which in one sense is good, but with exploration expenditure of only \$A0.11M for the quarter, adding serious value to shareholders is a challenge without a bit of luck.

Exploration progress has been restricted by a limited supply of cash. However, the company has increased its ownership of the promising Collurabbie project to 100%, after BHP Billiton assigned its interest to Falcon. BHP Billiton has the first right of refusal to enter into off-take agreements for ores or concentrates from tenements already owned by the Collurabbie JV.

The new agreement with BHP Billiton gives the company control over an area of 413km² covering 42km of strike that is very prospective for copper, nickel and PGM. Members might recall that there are many prospects with known mineralisation.

Drilling at the Olympia prospect is scheduled to begin in April 2010. Drilling will follow-up previously reported results that included the discovery of massive nickel and copper sulphides, plus PGM. Grades of over 3% copper and nickel plus nearly 8g/t PGM were very good.

Falcon says the style of mineralisation at Olympia is similar to that found at the Raglan high grade copper-nickel-PGM deposits in Canada. This is the first time that this style of mineralisation had been encountered in Australia.

Interest in the company should pick-up ahead of the drilling program at Olympia in March. In addition, AngloGold Ashanti will commence a 5-hole program at the Saxby project in Queensland. There are numerous discrete geophysical targets at Saxby, where a drill intersection of 17m grading 6.75g/t was recorded in 3Q08.

Falcon has a 49% interest in Saxby but AngloGold Ashanti is earning a 70% interest by spending \$7M prior to December 2013. Measured on an exploration dollar per square kilometre, Queensland is unexplored compared with Western Australia.

Anglo American explored several strong bedrock conductors at Saxby in 2008, before assigning its interest to AngloGold Ashanti Australia Ltd in July 2009.

Anglo completed seven diamond drill holes with a very significant result from hole SXDD005 which included 5m grading 19.30 g/t gold. This intercept was contained within the 17m at 6.75 g/t. This was a very encouraging result, and considering that there is widespread IOCG-style alteration, hopes are high for a discovery.

High resolution magnetics covers the entire Saxby project area. This has vastly improved the understanding of the regional geology. It is noteworthy that the four very discrete magnetic targets are sitting adjacent to a fault or fracture. Hopefully the targets are mineralised breccias. Only drilling will tell.

The company's share price has fallen from a 12-month closing high of \$0.295 on 2 December 2009. The price fell back with the market. Trading volumes have been low relative to 2H09, but the trend in 2010 is improving turnover. It will not take much good news to re-rate the stock back to around the 30 cents level.

SHARE PRICE CHARTS AND COMMENTS:

Fat Prophets initially recommended Falcon Minerals (FCN) at 51 cents in January 2006 (Fat Mining 9). Our last review of the stock was in September (Fat Mining 193).

Since our last review in September, there has been an encouraging improvement to the outlook for Falcon Minerals. After consolidating between 5 and 10 cents between October and April, prices lifted to a high of 30 cents in early December 2009. This represents a gain of 21 cents from the mid August 2009 low of 9 cents, or 233.33% in four months of trading.



Though a retracement is evident on the daily chart, we believe the downside risks are limited, with the uptrend line in place around the 17-18 cents level and the 50% Fibonacci retracement level at 17.2 cents. Should Falcon Minerals break below these levels, the 200 day moving average at 16 cents should provide firm support.



Falcon has several other projects. Immediately south of Collurabbie, the company has a 20% interest in the Duketon JV where the JV is exploring for nickel and gold. Recent RC drilling at the Giles Prospect has delivered significant results including 12m at 3.2 g/t from 148m. There are several areas of anomalous nickel, copper and PGM.

Falcon has a 100% interest in the Palthrubie – Lake Acraman project in the Gawler Craton in South Australia. Here geophysics has defined targets for drill testing. The project has potential for the discovery of a large IOCG deposit or a Tunkilla sized deposit with a resource of 0.8Moz of gold and 1.6Moz of silver.

We would not like to see the company risk drilling deep IOCG targets without a substantial partner to help fund the cost of drilling. Deep holes can cost around \$2M. In any event the company does not have the funds available for this sort of effort.

A sniff of good results and the company will surely return to the market to raise much needed funds for exploration, probably in 2Q10. Members who own shares in Falcon should expect that the company will issue new shares, probably at a low price resulting in dilution which is unavoidable.

We originally recommended buying Falcon at \$0.51. At \$A0.20 we do not see a lot of downside and the risk to reward ratio is favourable.

Falcon is recommended as a BUY for all Members.

However, Falcon is a speculative investment and the risk of failure to find an economic ore body is high, but so is the reward for success. One or two high risk explorers are not out of place in a diversified portfolio.

Snapshot FCN

Falcon Minerals

The company is a focused exploration company, with its two most prospective projects involving farm-outs to major companies. Since October 2003 when Ni, Cu and PGE anomalism was announced at Collurabbie, the joint venture with BHP Billiton in WA has steadily grown in importance. The discovery at Collurabbie and in particular the style of mineralisation and the combination of metals has not been previously encountered in Australia and whilst still in its early days, drill results to date suggest the area could host one or a number of poly metallic nickel-copper-PGE deposits. At the company's Saxby project, which is located 180km NE of Mt Isa and under a joint venture with Anglo American, a number of highly encouraging large strong conductors have been identified. Work undertaken shows the potential for a mafic-hosted (Voisey's Bay-style) large, Ni/Cu massive sulphide system at Saxby that will be subjected to test work over several years.

Market Capitalisation

\$A28.5M