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Falcon Minerals

Patience will be rewarded

Hold FCN

Fat Mining 70, 28 Mar, 2007
Printer Friendly

SYMBOL DEFINITIONS



EXPLORER



HIGH RISK



MARKET CAP

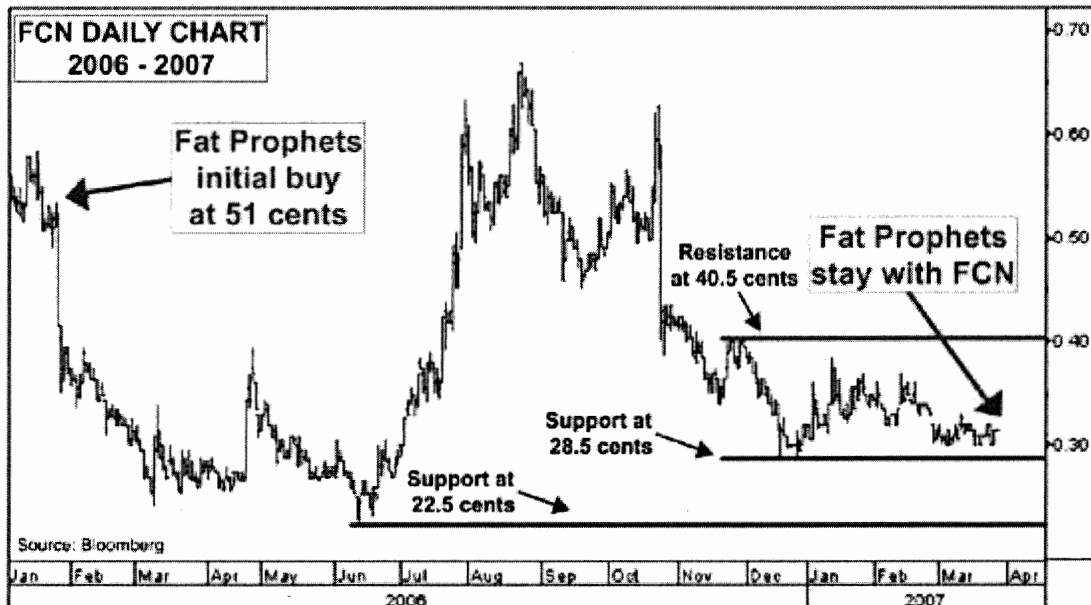
\$44m

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We feel it is worthwhile to remind Members about the Falcon Minerals story, particularly those that have been patient shareholders for some time now. In our minds, the company's flagship Collurabbie Project retains its outstanding potential and we encourage Members to ignore Falcon's share price. Whilst this is sometimes hard to do, the true value of Collurabbie is not being reflected in the company's share price, particularly as the price of nickel continues to set new records. We are extremely confident that Collurabbie will host a mining development in the future.

"We encourage Members to remain patient, as Collurabbie remains an outstanding prospect."

Following a volatile period of trade between June and October, Falcon has settled into a narrowing range of consolidation. As shown on the daily chart, initial support for the stock is now at 28.5 cents. Below here, we believe that the June low of 22.5 cents underpins the stock.

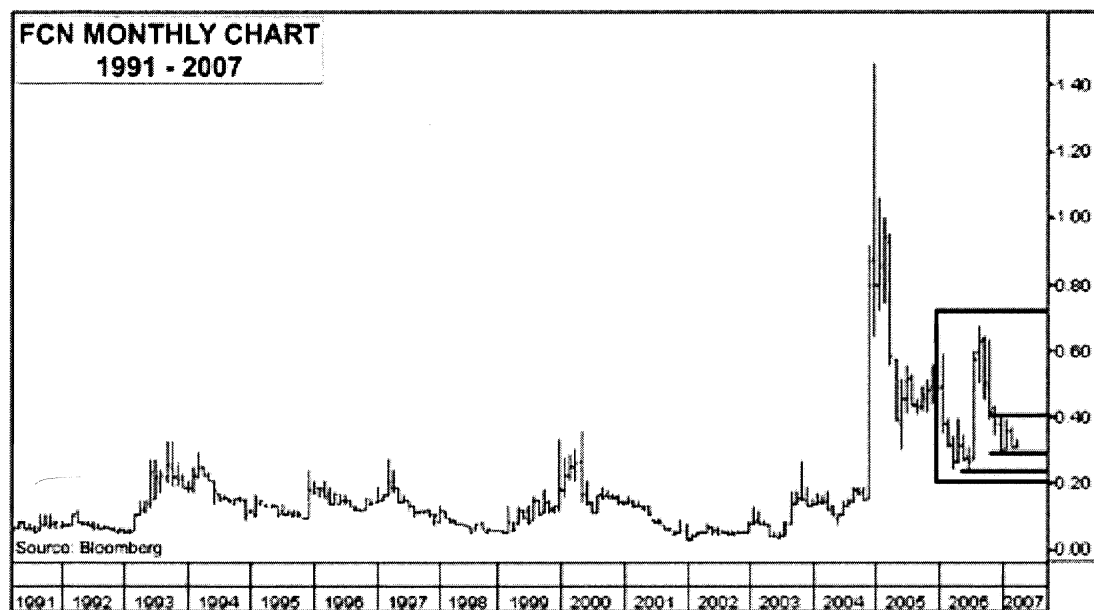


A sustained break above 40.5 cents would significantly improve the outlook for Falcon. In our opinion, such a move would signal the re-emergence of upward momentum, targeting gains toward 50 cents and an eventual retest of the August high of 67 cents.

It has been a while since we covered Falcon Minerals and its unique Collurabbie project in Western Australia, but given the soaring price of nickel, copper and platinum; we thought it was high time we revisited the story.

For those Members unfamiliar with the Falcon story, of those that may need a refresher, Falcon holds a 30% stake in the Collurabbie Project in Western Australia. Collurabbie hosts what is certainly a unique geological make-up in Australian terms, hosting nickel, copper and platinum group metal (PGM) mineralisation.

WMC Resources was Falcon's original farm-in partner, earning a 70% stake in the Collurabbie Project and getting very excited about the project's world-class potential, before it was taken over by BHP Billiton. WMC Resources had ascertained that there was significant near-surface mineralization at Collurabbie.



BHP elected to continue with the project and late last year undertook exploration drilling, targeting big step-out targets both at depth and along strike. BHP was obviously keen to determine whether Collurabbie had the potential to host a resource that would be relevant to a company of its enormous size.

Initial drilling results were somewhat disappointing, in that they didn't confirm large, wide mineralized extensions at depth and along strike as they had hoped at the main two targets tested, Rhodes and Olympia.

More recently, Falcon and BHP Billiton undertook Geoferrret surface electromagnetic (EM) surveying and down-hole EM surveying. Preliminary results revealed a number of EM anomalies within both the northern Olympia area and the Rhodes area.

Falcon previously reported that the strongest anomaly is coincident and along strike to the north of the sulphides previously tested at the Olympia prospect. Meanwhile at Rhodes, anomalies are present within a number of stratigraphic horizons.

Falcon and BHP are currently completing modelling of the EM anomalies and they will make a full assessment to determine the next phase of the exploration program.

We encourage our Members to try and ignore the relatively disappointing Falcon Minerals share price performance and to focus on the big picture. The share price in no way reflects the potential at Collurabbie.

Collurabbie remains a potentially world-class prospect in our view, but it requires further thorough and painstaking evaluation work. We have previously commented that Collurabbie is not your typical straightforward exploration play, but has enormous upside if successfully proven.

Many Members fail to comprehend that Falcon is a long-term exploration play. As such, many speculative investors will be disappointed by the long periods of relative inactivity and long lead time between drilling programs. But as we have consistently highlighted, Falcon is not your typical speculative exploration play.

In many respects it would be far easier if it was. The 'trouble' with Collurabbie is that it is a potentially large precious metals play and has attracted the world's biggest mining company as its project partner.

But Members will naturally ask why are these things problems?

The answer lies in the scope and strategy of BHP's exploration approach. BHP is testing to see whether Collurabbie

might host a world-class platinum-nickel deposit. Crucially, BHP's exploration work has been exclusively extensional in nature, aimed at defining the broad resource limits at Collurabbie.

BHP is keen to ascertain whether Collurabbie meets its criteria as a project of world-class dimensions. Accordingly, its drilling has been aggressive in nature and focused on aggressive strike and depth extensions.

BHP is not doing the sorts of things that will necessarily spur speculative excitement in the short term for Falcon. Rather, is running its own agenda.

BHP hopes that the polymetallic sulphide mineralization already proven to exist close to surface at the Rhodes and Olympia prospects, widens with depth. In our view that BHP believes the mineralization could potentially at least double in size. This is where the real excitement at Collurabbie lies.

BHP is testing high-risk targets that are purely extensional in nature. Their success or otherwise will have no bearing on the already proven mineralisation that the joint venture has already identified about 300 metres closer to surface.

To put it another way, a smaller company with more modest resource ambitions would have completed an infill-drilling program by now that would have outlined an initial Inferred Resource. This would have allowed the market to get its mind around the project and assign at least some initial value to the deposit and to Falcon.

In our view, such a program could identify an initial Inferred Resource base of between 1 and 2 million tonnes at Collurabbie, grading around 1.5% nickel, 1.5% copper and around 4g/t PGEs (platinum group elements).

Given the extraordinary price strength of all of these metals, with nickel at record highs, platinum not far off its record highs, and copper again rising strongly, we believe the market would react extremely positive to identification of even a modest initial resource of this size.

We therefore base our positive view on Falcon on our confidence that the company will prove up a commercially exploitable resource at Collurabbie.

Now we hasten to add that this may take time. Again, we reiterate that BHP is not interested in small deposits and its exploration work remains geared around finding out whether Collurabbie could be a mega-deposit. We fully expect that BHP will effectively answer this question during 2007.

Of course, should Collurabbie not fulfill BHP's expectations, this does not dull Falcon's attraction in any way. In some respects it may well help the situation, as it will allow Falcon to focus on developing an exploitable resource at Collurabbie and getting it into production as quickly as possible.

We remind Members that Falcon's major shareholder is Jubilee Mines, which of course has a tremendous track record of exploration and development success in its own right. Members need only review our coverage of Jubilee and look at its escalating share price to see that Jubilee knows how to explore.

Most importantly how to turn exploration success into dollars and capital gains and dividends for shareholders! Significantly, it has done so with a deposit that started off as relatively modest in size. Jubilee's Cosmos nickel project in Western Australia has been a lucrative company-maker and Collurabbie has parallels with Cosmos in our view.

Jubilee holds a 16.2% stake in Falcon and has appointed several of its key personnel to the Falcon board and management team. It also has a tremendously strong balance sheet.

Jubilee is therefore in the box seat to take a leading role in project development at Collurabbie in the event of BHP's withdrawal.

We believe that in the event of BHP's withdrawal, exploration work would switch from extensional to infill drilling, with the goal of quickly establishing an initial JORC-compliant resource estimate. This would re-focus investor attention on the numerous positives at Collurabbie rather than the perceived negatives.

As we have consistently stated, we believe the Falcon Minerals story has enormous upside and strong credibility, with the potential to reward investors handsomely over the longer-term. It possess all of the key ingredients for success - a high quality and unique ground position, proven management, strong investor backing and a world class joint venture partner.

We remain extremely confident of Falcon's longer-term prospects, as we look past any short-term price weakness to Collurabie's potential status as a unique and possibly world-class nickel-PGM province. Again we stress that patience is required, but we believe the pay-off will be worth it.

Accordingly, Falcon Minerals will remain held in the Fat Prophets Mining & Resources portfolio.

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