



fatPROPHETS™

Falcon Minerals 23 Sep 09



FCN



Growing interest in Saxby joint venture

Apart from a few high profile examples over recent times where spectacular exploration hits have been reported, junior exploration companies are still continuing to have a relatively tough time of it. This is despite the fact there are a host of great companies and projects out there. Falcon is one of these, boasting two strong projects that could pay off big time, if only thorough and sustained exploration activity can be maintained by the company's joint venture partners.

Fat Prophets initially recommended Falcon Minerals (FCN) at 51 cents in January 2006 (Fat Mining 9). Our last review of the stock was in May (Fat Mining 174).



Since our last review in May, 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 16 cents in May. As evident on the daily chart, FCN has since consolidated at a higher level, with previous resistance now offering support.

Nevertheless, previous long-term support between 22.5 cents and 14.5 cents continues to provide a significant barrier to further gains. A sustained break above this region is required to greatly improve the broader outlook and signal the beginning of a sustained upward trend.



As we've previously highlighted, Falcon Minerals is a different kettle of fish to the majority of its exploration peers. Funding is not so much an issue, rather the level of exploration activity upon its projects. The company has \$2.8 million in the bank and its funding commitments at present are only modest.

But as we know, perhaps the biggest contributor to an exploration company's valuation at any particular time is the level of exploration activity being undertaken, i.e. the level of excitement or otherwise being offered to investors.

Investors will naturally prescribe a higher value to companies that have active exploration programs, as opposed to companies that are dormant. An active exploration company offers investors potential upside and market interest, which is attractive to speculative investors.

As we've discussed in the past, Falcon Minerals has two high quality exploration projects that are currently being evaluated by partners comprising the biggest names in the sector, BHP Billiton and AngloGold Ashanti. Whilst both projects are highly prospective, exploration activity is the key. And progress has not been anywhere near as rapid as Falcon would have liked.

Let's begin our discussion with the most active project in terms of current exploration activity, the Saxby joint venture in conjunction with AngloGold Ashanti in Queensland. The Saxby project lies 150km northeast of Cloncurry in northwestern Queensland and is considered to have good potential for a mafic-hosted (Voisey's Bay or Norilsk-style) nickel-copper massive sulphide system.

The previous joint venture partner, Anglo American Exploration (Australia) Pty Ltd (AAE) recently assigned its interest in the Saxby Joint Venture to AngloGold Ashanti Australia Limited (AGAA). AGAA is a South African-based leading gold producer with 21 mining

operations and a number of exploration projects worldwide. AGAA will bring invaluable expertise to the development of the Saxby Project.

AGAA will assume all of AAE's obligations under the Saxby Joint Venture Agreement by holding a 51% interest (FCN 49%) with the right to earn an additional 19% when total expenditure of \$7 million has been incurred on the project area prior to December 2013.

In January 2009, Falcon announced a significant high-grade gold intersection in diamond drill hole SXDD005 consisting of 17 metres @ 6.75g/t gold from 631 metres to 648 metres depth; including 5 metres @ 19.30g/t from 635 metres to 640 metres depth and 1.3 metres @ 67.23g/t gold from 636.7 metres to 638 metres depth.

The gold mineralisation in SXDD005 is associated with extensive wall rock magnetitehaematite-pyrite alteration and elevated copper geochemistry and has the potential to represent a large iron-oxide-copper-gold (IOCG) system. Furthermore, SXDD005 was drilled to test the southern end of a pronounced bedrock conductor which remains untested for a further 7km to the northeast and southwest of the above gold intercept.

During the next several months, AGAA proposes to undertake geophysical surveys consisting of detailed magnetic, gravity and infill SQUID electromagnetic (EM) surveys to better define the target in preparation for further drilling.

Given the inherent risk associated with drilling beneath deep cover sequences, the joint venture considers it prudent to conduct further detailed geophysical surveys during 2009 in order to better define drilling targets and to delineate the orientation and extent of the mineralised bedrock trend.

An infill SQUID EM survey is planned to infill previous lines and is scheduled to commence during the September Quarter, whilst a detailed gravity survey is planned to better define the distribution of the host sequence (and mineralisation).

The company's other high profile project is the Collurabbie joint venture project in Western Australia. The project lies 160km east of Mt Keith and 200km north of Laverton in the North Eastern Goldfields region of WA. It remains highly prospective and comprises a joint venture with BHP Billiton, whereby BHP holds a 70% stake and Falcon the balance of 30%.

Previous exploration at Collurabbie discovered disseminated nickel-copper-platinum group element (Ni/Cu/PGE) sulphide mineralisation, followed by the first massive sulphide intersections of Ni/Cu/PGE at the Olympia prospect. The discovery at Olympia was considered significant in that it represented a style of mineralisation not encountered previously in Australia, and potentially a new Ni/Cu/PGE province.

Falcon is presently in negotiations with BHPB regarding restructuring the terms of the Joint Venture Agreement that will see the recommencement of exploration over the Collurabbie Project. Meanwhile, the project is currently undergoing a period of intensive review to determine the effectiveness of previous exploration (and in particular EM surveys) and to develop new drill targets using fully-integrated 3D geological, geochemical and geophysical datasets.

As at the end of the June quarter the company held cash reserves of \$2.87 million, which leaves it with sufficient cash reserves to comfortably fund its share of exploration spending for the foreseeable future.

Accordingly, Falcon Minerals will remain held within the Fat Prophets Mining & Resources 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	A\$19m
------------------------------	---------------

DISCLAIMER

Fat Prophets has made every effort to ensure the reliability of the views and recommendations expressed in the reports published on its websites. Fat Prophets research is based upon information known to us or which was obtained from sources which we believed to be reliable and accurate at time of publication. However, like the markets, we are not perfect. This report is prepared for general information only, and as such, the specific needs, investment objectives or financial situation of any particular user have not been taken into consideration. Individuals should therefore discuss, with their financial planner or advisor, the merits of each recommendation for their own specific circumstances and realise that not all investments will be appropriate for all subscribers. To the extent permitted by law, Fat Prophets and its employees, agents and authorised representatives exclude all liability for any loss or damage (including indirect, special or consequential loss or damage) arising from the use of, or reliance on, any information within the report whether or not caused by any negligent act or omission. If the law prohibits the exclusion of such liability, Fat Prophets hereby limits its liability, to the extent permitted by law, to the resupply of the said information or the cost of the said resupply. As at the date at the top of this page, Directors and/or associates of the Fat Prophets Group of Companies currently hold positions in ABB Grain (ABB), Aurora Minerals (ARM), Austal (ASB), Australian Wealth Management (AUW), Avoca Resources (AVO), Avexa (AVX), Argo Exploration (AXT), BHP Billiton (BHP), Babcock & Brown Japan Property Trust (BJT), Boart Longyear (BLY), Biota Holdings (BTA), Catalpa Resources (CAH), Catalpa Resource Options (CAHO), Coeur D'Alene Mines (CXC), Fat Prophets (FAT), Fat Prophets Options (FATO), Fosters Group (FGL), Global Mining Investments (GMI), Lihir Gold (LGL), Lion Selection (LST), Macarthur Coal (MCC), Maryborough Sugar Factory (MSF), Mundo Minerals (MUN), Mineral Securities (MXX), Mineral Securities Options (MXXO), Newmont Mining (NEM), Oil Search (OSH), Oz Minerals (OZL), Progen Options (PGLO), Platinum Australia (PLA), QBE Insurance (QBE), Rio Tinto (RIO), Roc Oil (ROC), St Barbara (SBM), Sirtex Medical (SRX), Territory Iron Ord (TFE), Telstra Corporation (TLS), Tox Free Solutions (TOX), View Resources (VRE), View Resources Options (VREO), Walter Diversified (WDS), Woodside Petroleum (WPL), Merrill Lynch Gold Fund, Platinum Japan Fund, Gold Bullion. These may change without notice and should not be taken as recommendations. The above disclaimer does not apply to investments held by the Fat Prophets Australia Fund Limited ACN 111 772 359 (FPAFL).