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Falcon soars, readies to dig deep

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The discovery of a potential new mineral province can be a useful thing to pump up the value of a company which fears it is about to fall the victim to a low-ball takeover bid.

And so it was with WMC back in 2000-2001, when Alcoa of the US was sniffing around. WMC found, and then heavily promoted, a virgin nickel discovery called West Musgrave in Western Australia, hard up against the South Australian border.

Then in 2003-2004 when Xstrata had WMC in its sights, WMC came up with another potential value-adding discovery called Collurabie, 200 kilometres north of Laverton in WA's North Eastern Goldfields region.

Collurabie was one out of the box all right, with early hits containing a magic mix of high-grade nickel, copper and platinum group metals. It was a mix not seen in Australia before and prompted comparisons with the Raglan mine in Canada, owned at the time by Falconbridge.

History tells us that despite the early promise, nothing much came of either West Musgrave or Collurabie. History also tells us that despite the earlier efforts of Alcoa and Xstrata, WMC was eventually swallowed by BHP Billiton, minus its alumina assets which stand today as the ASX-listed Alumina Ltd.

All that is by way of background to the deal this week BHP has struck with Falcon Minerals (ASX:FCN), WMC's original partner at the more promising of the two virgin discoveries, Collurabie. A good-sized chunk of the tenements covering the discovery was held in a joint venture between the pair (WMC/BHP 70 per cent, Falcon 30 per cent).

BHP is now giving Falcon the whole lot in return for exclusive rights to buy any nickel produced from the ground, and a second right to match any third party offers for ore and/or concentrates.

It is a soft deal for Falcon given there has probably been \$7 million spent on the joint venture ground and a multiple of that on the ground BHP held to its own account, which is also being handed over to Falcon.

Falcon popped 1 cent higher to 22 cents on the news, giving it a market capitalisation of \$31 million. Now it's fair to say not much has been happening at Collurabie in recent times. But Falcon is out to change that in 2010.

It has drawn up an extensive drilling program, the main feature of which is that while drilling managed by BHP was wide-spaced in search of a monster deposit, the Falcon program will be tighter spaced, looking for smaller pods of high-grade mineralisation, something which is more in keeping with the style of mineralisation at Raglan. By the way, Raglan is now owned by Xstrata.

And you wouldn't credit it but guess who sits on the Falcon share register with a 16.1 per cent stake – Xstrata. It's a legacy of Xstrata's over-the-top \$3.1 billion takeover of nickel producer, Jubilee Mines, in 2007.

The resumption of drilling at Collurabie in 2010 could be worth watching based on past results. Best drilling from past holes – drilling stopped in 2006 – included 5.77 metres grading 3 per cent nickel, 1.96 per cent copper and 5.29 grams a tonne of platinum group metals.

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