

Falcon Minerals

Buy FCN around 54.5 cents

Positive meeting this week with key executives

[Fat Mining 38](#), 16 Aug, 2006
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SYMBOL DEFINITIONS



EXPLORER



HIGH RISK



MARKET CAP

\$78 million

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As we highlighted recently, Falcon Minerals in conjunction with its joint venture partner, BHP Billiton, has embarked on an enormously significant work program on its Collurabbie Project in Western Australia. The program involves follow-up testing of prospective electromagnetic targets identified by recent surveying. We met with two of Falcon's key executives this week and gained an even better understanding of the potential significance of what the joint venture partners are chasing at Collurabbie.

"We believe the depth potential at Collurabbie is what is exciting BHP Billiton, with the mineralization potentially thickening at depth."

Fat Prophets initially recommended Falcon Minerals (FCN) as a buy around 51 cents in January (Fat Mining 9). Our last review of the stock was in July (Fat Mining 34).

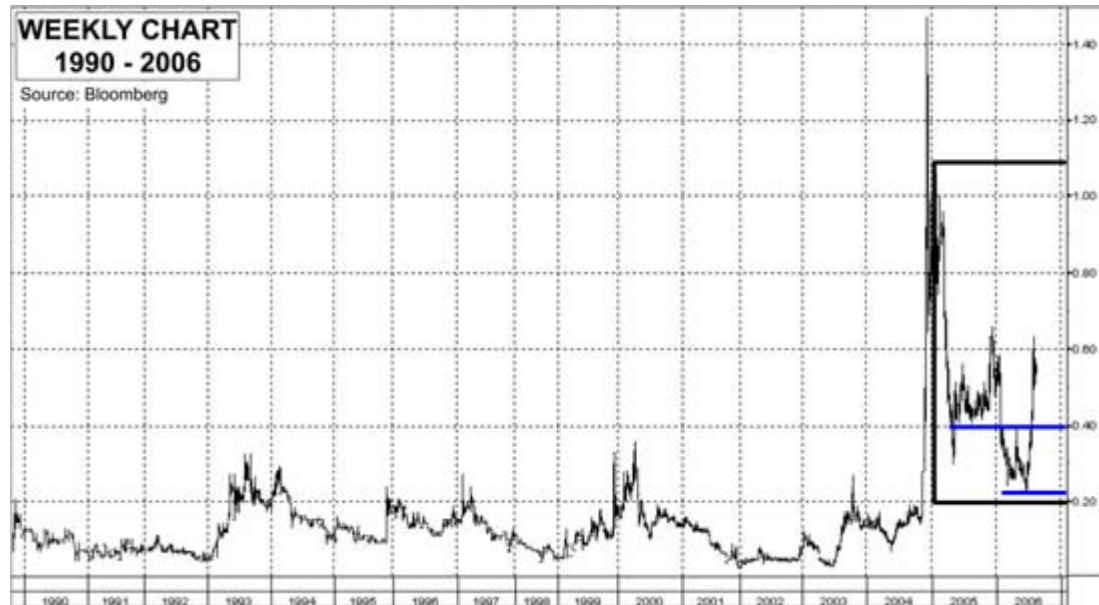


Falcon is consolidating the firm gains achieved during June and July. During this period, prices rallied more than 180% from 22.5 cents to a seven month high of 63.5 cents.

The current pause in the upward trajectory of Falcon is typical of any stock following such a strong rally. While we expect further consolidation in the near term, we believe that the pause in the rally will prove to be

temporary. The 40.5-cent level now provides support, limiting downside risks.

The recovery since July has markedly improved the outlook for Falcon. However, we believe a further break above 66 cents will confirm the revival of longer term, sustainable upward momentum.



We met this week with two of Falcon Minerals' key executives, Managing Director Richard Diermajer and Exploration Manager Simon Mottram. Interest in the company is growing as Falcon and BHP Billiton jointly undertake an enormously significant follow-up program of drilling on their Collurabbie Project in Western Australia. The focus is on two key prospects, Rhodes and Olympia.

Essentially, the drilling program will test BHP Billiton's geological interpretation that the polymetallic sulphide mineralization identified by near surface drilling at Rhodes and Olympia tends to widen with depth. In fact, BHP believes the mineralization could potentially at least double in size and this is what is exciting it.

To remind members, drilling at the Olympia prospect during late 2005 intersected more than 40 metres of disseminated sulphides from the last two holes in the program. The joint venture designed holes CLD 178 & CLD 179 to test below the existing known high-grade near-surface mineralisation at Olympia. They were successful in showing that the predicted stratigraphy does exist at depth and is in fact much wider than expected (in fact more than double the width).

These two holes also detected a series of four off-hole electromagnetic (EM) conductors. Three of these are located down-dip of disseminated nickel mineralisation within interpreted ultramafic host rock. The fourth, a much larger conductor, sits within the stratigraphic footwall, north of the others.

These new targets are in our view enormously significant, as they could potentially represent a new parallel zone of mineralisation to that already proven about 300 metres above. The trend of conductors from the recent drilling also enhances the prospectivity of a previously detected, but so far untested, Moving Loop EM (MLEM) conductor further north along the same trend. The two large EM conductors and the MLEM conductor to the north are the focus of the current drilling program.

Meanwhile on the Rhodes prospect, three drill holes (CLD 152, 181 & 182) in late 2005 also generated targets for follow-up. The most interesting result came from CLD 182, which tested an EM conductor on the eastern side of the Rhodes prospect and successfully intersected nickel mineralisation, including a small intercept that hosted 30 cm of deformed massive sulphides, grading 0.96% nickel (Ni), 0.33% copper (Cu) and 1.2g/t platinum & palladium (Pt & Pd).

Whilst not an economic intercept in itself, the DHEM survey of the hole revealed an off-hole conductor coinciding with the mineralized intercept, which is a priority drill target for testing in the current program. A second deep drill hole will also test a DHEM conductor to the north of a previously drilled hole CLD 153, which intersected 4 metres @ 1.34% Ni, 0.24% Cu, 0.58g/t PGEs.

In summary, the upcoming work program is enormously significant because of its potential to identify much larger zones of mineralization at depth at Collurabbie. The program will go a long way towards helping BHP Billiton ascertain whether a potentially world-class resource lies within Collurabbie.

Our meeting with Falcon management also revealed a major new regional exploration play in which the

company has become involved. Falcon has entered into a joint venture on the Marymia Project, currently owned by AuDAX Resources. Falcon can earn a 70% stake in the project by spending \$1.75 million over a five-year period.

The reason we like the project is its prospectivity. It lies 250km to the northwest of Collurabbie and shares very similar geological characteristics. In fact, initial regional survey work carried out by Falcon shows higher nickel-copper-platinum responses than it received at Collurabbie. Falcon has completed an initial program of ground sampling, with more than 2,200 samples sent to Canada for testing. We anticipate results during September.

As we have consistently stated, we believe the Falcon Minerals story has strong credibility and the potential to reward investors handsomely over both the short and longer-terms. It possess all of the key ingredients for success and what most exploration plays lack - a high quality and unique ground position, proven management, strong investor backing and a world class joint venture partner. Apart from BHP's input, Falcon's major shareholder, Jubilee Mines, has a tremendous track record of exploration and development success in its own right. Jubilee holds a 17% stake and has appointed several of its key personnel to the Falcon board and management team.

We remain extremely confident of Falcon's longer-term prospects, as we look past any short-term volatility to Collurabbie's potential status as a unique and possibly world-class nickel-PGE province.

Falcon Minerals will remain held in the Fat Prophets Mining & Resources portfolio, but for Members with no current exposure we recommend the stock as a Buy around 54.5 cents.

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