



FCN



Patience remains a virtue

It's been a tough period for junior companies, but particularly those with an exploration focus. Companies like Falcon with ongoing exploration programs have been particularly badly hit, as the market has given them little credit for their work. The company boasts two strong projects that could pay off big time, if only thorough and sustained exploration activity can be maintained on each project by the company's joint venture partners. This will be the key for investors and why the company requires ongoing patience.

Fat Prophets initially recommended Falcon Minerals (FCN) at 51 cents in January 2006 (Fat Mining 9). Our last review of the stock was in November (Fat Mining 152).



From a share price perspective, Falcon Minerals has been a disappointing performer over the past twelve months. As evident on the daily chart, prices have been in steady decline, before finding support over the past 4 months in the 10 cents to 5 cent region. This is the lowest level for the shares since 2004.

With significant resistance now overhead, we would expect an extended period of consolidation at the lows, before rally attempts emerge into a sustained push higher. A break back above the 15 cent region is required to improve the broader outlook.



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. You see, one of the major contributors to an exploration company's market value at any particular time is the level of exploration activity being undertaken.

This makes sense, as investors will naturally prescribe a higher value to companies that are active, as opposed to companies that are dormant. Why would an investor invest in an inactive exploration company, where no exploration means there is no possibility of success? On the other hand, 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 amongst the biggest names in the mining sector, respectively BHP Billiton and Anglo American. Whilst both projects are highly prospective, exploration activity is the key in Falcon's case. And progress has not been anywhere near as rapid as the company would have liked.

Let's begin our discussion with the first and most significant of these two projects, 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%.

Historical exploration work at Collurabbie identified disseminated nickel-copper-platinum group element (Ni-Cu-PGE) sulphide mineralisation, followed by the first massive-sulphide intersections of Ni-Cu-PGEs at the Olympia prospect. The discovery at Olympia was considered enormously significant, in that it represented a brand new style of mineralisation not previously encountered in Australia.

Indeed it is the geology at Collurabbie that so excited previous joint venture partner, WMC Resources. The combined presence of platinum and palladium is unprecedented in the context of massive nickel and copper sulphide association within Australia. There are in fact parallels between Collurabbie and Falconbridge's large Raglan deposit in Quebec, Canada.

Whilst highly prospective, Collurabbie has, for a variety of reasons, not been an easy road for investors. This is because it is not your typical exploration play and BHP's exploration program can best be described as moving at glacial pace. The tempo certainly has not been as upbeat as Falcon and we would have liked.

At present 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 geological, geochemical and geophysical datasets.

During the March 2009 quarter, BHP Billiton compiled and provided all available geophysical data collected over E38/2009. New data available to the joint venture include 11 remodelled DHEM logs, new conductivity Depth Images (CDIs) derived from GEOTEM data, Solid Earth Models using 3D magnetic and gravity inversion data, and reprocessed radiometric data.

Encouragingly, this data has clearly identified additional drilling targets at Olympia and to the south at the Rhodes prospects, which are highly prospective for the discovery of further nickel sulphide mineralisation. We understand that further 3D geophysical data integration and drill-hole targeting will be conducted during the current quarter.

An important point is that ground access at Collurabbie has previously been restricted by the lack of heritage clearances. To address this issue, an ethnographic survey and a site identification archaeological survey was recently completed over a portion of the project area.

BHP's work has been exclusively extensional in nature, aimed at defining the broad resource limits at Collurabbie to define whether the project qualifies as being 'world-class' and worthy of being on BHP's project list. BHP needs to make a clear decision on its future intentions with respect to Collurabbie. We are hopeful that Falcon, which is currently in discussions with BHPB regarding a restructuring of terms in respect to the Joint Venture Agreement for the Collurabbie Project, will achieve a favourable outcome.

The most interesting exploration activity currently taking place is on the company's second major project, which comprises the Saxby joint venture in conjunction with Anglo American 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.

Falcon holds a 49% stake in the project, with Anglo American holding a 51% stake (which it can increase to 70%). Under the joint venture with Anglo American, a low temperature Squid TEM (transient electro-magnetic) survey was completed in late 2007/08 that identified several strong bedrock conductors, possibly associated with massive Ni-Cu sulphides that warranted further drill testing.

Just recently, seven diamond drill holes (SXDD001-007) were completed for a total of 5,274 metres during the September quarter last year to test several bedrock EM conductors. Significant gold mineralisation was intersected in drillhole SXDD005 collared at 7866200N, 488200E, comprising 17 metres @ 6.75g/t gold from 631 metres to 648 metres depth, and 7 metres @ 1.98g/t gold from 614 metres to 621 metres.

In a regional context the gold mineralisation in SXDD005 is associated with strong Iron Oxide Copper Gold (IOCG)-style "red rock" K-feldspar-calcite-magnetite-quartz alteration in strongly brecciated metasediments and pegmatite sills within an interpreted NE-trending structural corridor. It also appears associated with a coincident bedrock EM conductor and an elevated magnetic/gravity signature.

Encouragingly, there lies a further 7 km of strike length along the anomalous trend that remains to be drill tested during 2009. So we look forward to more encouraging results this year.

As at the end of the March quarter the company had \$3.1 million cash on hand, after having spent just \$0.2 million during the quarter. This leaves Falcon 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 Collurabie, the joint venture with BHP Billiton in WA has steadily grown in importance. The discovery at Collurabie 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.

Cash on Hand	\$3.1m
Market Capitalisation	\$16m

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