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Falcon Minerals

Patience is a virtue

Hold FCN

Fat Mining 88, 08 Aug, 2007
Printer Friendly

SYMBOL DEFINITIONS			
 EXPLORER	 HIGH RISK	 MARKET CAP	\$59 million
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The Collurabbie joint venture project in Western Australia is a hot topic for Falcon Minerals and BHP Billiton at the moment. There is anticipation towards BHP to make a decision soon as to whether the project meets its lofty benchmark. We believe the future for Falcon is bright whether BHP continues or not, and we are encouraged by the company's increasing ground position in the Collurabbie region.

"The recently announced deal with Anglo American means Falcon now has two resource behemoths as joint venture partners."

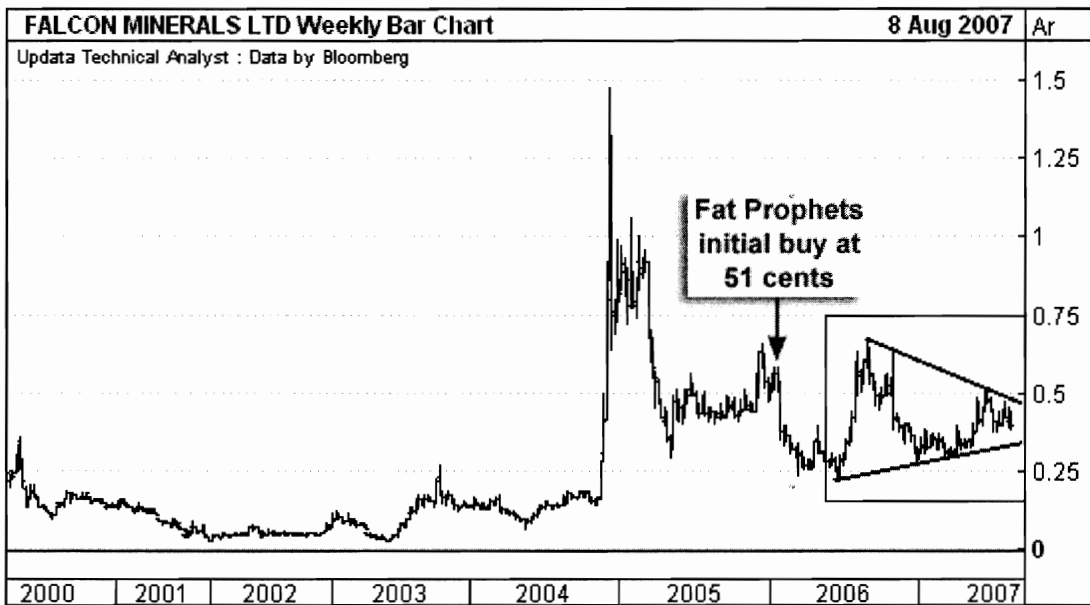
Fat Prophets initially recommended Falcon Minerals (FCN) at 51 cents in January 2006 (Fat Mining 9). Our last review of the stock was in March (Fat Mining 70).



Since our last review in March, Falcon has rallied by as much as 63%. However, as shown on the daily chart, prices remain within a narrowing longer-term range. The converging lines of resistance and support clearly identify the pattern as a triangle.

Chartists observe that triangles typically precede a major breakout. Given the gains achieved this year, we believe that the break will be to the topside. However, in the near-term, we anticipate further consolidation within the pattern, currently bounded by resistance at 48 cents and support at 33 cents.

Encouragingly, Falcon has largely avoided the broader market volatility of the past two weeks. In our opinion, this provides further evidence of investor support for the stock. In time, we anticipate a break through the upper edge of the pattern with a continuation above 51.5 cents to further bolster upward momentum. Such a move would target the eventual retest of the August 2006 high of 67 cents with further gains achievable in time.



The recent release of Falcon Minerals June quarter activity report presents the ideal opportunity for us to revisit this intriguing exploration company. Members will probably be aware that we have been long-time supporters of Falcon, a stance that we firmly maintain.

The reason for this optimism is Falcon's high-profile Collurabbie Project in Western Australia. It remains highly prospective and comprises a joint venture with Billiton, whereby BHP holds a 70% stake and Falcon the balance of 30%.

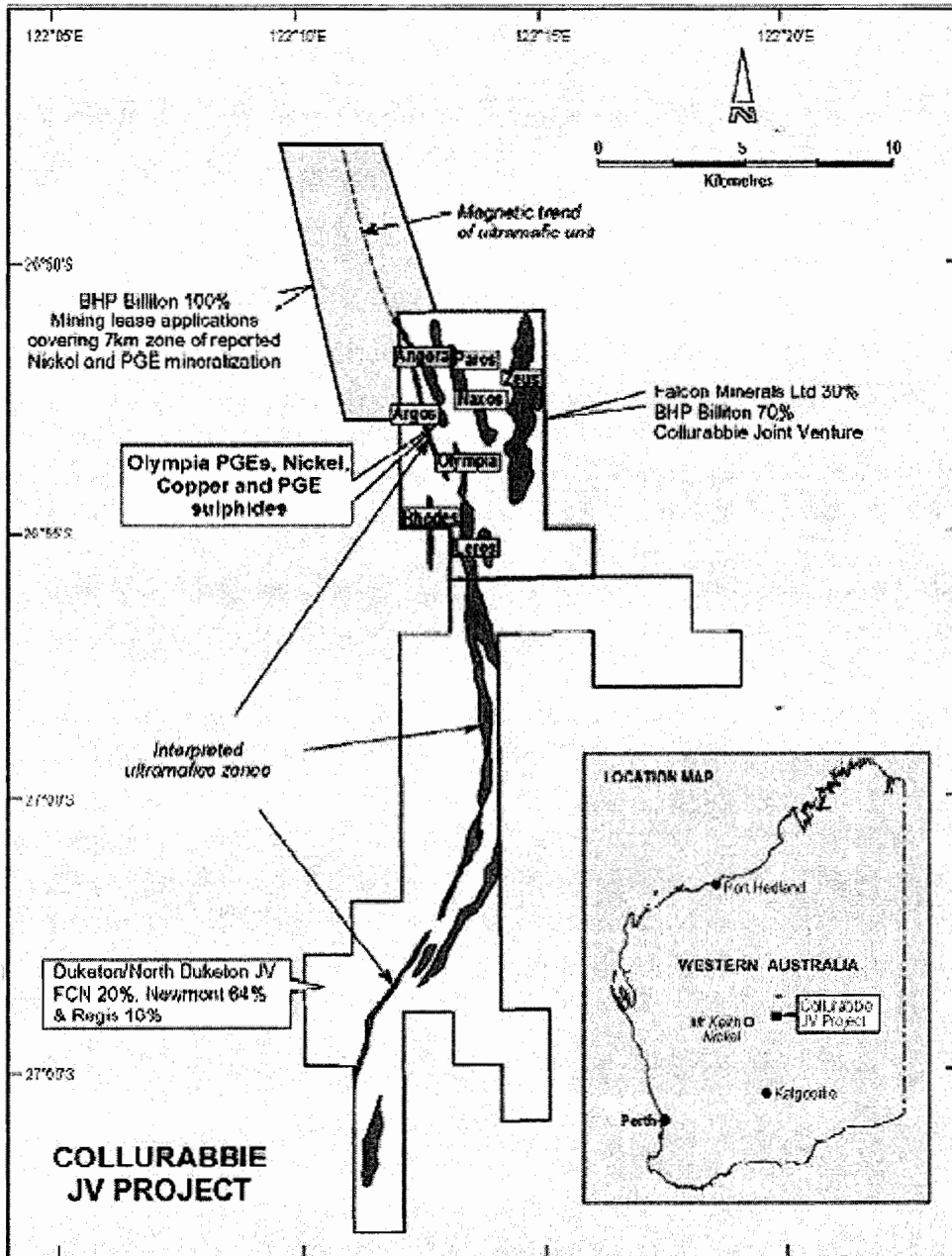
The project lies 160km east-northeast of BHP's Mt Keith Nickel operation, which it acquired through the takeover of WMC Resources. Collurabbie is relatively under-explored for one simple reason: a thin layer of transported sand effectively masks the underlying prospective Archaean-age rocks. This has effectively impeded nickel exploration in this area for three decades.

The geology of Collurabbie is what excites: WMC Resources identified a geological style not previously seen before in Australia. The combined presence of platinum and palladium of up to several grams per tonne 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 number 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.

BHP's work has been exclusively extensional in nature, aimed at defining the broad resource limits at Collurabbie. BHP has been keen to ascertain whether Collurabbie meets its criteria as a project of world-class dimensions. Therefore its drilling has been aggressive in nature.

BHP needs to make a clear decision on its future intentions with respect to Collurabbie.



Meanwhile, the last deep drilling program beneath the known nickel-copper-platinum mineralisation at Olympia (one of the most prospective targets) failed to detect a large mineralised system, results so far are encouraging as they show definite potential in our view for a moderate-sized resource.

Furthermore, the results also show the potential for a continuation of the mineralisation at depth.

We believe that there is every possibility of an initial Inferred Resource of 1-2 million tonnes grading around 1.5% nickel, 1.5% copper and around 4g/t PGEs (platinum group elements).

Beyond Olympia, there exist a multitude of exploration prospects at Collurabbie, from conceptual anomalies to advanced targets where economic mineralisation has already been intersected. These targets require further work and we hope that joint venture meetings between BHP and Falcon will enable near-term testing of these encouraging targets.

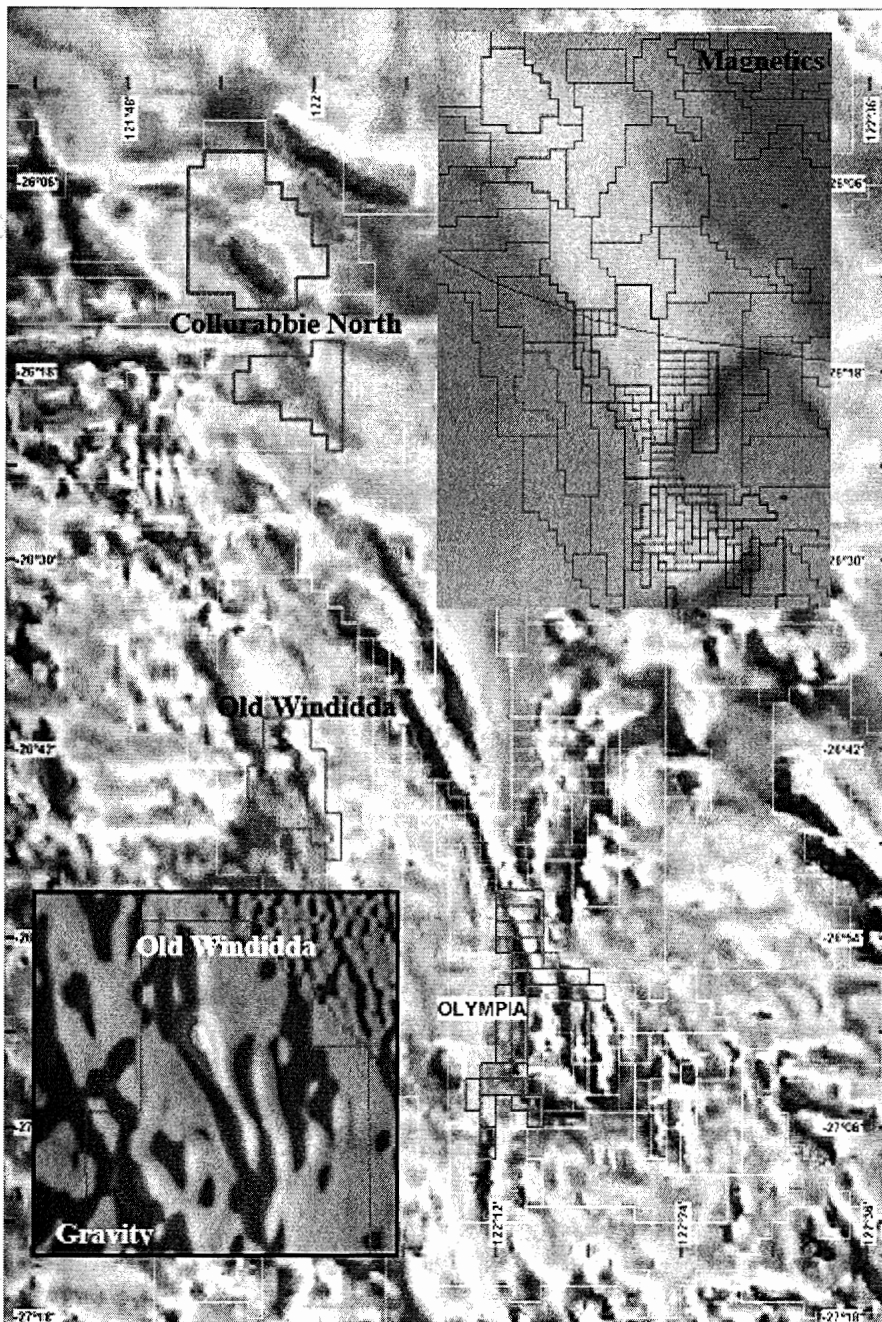
As a strong indicator of Falcon's favourable view on the Collurabbie Project, the company has spent the past few months expanding its regional tenement base. It has picked up interests in two parcels of ground, known respectively as Collurabbie North and Old Windiddia.

Collurabbie North lies 70km north of Falcon's Collurabbie joint venture ground. Data from gravity surveying shows the Collurabbie Belt extending to the north. In the newly acquired areas there are several significant magnetic features that warrant testing for their nickel potential.

Falcon is undertaking geophysical modelling to determine the thickness of overlying surface cover, which in turn will enable it to adopt the best form of follow-up exploration.

The Old Windiddia Project lies even closer to the Collurabbie joint venture ground. It lies in close to a large granite body, northwest of the Collurabbie structural trend. The target within the project consists of a well-defined magnetic anomaly that is 2.5km length, which apparently stands out from the granite.

We hasten to remind members that should BHP deem the Collurabbie resource unsatisfactory for its criteria, this does not necessarily dull Collurabbie or Falcon's attraction in our view.



Falcon's major shareholder is Jubilee Mines, which has a tremendous track record of exploration and development success in its own right. Jubilee remains in the box seat to take a leading role in project exploration and development

in the event of BHP's withdrawal, due to its balance sheet strength.

Jubilee's Cosmos nickel project has been a lucrative company-maker and Collurabbie has parallels with Cosmos in our view. Jubilee holds a 16.2% stake and has appointed several of its key personnel to the Falcon board and management team.

Aside from Collurabbie, Falcon has brought another resource powerhouse into the fold. Falcon has farmed out a 70% stake in its Saxby project near Cloncurry in Queensland to Anglo American. Under the deal, Anglo can spend \$7 million over a six-year period to earn a 70% stake in the project.

The search is on for a large nickel-copper discovery and Anglo is undertaking an electromagnetic survey to identify potential drilling targets for testing during the next quarter.

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.

We remain extremely confident of Falcon's longer-term prospects. It possesses all of the key ingredients for success - a high quality and unique ground position, proven management, strong investor backing and world class partners. Patience is required, but we believe the pay-off will be worth it.

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

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