

# **FALCON MINERALS LTD**

**ACN 009 256 535**

## **FINANCIAL REPORT FOR THE HALF-YEAR ENDED 31 DECEMBER 2005**

## **DIRECTORS' REPORT**

The directors of Falcon Minerals Ltd present the following report for the half-year ended 31 December 2005.

### **DIRECTORS**

The names of the company's directors in office during the half-year and until the date of this report are as below. Directors were in office for this entire period unless otherwise stated.

Mr Kerry Kyriakos Harmanis  
Mr Richard Diermajer  
Mr Raymond Muskett  
Mr Gary Mark Lethridge

### **PRINCIPAL ACTIVITY**

The principal activities of the company are exploration for base metals including gold, copper, nickel and mineral sands.

### **REVIEW OF OPERATIONS**

**Collurabbie Joint Venture – WA**  
**(Nickel and Platinum Group Elements Project)**  
(Falcon 30%, BHP Billiton 70%)

The Collurabbie project is located approximately 160km ENE of the Mt Keith Nickel Operation in the North Eastern Goldfields of Western Australia.

In early 2004 air core drilling identified several zones of strongly anomalous nickel, copper and platinum group elements (PGE's) mineralisation with follow up drilling intersecting a massive sulphide zone of 5.77m at 3.00% nickel, 1.96% copper and 5.29 g/t PGE's.

The current exploration program that commenced in the last quarter of 2005 has been designed to test the Olympia mineralisation at depth and new electromagnetic targets at the Paros and Rhodes prospects. Drilling at Olympia and Paros has been completed however due to unexpected rain, further diamond drilling at Rhodes and down hole electromagnetic surveys of all holes the subject of this program have been delayed and are expected to be completed in March.

**Duketon And North Duketon Projects South Of Collurabbie – W.A.**  
**(Gold and Nickel and Platinum Group Elements)**  
(Newmont JV 64%, Falcon 20%, Regis 16%)

The Duketon and North Duketon joint venture comprises a large area of about 100 square kilometres located directly south of Collurabbie along the same greenstone belt. Newmont has conducted gold exploration on the tenements for several years, with sporadic anomalous gold results. Work recently comprised of air core drilling and surface EM focusing on Ni-Cu-PGE mineralisation. RC drilling and down hole EM has been planned to test for deeper sulphide mineralisation.

**DIRECTORS' REPORT (Continued)**

**Racehorse/ Mt. McDonald – Queensland**

**(Gold and Copper)**

(Falcon 100%)

The Racehorse / Mt. McDonald Projects are located in south Queensland, where modelling of gravity data has shown two buried high-density targets lying off the flank of a large magnetic anomaly. These may be prospective for gold-copper mineralisation within a large anticlinal feature where surface geochemistry has returned anomalous gold and base metals.

At Racehorse, independent geophysical modelling has identified an anomaly indicating high-density material that fits with the desired model parameters for an Olympic Dam/major volcanogenic gold/copper system. Drilling of the Racehorse anomaly commenced in February.

**Shepparton – Victoria**

**(Gold and Copper)**

(Falcon 100%)

Infill, gravity surveying completed at Shepparton has shown the target to be of limited size at a significant depth. This potential of this project is currently being reviewed.

**Coonamble – New South Wales**

**(Gold and Copper)**

(Falcon 100%)

Infill, gravity surveying completed at Coonamble has shown the target to be of insufficient density at significant depth. This potential of this project is under review.

**Paltrubie And Acraman – South Australia**

**(Gold)**

(Falcon 100%)

The Paltrubie and Acraman Projects are located in the highly prospective Gawler Craton, South Australia. This region has more recently become a major focus of gold exploration with significant results being reported by Adelaide Resources at the Barnes Project and Minotaur-Helix at Tunkillia.

Drilling is proposed however, determination on Native Title Heritage is required prior to the commencement of any further work.

**Tutunup – Western Australia**

**(Mineral Sands Project)**

Under agreement a final royalty payment of \$163,024 was received from Bemax Resources N.L.

**DIRECTORS' REPORT (Continued)**

**RESULTS OF OPERATIONS**

The company incurred an after tax operating loss for the half-year ended 31 December 2005 of \$44,053 (half-year ended 31 December 2004 loss of \$41,674).

**Auditor's Independence Declaration**

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 is set out on page 20.

Signed in accordance with a resolution of the directors



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Richard Edward Diermajer  
Director

Perth, Western Australia  
27<sup>th</sup> February 2006

**CONDENSED INCOME STATEMENT  
FOR THE HALF-YEAR ENDED 31 DECEMBER 2005**

	Note	31 December 2005 \$	31 December 2004 \$
Revenue	2	298,872	93,614
Occupancy expenses		(16,916)	(7,188)
Administrative expenses		(266,922)	(107,579)
Exploration expenditure written off		(39,822)	-
Depreciation		(11,265)	(7,194)
Other expenses		(8,000)	(13,327)
<b>(Loss) before income tax</b>		(44,053)	(41,674)
Income tax		-	-
<b>Net (loss) attributable to members of Falcon Minerals Ltd</b>		<u>(44,053)</u>	<u>(41,674)</u>
Basic loss per share (cents)		<u>(0.03)</u>	<u>(0.03)</u>

*The above income statement should be read in conjunction with the accompanying notes.*

**CONDENSED BALANCE SHEET  
AS AT 31 DECEMBER 2005**

	Note	31 December 2005 \$	30 June 2005 \$
<b>Current Assets</b>			
Cash and cash equivalents		4,945,557	5,614,424
Receivables		203,702	47,876
<b>Total Current Assets</b>		<u>5,149,259</u>	<u>5,662,300</u>
<b>Non Current Assets</b>			
Other financial assets		32,000	40,000
Property, plant and equipment		146,259	60,687
Exploration expenditure		1,498,415	1,158,964
<b>Total Non Current Assets</b>		<u>1,676,674</u>	<u>1,259,831</u>
<b>Total Assets</b>		<u>6,825,933</u>	<u>6,922,131</u>
<b>Current Liabilities</b>			
Payables		223,031	278,107
Provisions		4,289	1,358
<b>Total Current Liabilities</b>		<u>227,320</u>	<u>279,465</u>
<b>Total Liabilities</b>		<u>227,320</u>	<u>279,465</u>
<b>Net Assets</b>		<u>6,598,613</u>	<u>6,642,666</u>
<b>Equity</b>			
Issued Capital	3	16,632,472	16,632,472
Accumulated losses		(10,033,859)	(9,989,806)
<b>Total Equity</b>		<u>6,598,613</u>	<u>6,642,666</u>

*The above Balance Sheet should be read in conjunction with the accompanying notes.*

**CONDENSED STATEMENT OF CASH FLOWS  
FOR THE HALF-YEAR ENDED 31 DECEMBER 2005**

	<b>31 December 2005</b>	<b>31 December 2004</b>
	\$	\$
<b>Cash flows from operating activities</b>		
Payments to suppliers and employees	(708,028)	(434,269)
Interest received	127,856	89,308
Net GST (paid)	-	14,016
<b>Net cash flows used in operating activities</b>	<u>(580,172)</u>	<u>(330,945)</u>
<b>Cash flows from investing activities</b>		
Proceeds from disposal of plant and equipment	14,710	-
Payments for plant and equipment	<u>(103,405)</u>	<u>(4,738)</u>
<b>Net cash flows used in investing activities</b>	<u>(88,695)</u>	<u>(4,738)</u>
<b>Cash flows from financing activities</b>		
Proceeds from share issues	-	80,000
<b>Net cash flows from financing activities</b>	<u>-</u>	<u>80,000</u>
<b>Net (decrease)/increase in cash and cash equivalents</b>	(668,867)	(255,683)
<b>Cash at beginning of the half year</b>	5,614,424	3,652,954
<b>Cash at end of the half year</b>	<u><u>4,945,557</u></u>	<u><u>3,397,271</u></u>

*The above statement of cash flows should be read in conjunction with the accompanying notes.*

**CONDENSED STATEMENT OF CHANGES IN EQUITY  
FOR THE HALF-YEAR ENDED 31 DECEMBER 2005**

	<b>Issued Capital</b>	<b>Accumulated Losses</b>	<b>Total</b>
	\$	\$	\$
<b>At 1 July 2004</b>	13,125,451	(9,535,886)	3,589,565
Loss for the period	-	(41,674)	(41,674)
Exercise of options	80,000	-	80,000
<b>At 31 December 2004</b>	<u>13,205,451</u>	<u>(9,577,560)</u>	<u>3,627,891</u>
 <b>At 1 July 2005</b>	 16,632,472	 (9,989,806)	 6,642,666
Loss for the period	-	(44,053)	(44,053)
<b>At 31 December 2005</b>	<u>16,632,472</u>	<u>(10,033,859 )</u>	<u>6,598,613</u>

**NOTES TO AND FORMING PART OF THE CONDENSED FINANCIAL STATEMENTS  
FOR THE HALF-YEAR ENDED 31 DECEMBER 2005**

**NOTE 1. BASIS OF PREPARATION OF THE HALF-YEAR FINANCIAL  
REPORT**

The half-year financial report does not include all notes of the type normally included within the annual financial report and therefore cannot be expected to provide as full an understanding of the financial performance, financial position and financing and investing activities of the Company as the full financial report.

The half-year financial report should be read in conjunction with the annual Financial Report of Falcon Minerals Limited as at 30 June 2005, which was prepared based on Australian Accounting Standards applicable before 1 January 2005 ('AGAAP').

It is also recommended that the half-year financial report be considered together with any public announcements made by Falcon Minerals Limited during the half year ended 31 December 2005 in accordance with the continuous disclosure obligations arising under the Corporations Act 2001.

**(a) Basis of accounting**

The half-year financial report is a general-purpose financial report, which has been prepared in accordance with the requirements of the Corporations Act 2001, applicable Accounting Standards including AASB 134 "Interim Financial Reporting" and other mandatory professional reporting requirements.

The half-year financial report has been prepared on a historical cost basis, except for available for sale assets that have been measured at fair value. For the purpose of preparing the half-year financial report, the half-year has been treated as a discrete reporting period.

**(b) Statement of compliance**

The half-year financial report complies with Australian Accounting Standards, which include Australian equivalents to International Financial Reporting Standards ('AIFRS'). Compliance with AIFRS ensures that the half-year financial report, comprising the financial statements and notes thereto, complies with International Financial Reporting Standards ('IFRS').

This is the first half-year financial report prepared based on AIFRS and comparatives for the half-year ended 31 December 2004 and full-year ended 30 June 2005 have been restated accordingly. A summary of the significant accounting policies of the Company under AIFRS are disclosed in Note 1(c) below.

Reconciliations of:

- AIFRS equity as at 1 July 2004, 31 December 2004 and 30 June 2005; and
  - AIFRS profit for the half-year 31 December 2004 and full year 30 June 2005,
- to the balances reported in the 31 December 2004 half-year report and 30 June 2005 full-year financial report prepared under AGAAP are detailed in Note 1(e) below.

**NOTES TO AND FORMING PART OF THE CONDENSED FINANCIAL STATEMENTS FOR THE HALF-YEAR ENDED 31 DECEMBER 2005**

**NOTE 1. BASIS OF PREPARATION OF THE HALF-YEAR FINANCIAL REPORT (Continued)**

**(c) Summary of significant accounting policies**

**(i) Interest in joint venture operations**

The Company's interest in its joint venture operation is accounted for by recognising the Company's assets and liabilities from the joint venture, as well as expenses incurred by the Company and the Company's share of income earned from the joint venture, in the financial statements.

**(ii) Property, plant and equipment**

Plant and equipment is stated at cost less accumulated depreciation and any impairment in value. Leasehold improvements are depreciated over the shorter of either the unexpired period of the lease or the estimated useful lives of the improvements.

Plant and equipment, office furniture and computer equipment is depreciated on either a straight-line or diminishing value method at rates between 20% and 50%.

Motor vehicles are depreciated using the straight-line method at a rate of 18.75%.

**Impairment**

The carrying values of plant and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable.

For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets or cash-generating units are written down to their recoverable amount. The recoverable amount of plant and equipment is the greater of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset.

Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the income statement in the period the item is derecognised.

**(iii) Exploration and Evaluation Expenditure**

Exploration, evaluation and relevant acquisition costs are accumulated separately for each area of interest. They comprise acquisition costs, direct exploration and evaluation costs and an appropriate portion of related overhead expenditure. They do not include general overhead or administrative expenditure not having a specific nexus with a particular area of interest.

**NOTES TO AND FORMING PART OF THE CONDENSED FINANCIAL STATEMENTS FOR THE HALF-YEAR ENDED 31 DECEMBER 2005**

**NOTE 1. BASIS OF PREPARATION OF THE HALF-YEAR FINANCIAL REPORT (Continued)**

**(c) Summary of significant accounting policies (Continued)**

Costs of this nature are carried forward only if they relate to an area of interest for which rights of tenure are current and in respect of which:

- i) such costs are expected to be recouped through successful development and exploitation or from sale of the area; or
- ii) exploration and evaluation activities in the area have not at balance date reached a stage which permits a reasonable assessment of the existence or otherwise of economically recoverable reserves, and active operations in, or relating to, the area are continuing.

Exploration and evaluation expenditure which does not satisfy this criteria is written off.

Ultimate recoupment of capitalised expenditure in respect of areas in the exploration and/or evaluation stage is dependent upon successful development and commercial exploitation or alternatively sale, of the respective areas.

Once a decision has been taken to proceed with mine development, all past and future exploration expenditure in respect of that area of interest is aggregated and reclassified as Mine Properties.

**(iv) Mine Properties**

Mine properties represent the accumulation of all exploration, evaluation, and development expenditure incurred by or on behalf of the entity in relation to areas of interest in which a decision to commence mining of a mineral resource has been taken.

Where further development expenditure is incurred in respect of a mine property after the commencement of production, such expenditure is carried forward as part of the cost of that mine property, only when substantial economic benefits are thereby established, otherwise such expenditure is classified as part of the cost of production.

The net carrying value of each mine property is reviewed regularly and, to the extent to which this value exceeds its recoverable amount, the excess is fully provided against in the financial year in which this is determined. The expected net cash flows included in determining recoverable amount are not discounted to their present value.

**(v) Recoverable amount of assets**

At each reporting date, the Company assesses whether there is any indication that an asset may be impaired.

Where an indicator of impairment exists, the Company makes a formal estimate of recoverable amount.

Where the carrying amount of an asset exceeds its recoverable amount the asset is considered impaired and is written down to its recoverable amount.

**NOTES TO AND FORMING PART OF THE CONDENSED FINANCIAL STATEMENTS FOR THE HALF-YEAR ENDED 31 DECEMBER 2005**

**NOTE 1. BASIS OF PREPARATION OF THE HALF-YEAR FINANCIAL REPORT (Continued)**

**(c) Summary of significant accounting policies (Continued)**

Recoverable amount is the greater of fair value less costs to sell and value in use. It is determined for an individual asset, unless the asset's value in use cannot be estimated to be close to its fair value less costs to sell and it does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

**(vi) Investments**

All investments are initially recognised at cost, being the fair value of the consideration given and including acquisition charges associated with the investment.

After initial recognition, investments, which are classified as held for trading and available-for-sale, are measured at fair value. Gains or losses on investments held for trading are recognised in the income statement.

Gains or losses on available-for-sale investments are recognised as a separate component of equity until the investment is sold, collected or otherwise disposed of, or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is included in the income statement.

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the Group has the positive intention and ability to hold to maturity. Investments intended to be held for an undefined period are not included in this classification.

**(vii) Trade and other receivables**

Trade receivables, which generally have 30-90 day terms, are recognised and carried at original invoice amount less an allowance for any uncollectible amounts.

An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off when identified.

**(viii) Cash and cash equivalents**

Cash and short-term deposits in the balance sheet comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less.

For the purposes of the Cash Flow Statement, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

**NOTES TO AND FORMING PART OF THE CONDENSED FINANCIAL STATEMENTS FOR THE HALF-YEAR ENDED 31 DECEMBER 2005**

**NOTE 1. BASIS OF PREPARATION OF THE HALF-YEAR FINANCIAL REPORT (Continued)**

**(c) Summary of significant accounting policies (Continued)**

**(ix) Provisions**

Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Where the Company expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the income statement net of any reimbursement.

**(x) Operating leases**

Lease payments for operating leases, where substantially all the risks and benefits remain with the lessor, are charged as expenses in the periods in which they are incurred.

Lease incentives under operating leases are recognised as a liability. Lease payments received reduce the liability.

**(xi) Revenue**

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

**Interest Income**

Interest income is recognised as it accrues.

**(xii) Income Tax**

Deferred income tax is provided on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognised for all taxable temporary differences:

- except where the deferred income tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, except where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

**NOTES TO AND FORMING PART OF THE CONDENSED FINANCIAL STATEMENTS FOR THE HALF-YEAR ENDED 31 DECEMBER 2005**

**NOTE 1. BASIS OF PREPARATION OF THE HALF-YEAR FINANCIAL REPORT (Continued)**

**(c) Summary of significant accounting policies (Continued)**

Deferred income tax assets are recognised for all deductible temporary differences, carry-forward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry-forward of unused tax assets and unused tax losses can be utilised:

- except where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Income taxes relating to items recognised directly in equity are recognised in equity and not in the income statement.

***(xiii) Employee Benefits***

Provision is made for the company's liability for employee benefits arising from services rendered by employees to balance date. Employee benefits that are expected to be settled within one year have been measured at the amounts expected to be paid when the liability is settled, plus related on-costs. Employee benefits payable later than one year have been measured at the present value of the estimated future cash outflows to be made for those benefits.

**(d) AASB1 Transitional exemptions**

The Company has made its election in relation to the transitional exemptions allowed by AASB 1 'First-time Adoption of Australian Equivalents to International Financial Reporting Standards' as follows:

***Designation of previously recognised financial instruments***

Financial instruments were designated as financial assets or liabilities at fair value through profit or loss or as available-for-sale at the date of transition to AIFRS.

**NOTES TO AND FORMING PART OF THE CONDENSED FINANCIAL STATEMENTS FOR THE HALF-YEAR ENDED 31 DECEMBER 2005**

**NOTE 1. BASIS OF PREPARATION OF THE HALF-YEAR FINANCIAL REPORT (Continued)**

**(d) AASB1 Transitional exemptions (Continued)**

*Share-based payment transactions*

AASB 2 'Share-Based Payments' is applied only to equity instruments granted after 7 November 2002 that had not vested on or before 1 January 2005.

*Exemption from the requirement to restate comparative information for AASB 132 and AASB 139*

The Group has elected to adopt this exemption and has not applied AASB 132 'Financial Instruments: Presentation and Disclosure' and AASB 139 'Financial Instruments: Recognition and Measurement' to its comparative information.

**(e) Impact of adoption of AIFRS**

The impacts of adopting AIFRS on the total equity and loss after tax as reported under Australian Accounting Standards applicable before 1 January 2005 ('AGAAP') are illustrated below.

	<b>31 December 2005</b>	<b>30 June 2005</b>	<b>31 December 2004</b>
	\$	\$	\$
Total equity under AGAAP	6,598,613	6,642,666	3,627,891
Adjustments to equity:	-	-	-
Total equity under AIFRS	<u>6,598,613</u>	<u>6,642,666</u>	<u>3,627,891</u>
Loss for the period under AGAAP		453,920	41,674
Adjustments to loss		-	-
Loss under AIFRS		<u>453,920</u>	<u>41,674</u>

**NOTES TO AND FORMING PART OF THE CONDENSED FINANCIAL STATEMENTS  
FOR THE HALF-YEAR ENDED 31 DECEMBER 2005**

	<b>31 December</b>	<b>31 December</b>
	<b>2005</b>	<b>2004</b>
	<b>\$</b>	<b>\$</b>
<b>NOTE 2. LOSS BEFORE INCOME TAX</b>		
<b>Loss before income tax has been arrived at after including:</b>		
Royalty income	163,024	-
Interest revenue	127,856	93,614
Profit on sale of fixed assets	7,962	-
<b>TOTAL REVENUE</b>	<u>298,842</u>	<u>93,614</u>
Depreciation	<u>11,265</u>	<u>7,194</u>

**NOTE 3. ISSUED CAPITAL**

There were no movements in issued and paid up ordinary capital of Falcon Minerals Ltd during the half-year ended 31 December 2005.

	<b>cents</b>	<b>cents</b>
<b>NOTE 4. EARNINGS PER SHARE</b>		
Basic (loss) per share	(0.03)	(0.03)
Weighted average number of ordinary shares used in calculation of basic earnings per share is 142,446,303.		

**NOTE 5. SEGMENT INFORMATION**

Falcon Minerals Ltd operates in mineral exploration and investment in Australia.

**NOTE 6. SUBSEQUENT EVENTS**

No matters or circumstances have arisen since the end of the half year which will significantly affect, or may significantly affect, the state of affairs or operations of the reporting entity subsequent to the half year ended 31 December 2005.

**NOTE 7. CONTINGENT ASSETS AND LIABILITIES**

Sine the last annual reporting date, there have been no material changes in contingent liabilities or contingent assets.

**Directors' Declaration**

The directors declare that the financial statements and notes set out on pages 5 to 16:

- (i) Comply with Accounting Standard (AASB 134; Interim Financial Reporting), the Corporations Regulations 2001 and other mandatory professional reporting requirements; and
- (ii) Give a true and fair view of the reporting entity's financial position as at 31 December 2005 and of its performance, as represented by the results of its operations and its cash flows for the half year ended on that date.

In the directors' opinion there are reasonable grounds to believe that Falcon Minerals Limited will be able to pay its debts as and when they become due and payable.



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Richard E Diermajer  
Director

Perth, Western Australia  
27<sup>th</sup> February 2006



## STANTON PARTNERS

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WESTERN AUSTRALIA

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### **INDEPENDENT REVIEW REPORT TO THE MEMBERS OF FALCON MINERALS LIMITED**

#### **Scope**

We have reviewed the financial report comprising of the statement of financial position, statement of financial performance, statement of cash flows, accompanying notes to the financial statements and the directors' declaration of Falcon Minerals Limited (the Company) for the half-year ended 31 December 2005. The directors of the Company are responsible for preparing a financial report that gives a true and fair view of the financial position and performance of the Company and that complies with Accounting Standard AASB 134 "Interim Financial Reporting" in accordance with the Corporations Act 2001. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the report.

#### **Review Approach**

We have performed an independent review of the financial report in order to state whether, on the basis of the procedures described, anything has come to our attention that would indicate that the financial report is not presented fairly in accordance with Accounting Standard AASB 134 "Interim Financial Reporting" and other mandatory financial reporting requirements in Australia and statutory requirements, so as to present a view which is consistent with our understanding of the disclosing entity's financial position, and performance as represented by the results of its operations and its cash flows, and in order for the disclosing entity to lodge the financial report with the Australian Securities and Investments Commission.

Our review has been conducted in accordance with Australian Auditing and Assurance Standards applicable to review engagements. A review is limited primarily to inquiries of the disclosing entity's personnel and analytical procedures applied to the financial data. These procedures do not provide all the evidence that would be required in an audit, thus the level of assurance is less than given in an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

## **Independence**

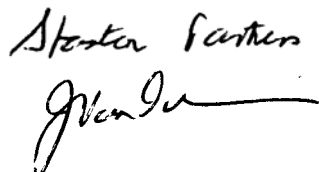
We are independent of the Company, and have met the independence requirements of Australian professional ethical pronouncements and the Corporations Act 2001. We have given to the directors of the Company a written Auditor's Independence Declaration.

## **Statement**

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Falcon Minerals Limited is not in accordance with:

- (a) the Corporations Act 2001, including:
  - (i) giving a true and fair view of the Company's financial position as at 31 December 2005 and of its performance for the half-year ended on that date; and
  - (ii) complying with Accounting Standard AASB 134 Interim Financial Reporting and the Corporations Regulations 2001; and
- (b) other mandatory financial reporting requirements in Australia.

## **STANTON PARTNERS**



**J P Van Dieren**  
**Partner**

West Perth, Western Australia  
2<sup>nd</sup> March 2006



## STANTON PARTNERS

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2<sup>nd</sup> March 2006

Board of Directors  
Falcon Minerals Ltd  
1st Floor  
10 Outram Street  
WEST PERTH WA 6005

Dear Directors

**RE: FALCON MINERALS LTD**

In accordance with section 307C of the Corporations Act 2001, I am pleased to provide the following declaration of independence to the directors of Falcon Minerals Ltd.

As Audit Partner for the review of the financial statements of Falcon Minerals Ltd for the half year ended 31 December 2005, I declare that to the best of my knowledge and belief, there have been no contraventions of:

- (i) the auditor independence requirements of the Corporations Act 2001 in relation to the review; and
- (ii) any applicable code of professional conduct in relation to the review.

Yours sincerely

**STANTON PARTNERS**

**John Van Dieren**  
Partner