

**FALCON MINERALS LIMITED**  
**ACN 009 256 535**

Half-Year Financial Report  
31 December 2006

**FALCON MINERALS LIMITED**  
**ACN 009 256 535**

**HALF-YEAR FINANCIAL REPORT**  
**For the Half Year Ended 31 December 2006**

---

Company Directory	1
Directors' Report	2
Condensed Income Statement	5
Condensed Balance Sheet	6
Condensed Statement of Changes in Equity	7
Condensed Cash Flow Statement	8
Condensed Notes to the Financial Statements	9
Directors' Declaration	12
Independent Review Report	13
Auditor's Independence Declaration	15

## **COMPANY DIRECTORY**

---

### **DIRECTORS**

Mr Kerry Kyriakos Harmanis  
(Chairman)

Mr Richard Diermajer  
(Managing Director)

Mr Raymond Muskett  
(Non-Executive Director)

Mr Gary Mark Lethridge  
(Non-Executive Director)

### **COMPANY SECRETARY**

Mr George Lazarou

### **REGISTERED OFFICE**

Falcon Minerals Limited  
Level 1  
10 Outram Street  
WEST PERTH WA 6005  
Telephone: (08) 9226 3666  
Facsimile: (08) 9226 3644

### **AUDITORS**

Stantons International  
Level 1  
1 Havelock Street  
WEST PERTH WA 6005

### **SHARE REGISTRAR**

Advanced Share Registry  
110 Stirling Highway  
Nedlands WA 6009  
Telephone: (08) 9389 8033

### **STOCK EXCHANGE LISTING**

Australian Stock Exchange  
(Home Exchange: Perth, Western Australia)  
Code: FCN

**FALCON MINERALS LIMITED**  
**ACN 009 256 535**

**HALF-YEAR FINANCIAL REPORT**

**DIRECTORS' REPORT**

---

Your directors submit the financial report of the Company for the half-year ended 31 December 2006.

**DIRECTORS**

The names of Directors who held office during or since the end of the half year:

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

**RESULTS**

The loss after tax for the half year ended 31 December 2006 was \$386,708 (31 December 2005: \$44,053).

**REVIEW OF OPERATIONS**

**Collurabbie Joint Venture – Western Australia**  
**(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.

Air core drilling in 2004 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 at the Olympia prospect.

Recent work saw the testing of down-hole EM (electromagnetic) targets below and offset from the known Olympia mineralisation and at Rhodes.

At Olympia two of the three holes drilled intersected barren massive sulphides above the prospective ultramafic unit which returned anomalous Ni/Cu/PGE's showing the continuation of the prospective unit at depth whereas at Rhodes drilling intersected 1.30 metres of massive sulphides containing 1.43% Cu coincident with an off hole conductor. Geoferet surface EM and Down-hole EM of all holes has been completed and modelling of anomalies is underway.

**Saxby – Queensland**  
**(Nickel and Copper)**  
(Falcon 100%, Anglo earning 70%)

A Joint Venture Agreement has been entered into whereby Anglo American Exploration (Australia) Pty Ltd (Anglo) has the right to earn 70% equity in the project by expenditure of AUD \$7 million over 6 years. Previous work has shown that the Saxby project which is located 150km's northeast of Cloncurry in Northwest Queensland has the potential to host large tonnage magmatic style Ni/Cu mineralisation. Anglo proposes to undertake an EM survey utilizing their proprietary SQUID technology to generate targets for deep drilling.

**FALCON MINERALS LIMITED**  
**ACN 009 256 535**

**HALF-YEAR FINANCIAL REPORT**

**DIRECTORS' REPORT (Continued)**

---

**Duketon and North Duketon Projects – Western Australia**  
**(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 kilometers located directly south of Collurabbie along the same greenstone belt.

Recently completed work at North Duketon on the Tasman North prospect has defined a strong conductor with a strike length of 800m parallel to stratigraphy. On the western side of the prospect a zone of anomalous nickel and copper occurs within the ultramafic stratigraphy and is associated with a second EM conductor to the north. Drilling of the conductors is planned over the coming months.

**Mulgarrie Project – Western Australia**  
**(Nickel)**  
(Falcon 100%)

The Mulgarrie Project covers prospective komatiite stratigraphy, 15 – 20km north and along strike from the Silver Swan nickel deposit north of Kalgoorlie.

A joint venture agreement in respect to the Mulgarrie project has been formed with Hemisphere Resources Ltd (Hemisphere) which listed on the ASX in February 2007.

Under the terms of the agreement, Falcon will transfer a 70% interest in the tenement to Hemisphere, for a total of 1,000,000 fully paid ordinary shares in Hemisphere, whereupon listing Hemisphere will spend up to \$300,000 towards exploration on the project area.

**Tambellup – Western Australia**  
**(Nickel and Copper)**  
(Falcon 100%)

Located approximately 270km's south west of Perth in WA the project has been identified by Falcon as a potential magmatic Ni/Cu (PGE) target.

A number of cuttings from water bores drilled in the 1990's have been submitted for analysis and results are pending.

**Paltrubie and Acraman – South Australia**  
**(Gold)**  
(Falcon 100%)

The Paltrubie and Acraman Projects are located in the highly prospective Gawler Craton, South Australia. The primary target is high grade gold. 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. A determination on Native Title Heritage is pending and is required prior to the commencement of any work.

**FALCON MINERALS LIMITED**  
**ACN 009 256 535**

**HALF-YEAR FINANCIAL REPORT**

**DIRECTORS' REPORT (Continued)**

---

**New Tenements – Western Australia**  
**(Nickel and Copper)**  
(Falcon 100%)

During the quarter Falcon acquired several new tenements on the edge of the Officer and Earraheedy Basins, approximately 130-200km north of the Collurabbie project, and in the Collier Basin, approximately 400km northeast of the Collurabbie project. These projects are part of Falcon's ongoing efforts in targeting prospective new magmatic Ni/Cu (PGE) provinces. First pass work will include a field examination and validation of GSWA geochemical anomalies.

**EVENTS SUBSEQUENT TO REPORTING DATE**

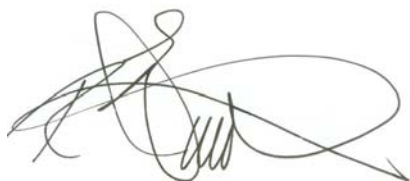
The payment of \$150,000 from Tiwest Pty Ltd being the final payment due under an Agreement entered into on March 2003 for the purchase of Falcon Minerals Ltd's Cooljarloo Mineral Sands Project.

Apart from the above, 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 in future financial periods.

**AUDITOR'S INDEPENDENCE DECLARATION**

The auditor's independence declaration as required under section 307C of the Corporations Act 2001 is set out on page 15.

This report is signed in accordance with a resolution of the Board of Directors.



Richard Edward Diermajer  
Managing Director

Dated this 12<sup>th</sup> day of March 2007

**FALCON MINERALS LIMITED**  
**ACN 009 256 535**

**CONDENSED INCOME STATEMENT**  
For the Half-Year Ended 31 December 2006

---

	Note	Half Year 31 December 2006 \$	Half Year 31 December 2005 \$
<b>CONTINUING OPERATIONS</b>			
Revenue	2	141,044	298,872
Occupancy expenses		(22,974)	(16,916)
Administrative expenses		(238,957)	(266,922)
Exploration expenditure written off		(212,739)	(39,822)
Depreciation	2	(21,776)	(11,265)
Share Based Payments	2	(31,306)	-
Other expenses		-	(8,000)
		<b>(386,708)</b>	<b>(44,053)</b>
<b>Loss before income tax</b>			
<b>Income tax expense</b>		-	-
<b>Net loss attributable to members of Falcon Minerals Ltd</b>		<b>(386,708)</b>	<b>(44,053)</b>
Basic loss per share (cents)	5	(0.27)	(0.03)

Diluted earnings per share does not represent an inferior view of the Company's performance and is not disclosed for this reason.

*The above Condensed Income Statement should be read in conjunction with the accompanying notes.*

**FALCON MINERALS LIMITED**  
**ACN 009 256 535**

**CONDENSED BALANCE SHEET**  
As at 31 December 2006

	As at 31 December 2006 \$	As at 30 June 2006 \$
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	3,658,311	4,401,300
Trade and other receivables	25,661	9,751
Financial assets	-	38,000
<b>TOTAL CURRENT ASSETS</b>	<b>3,683,972</b>	<b>4,449,051</b>
<b>NON-CURRENT ASSETS</b>		
Property, plant and equipment	106,834	126,951
Exploration expenditure carried forward	2,209,760	1,784,713
<b>TOTAL NON-CURRENT ASSETS</b>	<b>2,316,594</b>	<b>1,911,664</b>
<b>TOTAL ASSETS</b>	<b>6,000,566</b>	<b>6,360,715</b>
<b>LIABILITIES</b>		
<b>CURRENT LIABILITIES</b>		
Trade and other payables	87,864	99,023
Provisions	13,839	7,427
<b>TOTAL CURRENT LIABILITIES</b>	<b>101,703</b>	106,450
<b>TOTAL LIABILITIES</b>	<b>101,703</b>	<b>106,450</b>
<b>NET ASSETS</b>	<b>5,898,863</b>	<b>6,254,265</b>
<b>EQUITY</b>		
Issued capital	16,632,472	16,632,472
Reserves	31,306	-
Accumulated losses	(10,764,915)	(10,378,207)
<b>TOTAL EQUITY</b>	<b>5,898,863</b>	<b>6,254,265</b>

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



**FALCON MINERALS LIMITED**  
**ACN 009 256 535**

**CONDENSED STATEMENT OF CHANGES IN EQUITY**  
For the Half-Year Ended 31 December 2006

---

	Issued Capital	Accumulated Losses	Share Based Payment Reserve	Total Equity
	\$	\$	\$	\$
<b>Balance at 1 July 2005</b>	16,632,472	(9,989,806)	-	6,642,666
Loss attributable to members	-	(44,053)	-	(44,053)
Shares issued during the period	-	-	-	-
Options issued during the period	-	-	-	-
<b>Balance at 31 December 2005</b>	16,632,472	(10,033,859)	-	6,598,613
<b>Balance at 1 July 2006</b>	16,632,472	(10,378,207)	-	6,254,265
Shares issued during the period	-	-	-	-
Employee share options	-	-	31,306	31,306
Loss attributable to members	-	(386,708)	-	(386,708)
<b>Balance at 31 December 2006</b>	16,632,472	(10,764,915)	31,306	5,898,863

*The above Condensed Statement of Changes in Equity should be read in conjunction with the accompanying notes.*

**FALCON MINERALS LIMITED**  
**ACN 009 256 535**

**CONDENSED CASH FLOW STATEMENT**  
For the Half-Year Ended 31 December 2006

	<b>Half Year 31 December 2006</b>	<b>Half Year 31 December 2005</b>
	<b>\$</b>	<b>\$</b>
<b>Cash flows from operating activities</b>		
Payments to suppliers and employees	(255,547)	(219,628)
Interest received	118,844	127,856
Exploration, evaluation and project generation	(664,729)	(488,400)
<b>Net cash flows used in operating activities</b>	<b>(801,432)</b>	<b>(580,172)</b>
<b>Cash Flows from investing activities</b>		
Proceeds from disposal of investments	59,670	-
Proceeds from disposal of plant and equipment	-	14,710
Payments for plant and equipment	(1,658)	(103,405)
<b>Net cash flows used in investing activities</b>	<b>58,012</b>	<b>(88,695)</b>
<b>Cash flows from financing activities</b>		
Repayment of employee loan	431	-
<b>Net cash flows from financing activities</b>	<b>431</b>	<b>-</b>
<b>Net decrease in cash and cash equivalents</b>	(742,989)	(668,867)
Cash and cash equivalents at the beginning of the half year	4,401,300	5,614,424
<b>Cash and cash equivalents at the end of the half year</b>	<b>3,658,311</b>	<b>4,945,557</b>

*The above Condensed Cash Flow Statement should be read in conjunction with the accompanying notes.*

**FALCON MINERALS LIMITED**  
**ACN 009 256 535**

**CONDENSED NOTES TO THE FINANCIAL STATEMENTS**  
For the Half-Year Ended 31 December 2006

---

**1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES**

**BASIS OF PREPARATION**

The half-year financial statements are a general purpose financial report prepared in accordance with the requirements of the Corporations Act 2001, Accounting Standard AASB 134: Interim Financial Reporting, Urgent Issues Group Interpretations and other authoritative pronouncements of the Australian Accounting Standards Board.

It is recommended that this financial report be read in conjunction with the annual financial report for the year ended 30 June 2006 and any public announcements made by Falcon Minerals Limited during the half-year in accordance with the continuous disclosure requirements arising under the Corporations Act 2001.

The half-year report does not include full disclosures of the type normally included in an annual financial report. Therefore, it cannot be expected to provide as full an understanding of the financial performance, financial position and cash flows of the entity as in the full financial report.

The accounting policies and methods of computation adopted in the preparation of the half-year financial report are consistent with those adopted and disclosed in the company's annual financial report for the financial year ended 30 June 2006.

In the half-year ended 31 December 2006, the Company has reviewed all of the new and revised Standards and Interpretations issued by the AASB that are relevant to its operations and effective for annual reporting periods beginning on or after 1 July 2006.

It has been determined by the Company that there is no impact, material or otherwise, of the new and revised Standards and Interpretations on its business and, therefore, no change is necessary to Company accounting policies.

**Reporting Basis and Conventions**

The half-year report has been prepared on an accruals basis and is based on historical costs modified by the revaluation of selected non-current assets, financial assets and financial liabilities for which the fair value basis of accounting has been applied.

**FALCON MINERALS LIMITED**  
**ACN 009 256 535**

**CONDENSED NOTES TO THE FINANCIAL STATEMENTS**  
For the Half-Year Ended 31 December 2006

**2. LOSS BEFORE INCOME TAX EXPENSE**

	<b>Half Year 31 December 2006</b>	<b>Half Year 31 December 2005</b>
	\$	\$
The following revenue and expense items are relevant in explaining the financial performance for the half-year:		
Royalty income	-	163,054
Interest revenue	119,374	127,856
Profit on sale of fixed assets	-	7,962
Profit on sale of investments	21,670	-
<b>Total Revenue</b>	<b>141,044</b>	<b>298,872</b>
Depreciation	21,776	11,265
Employee share based expense	31,306	-

**3. ISSUED CAPITAL**

There were no movements in issued and paid up ordinary capital of the Company during the half-year ended 31 December 2006.

**4. SHARE BASED PAYMENTS**

On 1 July 2006, 750,000 share options were granted to employees. The options will become exercisable between 1 July 2006 and 1 November 2010. The exercise price of the options range from \$0.40 to \$1.00. The fair value is estimated at the date of grant using the Black Scholes option pricing model, taking into account the terms and conditions upon which the options were granted. The following table lists the inputs to the model used for the half year ended 31 December 2006.

	<b>2006 (40 cent options)</b>	<b>2006 (50 cent options)</b>	<b>2006 (75 cent options)</b>	<b>2006 (100 cent options)</b>
Dividend yield (%)	-	-	-	-
Expected volatility (%)	75	75	75	75
Risk-free interest rate (%)	5.8	5.8	5.78	5.78
Period of Option (years)	2	2.25	3.25	4.25
Discount for unlisted options (%)	30	30	30	30
Market price at grant date (\$)	0.29	0.29	0.29	0.29
Estimated fair value at grant date (cents)	6.98	6.32	6.39	6.92

**FALCON MINERALS LIMITED**  
**ACN 009 256 535**

**CONDENSED NOTES TO THE FINANCIAL STATEMENTS**  
For the Half-Year Ended 31 December 2006

---

**5. EARNINGS PER SHARE**

	<b>Half Year 31 December 2006</b>	<b>Half Year 31 December 2005</b>
	<b>cents</b>	<b>cents</b>
Basic (loss) per share	(0.27)	(0.03)

Weighted average number of ordinary shares used in calculation of basic loss per share is 142,526,303 (31 December 2005: 142,446,303). Options to purchase ordinary shares not exercised at 31 December 2006 have not been included in the determination of basic earnings per share.

**6. SEGMENTAL REPORTING**

The Company operates in the mineral industry in Australia.

**7. EVENTS SUBSEQUENT TO REPORTING DATE**

The payment of \$150,000 from Tiwest Pty Ltd being the final payment due under an Agreement entered into on March 2003 for the purchase of Falcon Minerals Ltd's Cooljarloo Mineral Sands Project.

Apart from the above, 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 in future financial periods.

**8. CONTINGENT LIABILITIES**

In the opinion of the directors, there are no contingent liabilities at 31 December 2006 and none were incurred in the interval between the period end and the date of this financial report.

**FALCON MINERALS LIMITED**  
**ACN 009 256 535**

**DIRECTORS' DECLARATION**  
For the Half Year Ended 31 December 2006

---

The Directors of the Company declare that:

1. The financial statements and notes, as set out on pages 5 to 11, are in accordance with the Corporations Act 2001, including:
  - (a) comply with Accounting Standard AASB 134: Interim Financial Reporting and the Corporations Regulations 2001; and
  - (b) give a true and fair view of the Company's financial position as at 31 December 2006 and its performance for the half-year ended on that date.
2. In the Directors' opinion there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of the Board of Directors.



Richard Edward Diermajer  
Managing Director

Dated this 12<sup>th</sup> day of March 2007

## INDEPENDENT AUDITOR'S REVIEW REPORT

### TO THE MEMBERS OF FALCON MINERALS LIMITED

#### Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Falcon Minerals Limited, which comprises the condensed balance sheet as at 31 December 2006, and the condensed income statement, condensed statement of changes in equity and condensed cash flow statement for the half-year ended on that date, a statement of accounting policies, other selected explanatory notes and the directors' declaration.

#### *Directors' Responsibility for the Half-Year Financial Report*

The directors of the Company are responsible for the preparation and fair presentation of the half-year financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of the half-year financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

#### *Auditor's Responsibility*

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of an Interim Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the *Corporations Act 2001* including giving a true and fair view of the Company's financial position as at 31 December 2006 and its performance for the half year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Falcon Minerals Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

#### *Independence*

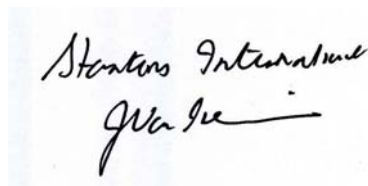
In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, has been provided to the directors of Falcon Minerals Limited on 12 March 2007.

#### *Conclusion*

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 the *Corporations Act 2001* including:

- (a) giving a true and fair view of the Company's financial position as at 31 December 2006 and of its performance for the half-year ended on that date; and
- (b) complying with Accounting Standard AASB 134 Interim Financial Reporting and Corporations Regulations 2001.

#### **STANTONS INTERNATIONAL (Authorised Audit Company)**



**J P Van Dieren**  
Director

West Perth, Western Australia  
12 March 2007



# Stantons International

ABN 41 103 088 697

LEVEL 1, 1 HAVELOCK STREET  
WEST PERTH WA 6005, AUSTRALIA  
PH: 61 8 9481 3188 • FAX: 61 8 9321 1204  
www.stantons.com.au

12 March 2007

Board of Directors  
Falcon Minerals Limited  
Level 1  
10 Outram Street  
WEST PERTH WA 6005

Dear Sirs

**RE: FALCON MINERALS LIMITED**

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 Limited.

As Audit Director for the review of the financial statements of Falcon Minerals Limited for the six months ended 31 December 2006, 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

**STANTONS INTERNATIONAL**  
**(Authorised Audit Company)**



**John Van Dieren**  
**Director**