

FALCON MINERALS LTD

A.C.N. 009 256 535

ANNUAL REPORT 2011

Location of Projects



CORPORATE DIRECTORY

DIRECTORS	Richard Diermajer Ray Muskett Graeme Cameron Ronald Smit (Appointed 19 th July 2011)
SECRETARY	Dean Calder
REGISTERED OFFICE	Unit 19, 100 Hay Street Subiaco Western Australia 6005 Telephone: (08) 9382 1596 Facsimile: (08) 9382 4637 Email: fcn@falconminerals.com.au Website: www.falconminerals.com.au Postal Address: PO Box 8319, Subiaco East Western Australia 6008
ACN	009 256 535
AUDITORS	Stantons International Level 1 1 Havelock Street, West Perth Western Australia
BANKERS	BankWest 1215 Hay Street, West Perth Western Australia
STOCK EXCHANGE	The Company's shares are quoted on the official list of the Australian Securities Exchange Ltd (code FCN)
SHARE REGISTRY	Advanced Share Registry 150 Stirling Highway Nedlands WA 6009 Telephone (08) 9389 8033

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CHAIRMAN'S LETTER

Dear Shareholders

This year's exploration has seen Falcon Minerals Ltd (Falcon) take significant strides towards adding value to its projects.

Despite delays earlier in the year due to severe rainfalls causing flooding and damage to access roads, Falcon managed to complete two campaigns of diamond drilling and electromagnetic work at Collurabbie. The work resulted in massive sulphide nickel-copper-platinum mineralisation being extended at the Olympia Prospect and new targets being identified within the project area for further drilling. The presence of extensive zones of nickel-copper and platinum anomalism over several kilometres maintains our belief that Collurabbie has excellent potential to host additional massive nickel-copper-platinum sulphide deposits that can significantly contribute to a commercial resource base within the Project.

At Saxby, follow-up drilling some 300 metres away from an earlier intersection of 17m @ 6.75 g/t gold resulted in a further highly encouraging intersection of 15m @ 9.09 g/t gold and 5.96 g/t silver. Although the intersections lie below some 400 metres of cover they occur within large alteration zones providing the potential to host a major Tier 1 gold deposit. Options to take the project forward are being considered.

Under the Company's IOCG initiative where projects have been acquired within Peake-Denison in the Gawler Craton of South Australia and the Cloncurry Region in Northern Queensland, targets are being refined for assessment and drill planning. The geophysical aspects of these targets are consistent with known large IOCG alteration systems such as those associated with the Prominent Hill deposit in South Australia and the Osborne copper-gold deposit in the Cloncurry Region in Queensland.

We continue to apply a disciplined and methodical approach to exploration and continue to be optimistic about our chances of success, particularly at Collurabbie and Saxby where results to date show that they lie within geological settings favourable to hosting mineral deposits.

In closing I would like to acknowledge the efforts of our committed team for their professionalism and dedication and look forward to the Company's results in the ensuing twelve months. I would also like to take this opportunity to thank our fellow shareholders for their ongoing support.

Yours faithfully



Richard Diermajer
Chairman

**REVIEW OF OPERATIONS
EXPLORATION ACTIVITIES**

COLLURABBIE PROJECT – WESTERN AUSTRALIA

(Nickel, Copper and Platinum Group Elements)

(Falcon 100%)

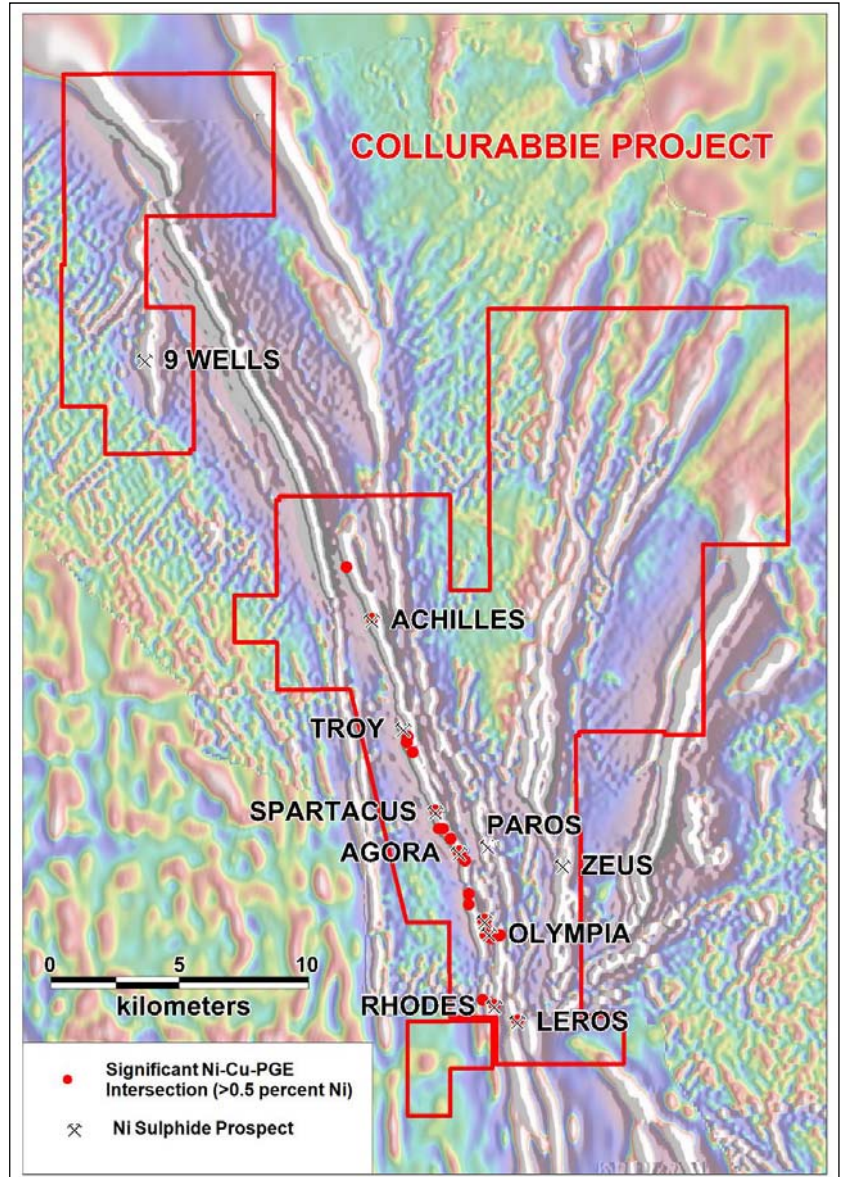
The Collurabbie Project is 200 km north of Laverton in the Duketon Greenstone Belt of Western Australia. It is Falcon’s lead and most advanced project.

In 2004 former joint venture partner Western Mining Corporation (WMC) intersected high-grade massive nickel-copper-sulphide mineralization at the Olympia Prospect including 5.77m at 3.0% Ni, 1.9% Cu, 5.3g/t PGE and identified a 40km highly prospective ultramafic belt. Follow-up drilling at Olympia and other regional prospects throughout 2005 & 2006 returned lesser intersections of sulphides and this, coupled with a change of management (from WMC to BHPB) led to the suspension of mineral exploration.

In 2009 Falcon negotiated a new agreement with BHPB whereby the Collurabbie Project was assigned 100% to Falcon in return for an option over the off-take rights to any ore or concentrate produced from the project.

Falcon recommenced diamond drilling in June 2010 (10 holes, 3,101m) and this year drilled a further 15 holes (4,371m) to test the continuity and better define the geometry of massive and matrix sulphide mineralization at Olympia and to test electromagnetic conductors and embayment positions within ultramafics at Spartacus.

The better results from this year’s drilling campaign are shown in Table 1.



Falcon land position at Collurabbie with nickel sulphide occurrences and significant nickel drill intercepts over regional magnetic image.

Collurabbie Project – Exploration Activities
15 diamond drill holes at Olympia & Spartacus (4,371 m)
Down hole EM on all drill holes
12 lines of ground EM at Spartacus
604 soil samples at Spartacus
756 auger samples at Zeus and Rhodes

EXPLORATION ACTIVITIES (Continued)

Table 1 – Significant Ni-Cu-PGE results from the Olympia & Spartacus Prospects

Prospect	Hole ID	MGA_East	MGA_North	Width (m)	Ni%	Cu%	Total PGE (g/t)	From (m)
Olympia	CLD208	422110	7025850	2.0	0.96	1.25	3.49	143.0
Olympia	CLD208	422110	7025850	6.8	0.34	0.24	0.51	163.9
Olympia	CLD211	422070	7025800	3.8	2.21	1.82	3.53	189.8
Olympia	CLD211	422070	7025800	5.1	0.51	0.37	0.54	233.0
Olympia	CLD213	421850	7026200	0.5	0.94	0.66	1.89	320.0
Olympia	CLD213	421850	7026200	0.6	0.55	0.15	0.24	383.1
Spartacus	CLD215	419990	7030150	8.4	0.36	0.14	0.25	215.6
Spartacus	CLD217	419760	7030600	12.3	0.43	0.13	0.23	233.4
Spartacus	CLD218	419770	7030950	5.2	0.43	0.20	0.33	190.8
Spartacus	CLD219	419550	7031350	20.3	0.38	0.10	0.13	188.8



Olympia – massive Ni-Cu-PGE sulphides

The infill drilling at Olympia returned some positive results that extended the extent of the massive and matrix sulphide mineralization to over a 300m strike length. The thickness of mineralization varies from 1 to 9m and appears to plunge to the northwest. This work has confirmed that the Olympia deposit is significant but requires further drilling and study to improve its economics.

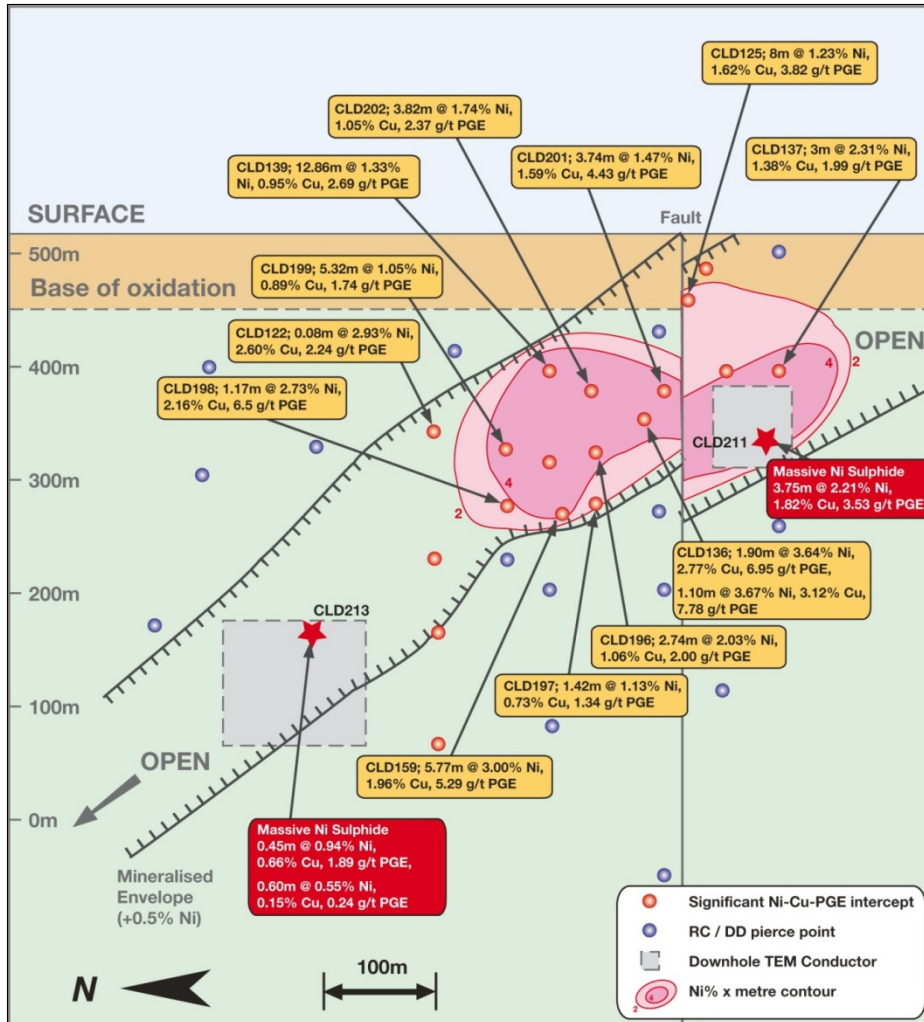
The drilling at Spartacus has shown that disseminated mineralization is widespread throughout the ultramafic host. Broad zones up to 20m thick are reported and consistently return grades around 0.4% Ni. This mineralisation appears continuous over several strike kilometers but at these grades is currently regarded as sub-economic. Higher-grade disseminated nickel mineralization is known to occur at Troy in the same host rock (CLD040: 20m at 0.68% Ni, 0.28% Cu, and 0.62g/t PGE) and represents an attractive follow-up target.

Other field activities completed this year included ground and down-hole electromagnetic surveys and surface geochemical surveys. Both methods have identified additional targets for drill testing. The Rhodes West geochemical anomaly is the most compelling and occurs where limited nearby drilling intersected narrow massive sulphide mineralization. This will be a priority target for next year.

A strategic review is underway to consolidate all information from this year's work and build on the evolving geological model. The focus of activity is likely to shift away from Olympia and focus on what is regarded as the Olympia trend which has only received limited attention in the past.

EXPLORATION ACTIVITIES (Continued)

A priority for Falcon will be to investigate where the Olympia trend intersects northeast trending faults as these structures are considered important in the Olympia mineralizing event. There remains considerable potential in the district to discover further massive Ni-Cu-PGE sulphides.



DELETA JOINT VENTURE – DUKETON BELT, YILGARN BLOCK - WESTERN AUSTRALIA

(Gold, Nickel-Copper and Platinum Group Elements)

(Falcon 20%, Regis 80%)

This project is immediately south of the Collurabbie Project and is managed and operated by Regis Resources Limited (Regis). Falcon has a 20% free carried interest to the completion of a bankable feasibility study.

Regis is evaluating the prospective area for gold and nickel. Previous work has identified lateritic nickel mineralisation (best 12m at 1.6% Ni from 48m) and gold mineralisation (best 12m at 3.2g/t Au from 136m) from prospects along the Collurabbie ultramafic trend.

No field work was completed this year, however at the time of writing this report a reverse circulation drilling program was underway to test structural and geochemical targets.

EXPLORATION ACTIVITIES (Continued)

SAXBY PROJECT – MT ISA BLOCK - QUEENSLAND

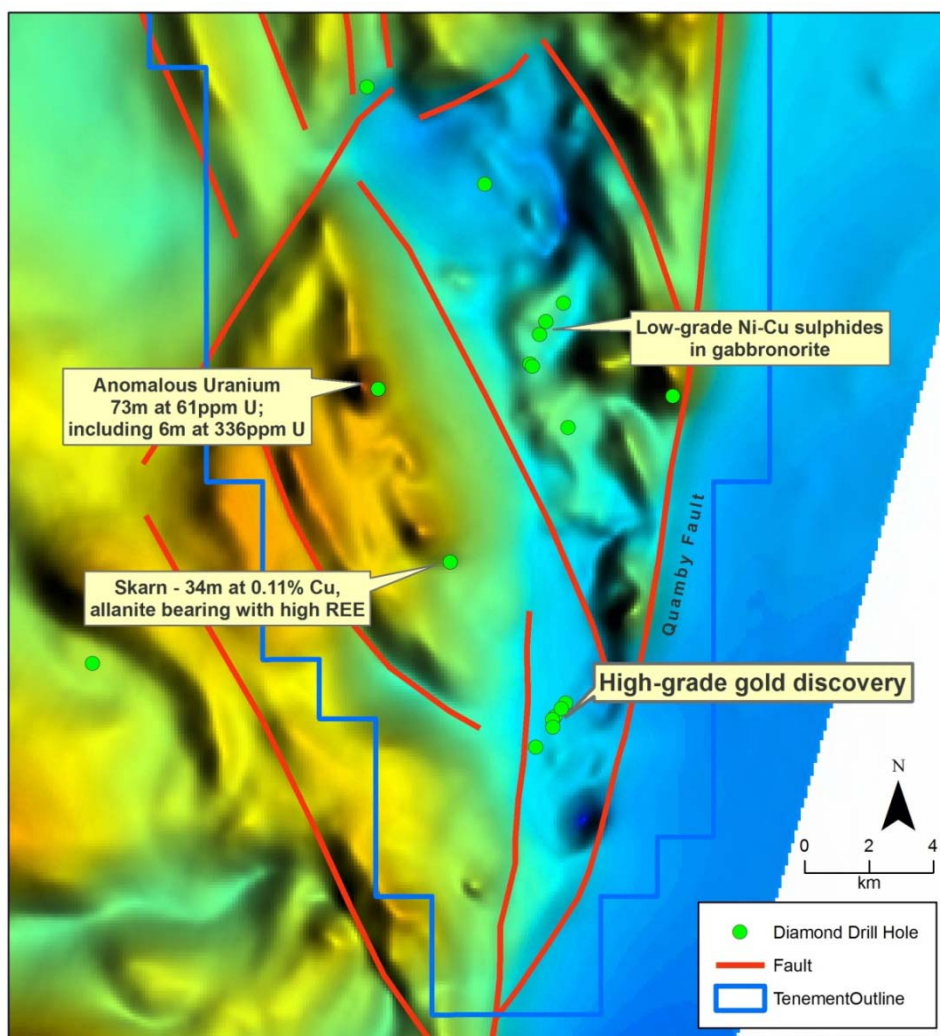
(Gold, Copper-Gold)

(Falcon 100%)

The Saxby Project is 150 km northeast of Cloncurry in northwest Queensland. It is a core project with a lightly explored high-grade gold discovery.

The target rocks, termed basement are buried beneath 400m of younger sedimentary rocks and as such, exploration is challenging and high risk. Nonetheless, the district is highly prospective as the buried basement rocks are interpreted as belonging to the Eastern Succession of the Mt Isa Province which has a long and proven record of mineral endowment. The Eastern Succession hosts significant copper-gold, molybdenum, lead-silver-zinc and uranium deposits and is recognised as a world-class exploration destination.

Falcon and its former joint venture partners have used airborne magnetic, ground gravity and ground electromagnetic surveys to facilitate mapping of prospective units under deep cover followed by diamond drill testing of selected targets. The technical success rate has been high with diamond drill holes intersecting low-grade nickel-copper sulphides in gabbro-norite, elevated copper-rare earth elements in skarn and structurally-hosted gold at the contact between metasedimentary rocks and intrusive rocks.



Saxby Project – Diamond drill hole location & mineralization shown on magnetic image

EXPLORATION ACTIVITIES (Continued)

The gold discovery was made in 2008 with drill hole SXD005. It intersected **17m at 6.75g/t Au from 631m** and includes a **high-grade core of 5m at 19.3g/t Au from 635m**. This hole also intersected a second zone of lower-grade gold mineralization (7m at 1.98g/t Au from 614m).

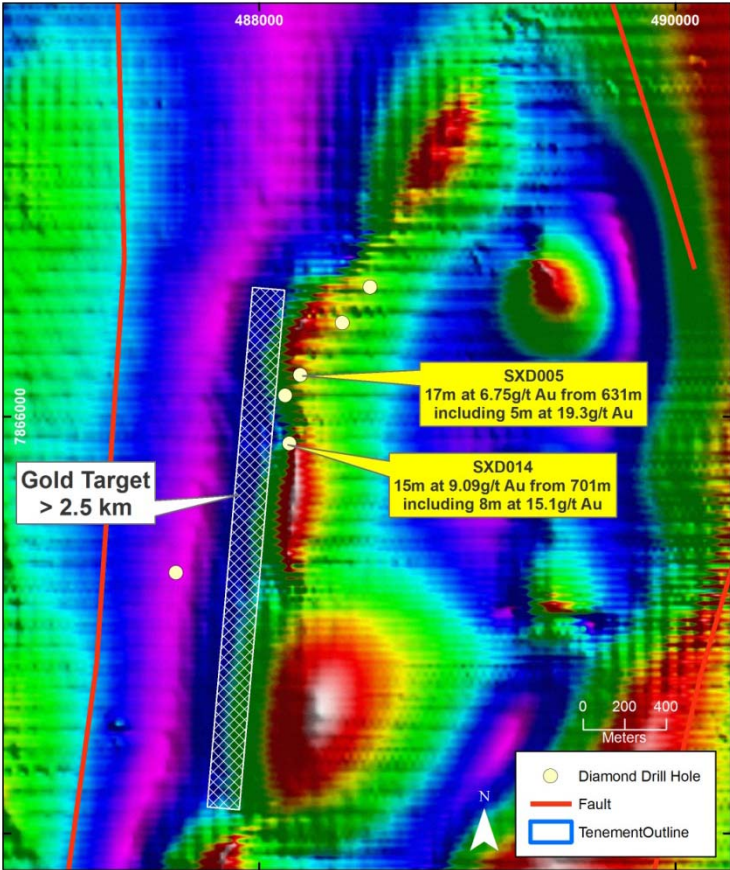
The focus has been to accelerate gold exploration around the discovery hole. This work was managed and operated by AngloGold Ashanti Australia Limited (AngloGold) up until their withdrawal in February 2011. AngloGold completed detailed geophysical surveys followed by the drilling of five diamond holes (4,044m).

Drill hole SXDD014 confirmed the importance of the gold discovery and intersected **15m at 9.09 g/t Au from 701m** including a **high-grade core of 8m at 15.09 from 701m**. A further zone of gold mineralization was intersected deeper in the hole (3m at 3.57g/t Au from 747m).

The other holes drilled in this program failed to test what is now regarded as the gold zone. The intent of hole SXD013 was to drill up-dip of the SXD005 gold intersection but unfortunately, this hole steepened dramatically and then deviated away from the gold zone.

Gold mineralization is associated with variably altered, veined and brecciated meta-igneous rocks. It appears to be controlled by a prominent north-northeast trending structure that is readily observed in the magnetic data. Spatially the gold intersections of SXD005 and SXD014 are about 200m apart and the gold mineralization is open in all directions.

Falcon considers the Saxby gold prospect an important greenfields discovery and is mindful that the gold target must be large and high-grade to sustain an underground mining operation given the depth of the discovery. The next exploration phase will seek to answer these questions.



Saxby Gold Prospect – drill hole location on detailed magnetic image



SXD005 – High-grade gold drill core

EXPLORATION ACTIVITIES (Continued)

PEAKE-DENISON PROJECT – GAWLER CRATON- SOUTH AUSTRALIA
(Cooper, Gold, Iron)

(Falcon 100%)

Falcon has a large land position in the Peake-Denison Inlier of the northern Gawler Craton that it considers prospective for iron oxide-copper-gold systems.

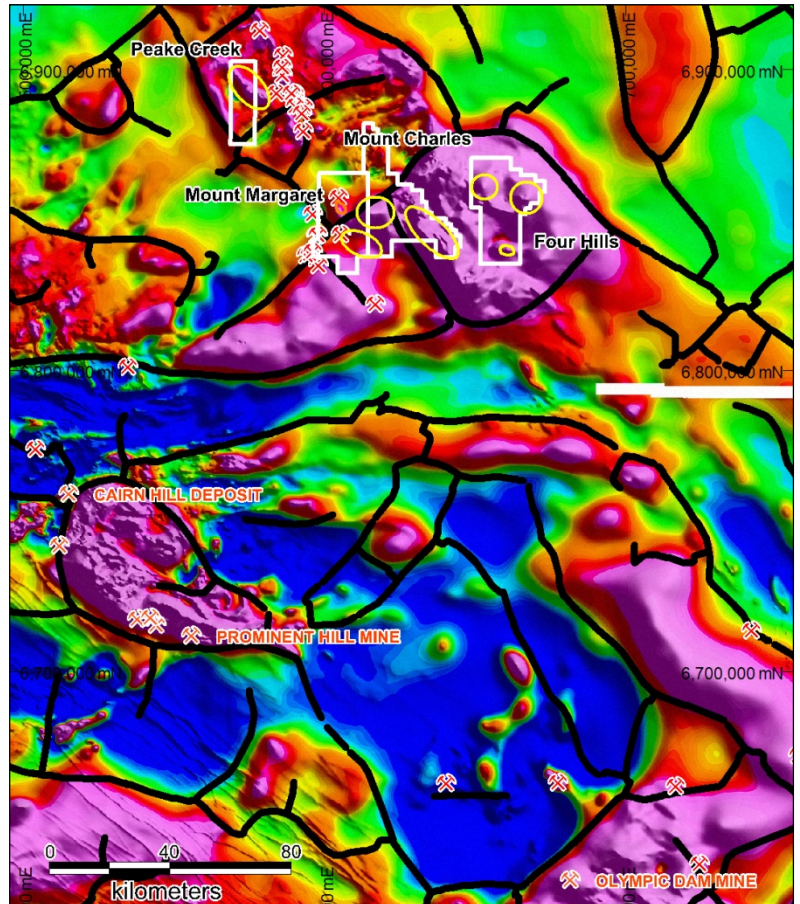
The Peake-Denison Inlier represents a major uplifted Proterozoic basement block with discrete gravity-magnetic anomalies associated with major basement fault intersections. This geological and structural setting shows many similarities to the Olympic Dam and Prominent Hill districts.

Detailed 3D geophysical modeling has defined two significant anomalies at Spring Hill and Davenport Creek. These targets comprise elongate to pipe-like bodies with geophysical responses that are consistent with known large iron-oxide-copper-gold systems.

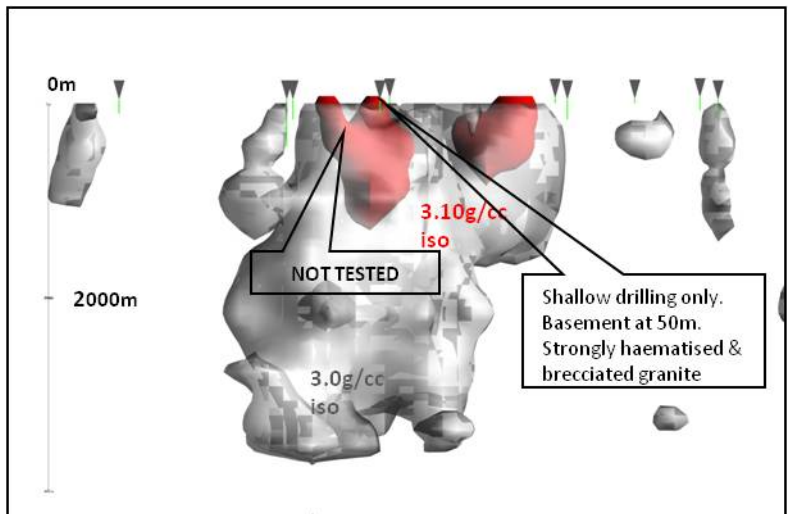
Limited previous drilling by other explorers near these targets has detected widespread copper anomalism (> 0.1% Cu). It is apparent from the 3D modeling that the historic drilling failed to test the core of the gravity targets.

The best historical drill hole intersection was at Davenport Creek where DCDH01 reported 3m at 2.75% Cu from 330m associated with magnetite-hematite-chalcopyrite breccias in basement rocks. A further 14m of anomalous copper (av. 670 ppm Cu) was intersected in altered pegmatite from 390m to the end of the hole. A down-hole EM survey was completed on this hole and indicated an off-hole conductor.

Falcon is currently preparing an Exploration Work Approval and Environmental Management Plan for future exploration activities including drilling the Spring Hill and Davenport Creek targets.



North-eastern Gawler Craton, SA - Bouguer gravity image, major geophysical structures and copper-gold occurrences. Falcon project areas are shown in white with coincident gravity/magnetic targets in yellow.



Spring Hill Prospect - 3D gravity inversion model showing previous drilling sites (inverted grey triangle)

EXPLORATION ACTIVITIES (Continued)

OTHER PROJECTS

Cloncurry District, Mt Isa Block QLD

Falcon has a small land position covering prospective rocks of the Eastern Succession in the Cloncurry district of the Mt Isa Province. The target is large iron oxide-copper-gold systems similar to the Ernest Henry and Osborne mines. Historic data is currently being compiled and a review is continuing to determine the nature and significance of these targets. No field work was undertaken this year.

Windanning Hill Joint Venture WA

This project is located within the Yalgoo-Singleton greenstone belt, 400 km north-north-east of Perth. Falcon retains a diluting equity (currently ~ 21.5%) in two separate joint ventures covering gold and base metals (Minjar Gold) and iron ore (Gindalbie Metals). The project contains a JORC Code-compliant Inferred Resource of 281,000 tonnes at 2.2 g/t gold for 19,900 ounces of contained gold. No field work was undertaken this year.

Competent Persons Statement

The information in this report to which this statement is attached that relates to Exploration Results, Mineral Resources or Ore Reserves is based on information compiled by Mr Ronald Smit, Managing Director for Falcon Minerals Limited. Mr Smit is a Member of the Australasian Institute of Mining and Metallurgy (AusIMM) and has sufficient experience, which is relevant to the style of mineralisation and type of deposit under consideration and to the activity, which he is undertaking to qualify as a competent person, as defined in the 2004 Edition of the "Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves". Mr Smit consents to the inclusion in the report of the matters based on his information, in the form and context in which it appears.

DIRECTORS' REPORT

The directors present the following report for the financial year ended 30 June 2011.

DIRECTORS

The directors of Falcon Minerals Ltd at any time during or since the end of the year are:

Richard Edward Diermajer (Chairman) – Director since 3rd July 1987

Mr Diermajer holds a degree in Legal Studies and has an extensive background in mining law and administration from 12 years experience with the Department of Industry and Resources in Western Australia. Mr Diermajer was previously a Director of Geographe Resources Ltd, which was involved, in the rich Chalice gold mine in Western Australia. In 1981 he established Sentinel Exploration Services, a firm that provided consultancy services to the mining industry throughout Australia in mining property management and administration, property acquisitions, project generation, native title negotiations and mineral exploration.

Ray Muskett (Non-Executive Director) – Appointed 24th November 2004

Ray Muskett is an experienced geologist in both mining and exploration. He is a WA School of Mines graduate who formulated various concepts and supporting databases that have been orientated to the identification of Olympic Dam style ore bodies and other large volcanogenic gold/copper deposits.

He has worked for a variety of companies including Western Mining Exploration Division at Kambalda, the WMC partly owned Kalgoorlie Lake View consortium in Kalgoorlie, Hamersley Exploration (and seconded to CRA diamond exploration) and consulted to various companies including Nevoria Gold Mines, a joint venture with Billiton Australia, Newmont and others. Within the last three years, Mr Muskett has not been a director of any other publicly listed company.

Graeme Cameron (Non-Executive Director) – Appointed 17th February 2009

Mr Graeme Cameron was elected to the Board in April 2009 and currently holds the position of Technical Director of Falcon Minerals. Graeme graduated with a BSc (Honours) from the University of Western Australia and subsequently completed an MSc from Edith Cowan University. He has over 20 years experience in the exploration and mining industry, including senior technical and management roles with 3D technology-focused Geoinformatics Exploration, Acacia Resources, AngloGold Ashanti and Sons of Gwalia. Graeme has extensive experience in new project generation in Australia, Canada, Mexico and the United States, across a wide range of commodities including; magmatic nickel-copper-PGE, IOCG, porphyry copper-gold, Archaean gold and precious metal VHMS deposits. Within the last three years, Mr Cameron has not been a director of any other publicly listed company.

Ronald Smit (Managing Director) – Appointed 19th July 2011

Mr Ronald Smit holds a BSc(Hons) Geology and a member of the Australian Institute of Mining and Metallurgy, (AusIMM) with over 30 years' experience in the mineral exploration and mining industry. He worked for BHP Minerals International (now BHP Billiton plc) for much of this period and held many senior technical and management positions. He has conducted exploration for base metals, precious metals and diamonds throughout Australia, North America and Papua New Guinea. He has extensive experience in Archaean and Proterozoic mineral systems and has been involved in the discovery of gold deposits in the Eastern Goldfields of Western Australia, manganese in the Northern Territory, copper in Queensland and magnetite in Western Australia. Over the last ten years he has been involved in the junior mining sector with the successful ASX listings of Marengo Mining Limited and Buxton Resources Limited. The core responsibility with these groups was strategic planning and technical management of all exploration activities. Within the last three years, Mr Smit has also been a director of Buxton Resources Ltd.

As at the date of this report the directors hold the following beneficial interests in the capital of the Company:

	Shares		Options	
	In own name	In other names	In own name	In other names
R Diermajer	–	3,500,000	–	–
R Muskett	440,000	5,000	–	–
G Cameron	–	-	2,000,000	–
R Smit	-	500,000	-	-

DIRECTORS' REPORT (Continued)

COMPANY SECRETARY

Dean Calder (Company Secretary) – Appointed 20th November 2007

Dean is a qualified Chartered Accountant who has over 19 years' experience. Dean completed a Bachelor of Business degree in 1988 with a double major in Accounting and Business Law. Dean qualified as a Chartered Accountant in 1992 and after spending 8 years working for international chartered accounting firms, before he commenced public practice as a partner in a West Perth accounting firm in 1997. Dean also currently acts as Company Secretary for Oropa Limited and has acted in that capacity since July 1999.

PRINCIPAL ACTIVITY

The principal activity of the Company is mineral exploration for gold and base metals.

REVIEW OF OPERATIONS AND RESULTS

Details of the operations of the Company are set out in the Review of Operations on pages 4 to 10.

The Company incurred an after tax operating loss of \$2,147,080 (2010: Loss \$983,929).

Further information on the likely developments and expected results of operations of the company has not been included in this report because the directors believe it would be likely to result in unreasonable prejudice to the company.

DIVIDENDS

No dividend is recommended for the current year.

SIGNIFICANT CHANGES IN STATE OF AFFAIRS

In the opinion of the directors, there were no significant changes in the state of affairs of the company that occurred during the year under review not disclosed in this report or in the financial statements.

MATTERS SUBSEQUENT TO THE END OF THE FINANCIAL YEAR

In the opinion of the Directors there have been no matters that have arisen since 30 June 2011, that have significantly affected, or may significantly affect, the operations of the Company, the results of those operations, or the state of affairs of the Company in future years.

MEETINGS OF DIRECTORS

The following table sets out the number of meetings of the Company's directors held during the year ended 30 June 2011.

There were a total of 4 directors meetings held during the year.

Director	Number Eligible to Attend	Number Attended
Richard Diermajer	4	4
Ronald Smit	-	-
Graeme Cameron	4	4
Ray Muskett	4	4

DIRECTORS' REPORT (Continued)

The Audit Committee did not hold any meetings during the Reporting Period. The Company is not of a size that justifies having a separate Audit Committee. However, matters typically dealt with by such a committee are dealt with by the full Board.

The Remuneration Committee did not hold any meetings during the Reporting Period. Due to the size and scale of its operations, the Company currently does not have a separate committee to deal with the remunerations of current and new directors. Currently the roles and responsibilities of a Remuneration Committee are undertaken by the full Board.

ENVIRONMENTAL ISSUES

The Company's policy is to comply with all relevant legislation and best practice conventions in respect of its exploration and mining activities on the tenements it holds.

DIRECTORS' BENEFITS

Since the date of the last Directors' Report, no director of the Company has received, or become entitled to receive, (other than a remuneration benefit included in the remuneration report), a benefit because of a contract that:

- (a) the director; or
- (b) a firm of which the director is a member; or
- (c) an entity in which the director has a substantial financial interest has made (during the year ended 30 June 2011, or at any other time) with the Company; or
- (d) an entity that the Company controlled, or a body corporate that was related to the Company, when the contract was made or when the director received, or became entitled to receive, the benefit (if any);

other than the provision of management and consultancy services through directors' private companies as disclosed in the remuneration report.

REMUNERATION REPORT (AUDITED)

This report outlines the remuneration arrangements in place for directors and executives of Falcon Minerals Limited .

Names and positions held of key management personnel in office at any time during the financial year are:

Key Management Person	Position
Mr Richard Diermajer	Executive Director
Mr Ray Muskett	Non Executive Director
Mr Graeme Cameron	Technical Director

DIRECTORS' REPORT (Continued)

DIRECTORS' REMUNERATION POLICY

The Board's policy of determining the nature and amount of compensation of key management is as follows:-

The compensation structure for key management personnel is reviewed periodically by the Board having regard to performance, relevant comparative information and , where necessary, independent expert advice. Remuneration packages are set at levels that are intended to attract and retain executives capable of managing the Company's operations.

The terms of engagement and remuneration of executive directors is reviewed periodically by the Board, with recommendations being made by the non-executive directors. Where the remuneration of a particular executive director is to be considered, the director concerned does not participate in the discussion or decision-making.

- (a) The policy of the Company is to pay remuneration of directors and senior executives in cash and in amounts in line with employment market conditions relevant in the mining industry. Minor amounts of employee fringe benefits in the form of employee meals and entertainment are provided as part of the executives' way of conducting business.
- (b) The Company's performance, and hence that of its directors and executives, is measured in terms of:
 1. Company share price growth;
 2. Cash raised;
 3. Exploration carried out; and
 4. Farm-in expenditure attracted.
- (c) Details of the nature and amount of the remuneration of the Directors and highest paid Executives is as follows:

	PRIMARY			POST EMPLOYMENT		SHARE BASED PAYMENT	Other Benefits	TOTAL	Performance Related	Value of Options as a Proportion of Remuneration
	Salary & Fees	Cash Bonus	Non-Monetary	Super-annuation	Retirement Benefits	Options		\$	%	%
Directors										
Richard Diermayer - Executive Director										
2011	194,195	-	2,273	17,851	-	-	-	214,319	-	-
2010	212,195	-	50	17,851	-	-	-	230,096	-	-
Ray Muskett - Non Executive Director										
2011	18,349	-	2,273	1,651	-	-	-	22,273	-	-
2010	18,349	-	50	1,651	-	-	-	20,050	-	-
Ronald Smit - Managing Director (Appointed 19 th July 2011)										
2011	-	-	-	-	-	-	-	-	-	-
2010	-	-	-	-	-	-	-	-	-	-
Graeme Cameron - Executive Director										
2011	218,349	-	2,273	19,651	-	-	-	240,273	-	-
2010	228,349	-	50	19,651	-	107,737	-	355,787	-	-
Total Remuneration Directors										
2011	430,893	-	6,819	39,153	-	-	-	476,865	-	-
2010	458,893	-	150	39,153	-	107,737	-	605,933	-	-

Highest Paid Executives

Dean Calder - Company Secretary Appointed 20 November 2007)										
2011	12,515	-	2,271	-	-	-	-	14,786	-	-
2010	16,210	-	-	-	-	-	-	16,210	-	-
Total Remuneration: Highest Paid Executives										
2011	12,515	-	2,271	-	-	-	-	14,786	-	-
2010	16,210	-	-	-	-	-	-	16,210	-	-

DIRECTORS' REPORT (Continued)

Service Agreements

Richard Diermajer

There is currently no formal service agreement in place with Mr Richard Diermajer. Mr Richard Diermajer's current employment package of \$180,000 per annum plus 10% superannuation is effective from 1 July 2008, and is to be reviewed annually. For the year ended 30 June 2011 Mr Richard Diermajer's employment package was \$180,000 plus 10% superannuation.

Graeme Cameron

There is currently a Term of Agreement of 2 years. Mr Graeme Cameron's current employment package of \$200,000 per annum plus 9% superannuation is effective from 30 September 2008. The employment of Mr Graeme Cameron may be terminated by either party by giving 28 days written notice. On termination Mr Graeme Cameron is entitled to payment in lieu of annual leave to which he is entitled and salary and superannuation accrued up to the date of termination. Mr Graeme Cameron is also paid annual Directors fees of \$20,000 including superannuation. Mr Graeme Cameron has tendered his resignation as Technical Director but will remain as Non-Executive Director effective from 27th July 2011 and will still be paid annual Directors fees of \$20,000 including superannuation.

Ronald Smit

Mr Ronald Smit's current employment package of \$220,000 per annum including 9% superannuation is effective from his appointment on 19th July 2011. The employment of Mr Ronald Smit may be terminated by either party by giving 28 days written notice. On termination Mr Ronald Smit is entitled to payment in lieu of annual leave to which he is entitled and salary and superannuation accrued up to the date of termination. Mr Ronald Smit is also paid annual Directors fees of \$20,000 including superannuation.

Company Secretary

Fees of \$38,910 (2010: \$40,183) were paid to Calder Roth & Co, an accounting firm of which Dean Calder is a principal, for accounting, company secretarial, taxation and other services during the year. Included in these fees are \$12,515 (2010: \$16,210) which have been disclosed in the Highest Paid Executive table as directly related to Dean Calder's services.

Options Issued

No options were issued during the year ended 30 June 2011.

Details of vesting profiles of the options granted as remuneration to each of the key management personnel of the Company are detailed below:

Director	Number	Date	% vested in year	% forfeited in year	Financial year in which grant vests
Graeme Cameron	2,000,000	16 April 2009	-%	-%	30 June 2010

Shares issued on exercise of options

During or since the end of the financial year, no ordinary shares were issued as a result of the exercise of options.

Un-issued shares under option

At the date of report, there are 2,000,000 un-issued shares under option.

DIRECTORS' REPORT (Continued)

INDEMNIFICATION

During the year \$9,090 was incurred as an expense for Directors and officeholders insurance which covers all directors and officeholders. A policy has been entered into for the year ended 22 June 2012.

The liabilities insured are costs and expenses that may be incurred in defending civil or criminal proceedings that may be brought against the officers in their capacity as officers of the Company.

AUDITOR'S INDEPENDENCE AND NON-AUDIT SERVICES

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 is set out on page 48. The Auditor has not provided during the year, any non-audit services.

Signed in accordance with a resolution of the directors dated this 16th day September 2011.



R Diermajer
Director

CORPORATE GOVERNANCE STATEMENT

In recognising the need for the highest standards of corporate behaviour and accountability, the directors of Falcon Minerals Ltd ("the Company") have adhered to the principles of corporate governance. A description of the main corporate governance practices is set out below. Unless otherwise stated, the practices were in place for the entire year.

Board of Directors

The Board of Directors of the Company is responsible for the corporate governance of the Company. The Board guides and monitors the business and affairs of the Company on behalf of the shareholders by whom they are elected and to whom they are accountable.

As the Board acts on behalf of shareholders, it seeks to identify the expectations of shareholders, as well as other ethical expectations and obligations. In addition, the Board is responsible for identifying areas of significant business risk and ensuring arrangements are in place to adequately manage those risks.

The primary responsibilities of the Board include:

- formulation and approval of the strategic direction, objectives and goals of the Company;
- monitoring the financial performance of the Company, including approval of the Company's financial statements;
- ensuring that adequate internal control systems and procedures exists and that compliance with these systems and procedures is maintained;
- the identification of significant business risks and ensuring that such risks are adequately managed;
- the review of performance and remuneration of Executive Directors; and
- the establishment and maintenance of appropriate ethical standards.

The responsibility for the operation and administration of the Company is carried out by one of the Directors, who operate in an executive capacity, supported by non executive directors and senior professional staff. The Board ensures that this team is suitably qualified and experienced to discharge their responsibilities, and assesses on an ongoing basis the performance of the management team, to ensure that management's objectives and activities are aligned with the expectations and risks identified by the board.

The Directors of the Company are as follows:

- Richard Edward Diermajer (Executive Director) – Director since 3rd July 1987
- Ray Muskett (Non-Executive Director) – Appointed 24th November 2004
- Graeme Cameron (Non-Executive Director) – Appointed 17th February 2009
- Ronald Smit (Managing Director) – Appointed 19th July 2011

Independent Directors

Under ASX guidelines none of the current Board is considered to be independent directors. Mr Diermajer is an executive director and Mr Smit is the Managing Director and the ASX guidelines deem them not to be independent by virtue of their positions. While the ASX guidelines deem Mr Muskett not to be independent as he is a former employee of the company, the Board believes that the passage of time that has lapsed since he was an employee is sufficient to deem him independent. Mr Cameron is the other Non-Executive Director of the company and as a former employee of the company is therefore not considered independent. The Board is satisfied that the structure of the Board is appropriate for the size of the company and the nature of its operations and is a cost effective structure for managing the company.

Communication to Market & Shareholders

The Board of Directors aims to ensure that the shareholders, on behalf of whom they act, are informed of all information necessary to assess the performance of the Directors and the Company. Information is communicated to shareholders and the market through:

- the Annual Report which is distributed to all shareholders;
- other periodic reports which are lodged with ASX and available for shareholder scrutiny;
- other announcements made in accordance with ASX Listing Rules;
- special purpose information memoranda issued to shareholders as appropriate; and
- the Annual General Meeting and other meetings called to obtain approval for Board action as appropriate.

CORPORATE GOVERNANCE (Continued)

Board Composition

When the need for a new director is identified, selection is based on the skills and experience of prospective directors, having regard to the present and future needs of the Company. Any director so appointed must then stand for election at the next Annual General Meeting of the Company.

Terms of Appointment as a Director

The constitution of the Company provides that a Director other than the Managing Director may not retain office for more than three calendar years or beyond the third annual general meeting following his or her election, whichever is longer, without submitting for re-election. One third of the Directors must retire each year and are eligible for re-election. The Directors who retire by rotation at each annual general meeting are those with the longest length of time in office since their appointment or last election.

Audit Committee

The Audit Committee did not hold any meetings during the Reporting Period. Due to the structure of the Board, the whole Board is currently acting as the Audit Committee.

Remuneration Committee

Details of remuneration, including the Company's policy on remuneration, are contained in the "Remuneration Report" which forms part of the Directors' Report.

The Remuneration Committee did not hold any meetings during the Reporting Period. Due to the structure of the Board, the whole Board is currently acting as the Remuneration Committee.

Remuneration and other terms of employment of executives, including executive directors, are reviewed periodically by the Board having regard to performance, relevant comparative information and, where necessary, independent expert advice. Remuneration packages are set at levels that are intended to attract and retain executives capable of managing the Company's operations.

The terms of engagement and remuneration of executive directors is reviewed periodically by the Board, with recommendations being made by the non-executive directors. Where the remuneration of a particular executive director is to be considered, the director concerned does not participate in the discussion or decision-making.

Independent Professional Advice

Directors have the right, in connection with their duties and responsibilities as directors, to seek independent professional advice at the Company's expense. Prior approval of the Chairman is required, which will not be unreasonably withheld.

Share Trading

Dealings are not permitted at any time whilst in the possession of price sensitive information not already available to the market. In addition, the Corporations Act 2001 prohibits the purchase or sale of securities whilst a person is in possession of inside information.

Code of Conduct

In view of the size of the Company and the nature of its activities, the Board has considered that an informal code of conduct is appropriate to guide executives, management and employees in carrying out their duties and responsibilities.

External Auditors

In late 2003 the Board reviewed the appointment of the external auditor and conducted a tender process for the appointment of the external auditor. As a result the company sought and obtained shareholder approval and changed its external auditor to Stantons International. The auditors attend the Annual General Meeting and have regular contact with management and directors in accounting and regulatory issues.

ASX CORE PRINCIPLES OF CORPORATE GOVERNANCE AND ASX GUIDELINES

Australian Securities Exchange Ltd (ASX) has published 8 core principles of corporate governance in the second edition of 'Corporate Governance Principles and Recommendations' in August 2007, which it believes underlie good corporate governance together with guidelines to satisfy those core principles. Under ASX listing rules, listed companies are required to provide a statement in their annual reports outlining the extent to which they have followed these best practice guidelines. In the following table the ASX core principles and guidelines are listed in the left hand column, and the company's comment/response is listed in the right hand column.

<p>ASX Principle 1: Lay Solid Foundations <i>Recognise and publish the respective roles and responsibilities of the Board and management</i></p>	<p>Comment/Response by Company</p>
<p>ASX Recommendations</p> <p>1.1 Formalise and disclose the functions reserved to the Board and those delegated to management</p>	<p>The Board is comprised of a Executive Director who is currently acting as Chairman, Managing Director and two Non Executive Directors. Management of the company is carried out by the Executive and Managing Director with little or no delegation to staff. The full Board meets on a regular basis for both management and Board meetings.</p>
<p>1.2 Disclose the process for evaluating the performance of senior executives.</p>	<p>Due to the size and structure of the Board a formal evaluation process in not conducted.</p>
<p>1.3 The information indicated in the Guide to reporting on Principle 1 should be provided. (See Guide Notes at end of table)</p>	<p>See above.</p>
<p>ASX Principle 2: Board Structure <i>Have a Board of an effective composition, size and commitment to adequately discharge its responsibilities and duties</i></p>	<p>Comment/Response by Company</p>
<p>ASX Recommendations</p> <p>2.1 A majority of Board members should be independent directors</p>	<p>There is no independent director according to the ASX definition of independence due to two directors being executive and two non executive directors being former employees. However the Board believes that the passage of time that has lapsed since one of the non executives was an employee is sufficient to deem him independent. In view of the size of the company and the nature of its activities the Board considers that the current Board is cost effective and practical method of directing and managing the company.</p>
<p>2.2 The chairperson should be an independent director</p>	<p>As stated above the chairman is an executive director and is not considered independent under the ASX definition. The company is mindful of the costs and availability of experienced non-executive independent chairman and is satisfied the current Board structure is appropriate for the size of the company and the nature of its activities. The Company is currently searching for a non-executive independent chairman.</p>

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<p>2.3 The roles of chairperson and chief executive officer should not be exercised by the same individual</p>	<p>The Executive Director fulfils the role of chief executive officer and is also currently acting as Chairman of the Company until a replacement Chairman can be found.</p>
<p>2.4 The Board should establish a nomination committee</p>	<p>In view of the size of the Company and the nature of its activities, the Board has considered that establishing formally constituted committees for Board nominations would contribute little to its effective management. Accordingly the nomination of new Directors are reviewed by the Board as a whole and approved by resolution of the Board (with abstentions from relevant Directors where there is a conflict of interest).</p>
<p>2.5 The process for evaluating the performance of the Board, it's committees and individual directors should be disclosed.</p>	<p>See 1.2 above.</p>
<p>2.6 The information indicated in Guide to reporting on Principle 2 should be provided. (See Guide Notes at end of table)</p>	<p>Not applicable.</p>
<p>ASX Principle 3: Ethical and responsible decision-making <i>Actively promote ethical and responsible decision-making</i></p>	<p>Comment/Response by Company</p>
<p>ASX Recommendations</p> <p>3.1 The Company should establish a code of conduct to guide the directors, the chief executive officer (or equivalent), the chief financial officer (or equivalent) and any other key executives as to the practices necessary to maintain confidence in the company's integrity, and the responsibility and accountability of individuals for reporting or investigating reports of unethical practices</p>	<p>The Company has a written code of conduct which sets out minimum standards necessary to guide executives, management and employees in carrying out their duties and responsibilities.</p>
<p>3.2 Disclose the policy concerning trading in company securities by directors, officers and employees</p>	<p>The Company has a formal policy which sets out time restrictions on share dealings. The Company policy is that of the Corporations Act 2001 and ASX Listing Rules which state that dealings are not permitted at any time whilst in the possession of price sensitive information not already available to the market. It also states that no share dealings should be carried out by a Director without first receiving written clearance from the Managing Director.</p>
<p>3.3 Provide the information indicated in Guide to Reporting on Principles. (See Guide Notes at end of table)</p>	<p>See above.</p>

<p>ASX Principle 4: Financial reporting integrity <i>Have a structure in place to independently verify and safeguard the integrity of the company's financial reporting</i></p>	<p>Comment/Response by Company</p>
<p>ASX Recommendations</p> <p>4.1 The Board should establish an audit committee</p>	<p>The Company is not of a size at the moment that justifies having a separate Audit Committee. However, matters typically dealt with by such a committee are dealt with by the Board of Directors.</p>
<p>4.2 Structure the audit committee so that it consists of:</p> <ul style="list-style-type: none"> - Only non-executive directors - A majority of independent directors - An independent chairperson who is not the chairperson of the Board - At least three members 	<p>Matters typically dealt with by the Audit Committee are currently dealt with by the Board of Directors.</p>
<p>4.3 Create a formal operating charter for the audit committee</p>	<p>The Board has adopted, and applies an Audit Committee Charter when considering all matters relating to the financial affairs of the company.</p>
<p>4.4 Understand and provide the information indicated in the Guide to reporting on Principle 4. (See Guide Notes at end of table)</p>	<p>See above.</p>
<p>ASX Principle 5: Timely and balanced disclosure <i>Promote timely and balanced disclosure of all material matters concerning the company</i></p>	<p>Comment/Response by Company</p>
<p>ASX Recommendations</p> <p>5.1 Establish written policies and procedures designed to ensure compliance with ASX Listing Rule disclosure requirements and to ensure accountability at a senior management level for that compliance</p>	<p>It is the policy of the Company to fully comply with disclosure obligations contained in the Listing Rules of the Australian Securities Exchange Limited (ASX). It is the policy of the Company to nominate Disclosing Officers who are the only persons authorised to make public disclosures in accordance with these procedures. The Managing Director and the Company Secretary are the Disclosing Officers.</p> <p>At periodic Board and Executives meetings the full Board considers and reviews the continuous disclosure process and obligations of the Company.</p> <p>All of the above is set out in the Companies Continuous Disclosure Policy.</p>
<p>5.2 Understand and provide the information indicated in the Guide to Reporting on Principle 5. (See Guide Notes at end of table)</p>	<p>See above.</p>

<p>ASX Principle 6: Shareholder rights <i>Respect the rights of shareholders and facilitate the effective exercise of those rights</i></p>	<p>Comment/Response by Company</p>
<p>ASX Recommendations</p> <p>6.1 Design and disclose a communications strategy to promote effective communication with shareholders and encourage effective participation at general meetings</p>	<p>See the section on Communication to Market and Shareholders.</p>
<p>6.2 Understand and provide the information indicated in the Guide to Reporting on Principle 6. (See Guide Notes at end of table)</p>	<p>See above.</p>
<p>ASX Principle 7: Risk Management <i>Establish a sound system of risk oversight and management and internal control</i></p>	<p>Comment/Response by Company</p>
<p>ASX Recommendations</p> <p>7.1 The Board or appropriate Board committee should establish policies on risk oversight and management</p>	<p>In view of the size of the Company and the nature of its activities, the Board has considered that establishing formally constituted committees would contribute little to its effective management. Accordingly risk oversight and management issues and policies are reviewed by the Board as a whole and approved by resolution of the Board (with abstentions from relevant Directors where there is a conflict of interest).</p>
<p>7.2 The Board should require management to design and implement the risk management and internal control system to manage the company's material business risks and report to it on whether those risks are being managed effectively. The Board should disclose that management has reported to it as to the effectiveness of the of the company's management of its material business risks.</p>	<p>Not applicable – see above.</p>
<p>7.3 The Board should disclose whether it has received assurance from the CEO (or equivalent) and the CEO (or equivalent) that the declaration provided in accordance with s295A of the Corporations Act is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks.</p>	<p>Not applicable – see above.</p>
<p>7.4 Information indicated in the Guide to Reporting on Principle 7 should be understood and provided. (See Guide Notes at end of table)</p>	<p>Not applicable for reasons stated above</p>

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ASX Principle 8: Remunerate fairly and responsibly <i>Ensure that the level and composition of remuneration is sufficient and reasonable and relationship to performance is clear</i>	Comment/Response by Company
ASX Recommendations 8.1 The Board should establish a remuneration committee	The Company is not of a size at the moment that justifies having a separate Remuneration Committee. However, matters typically dealt with by such a committee are dealt with by the Board of Directors.
8.2 The structure of non-executive directors' remuneration should be distinguished from that of executive directors and senior executives.	Executive directors are paid consulting fees to entities which they control and these consulting arrangements are governed by formal contracts. Directors' fees are paid separately to all Directors. The different types of remuneration including fringe benefits, superannuation, consulting fees and directors' fees are all clearly outlined in the Annual Report.
8.3 Ensure information indicated in ASX Guide to Reporting on Principle 8 is understood and provided. (See Guide Notes at end of table)	See above

**STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 JUNE 2011**

	NOTES	2011 \$	2010 \$
Revenue	2	281,902	767,330
Depreciation of plant & equipment	3	(82,904)	(35,563)
Capitalised exploration expenditure written off	3	(1,841,437)	(1,117,468)
Share based payments	3	-	(107,737)
Occupancy expenses		(44,591)	(41,820)
Employee benefit expense		(245,021)	(217,659)
Compliance and professional fees		(115,515)	(98,474)
Administration expenses		(99,514)	(132,538)
Expenses from operations		(2,428,982)	(1,751,259)
Loss from operations before income tax expense		(2,147,080)	(983,929)
Income tax expense	4	-	-
Loss after income tax expense		(2,147,080)	(983,929)
Other comprehensive income			
Revaluation of financial assets to fair value		-	155,000
Transfer to income on realization of investment		-	(170,000)
Total other comprehensive income/(loss) for the year		-	(15,000)
Total comprehensive income/(loss)		(2,147,080)	(998,929)
Net loss attributable to members of Falcon Minerals Ltd		(2,147,080)	(983,929)
Total comprehensive income/(loss) attributable to members of Falcon Minerals Ltd		(2,147,080)	(998,929)
Basic loss per share (cents)	25	(1.31)	(0.66)
Diluted loss per share (cents)	25	(1.31)	(0.66)

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

**STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2011**

	NOTES	2011 \$	2010 \$
CURRENT ASSETS			
Cash and cash equivalents		3,492,395	5,458,904
Trade and other receivables	5	154,019	177,548
TOTAL CURRENT ASSETS		3,646,414	5,636,452
NON-CURRENT ASSETS			
Plant and equipment	7	203,882	255,034
Financial assets	6	14,404	14,404
TOTAL NON-CURRENT ASSETS		218,286	269,438
TOTAL ASSETS		3,864,700	5,905,890
CURRENT LIABILITIES			
Trade and other payables	9	167,627	58,695
Provisions	10	33,041	36,083
TOTAL CURRENT LIABILITIES		200,668	94,778
TOTAL LIABILITIES		200,668	94,778
NET ASSETS		3,664,032	5,811,112
EQUITY			
Issued capital	11	20,397,612	20,397,612
Accumulated losses	12	(16,905,070)	(14,757,990)
Reserves	13	171,490	171,490
TOTAL EQUITY		3,664,032	5,811,112

The above statement of financial position should be read in conjunction with the accompanying notes.

**STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2011**

	Note	Issued Capital	Accumulated Losses	General Reserve	Option Reserve	Total
		\$	\$	\$	\$	\$
Balance at 30 June 2009		16,632,472	(13,774,061)	15,000	63,753	2,937,164
Loss attributable to members		-	(983,929)	-	-	(983,929)
Other comprehensive income						
Revaluation of financial assets to fair value	13(b)	-	-	155,000	-	155,000
Transfer to income statement on sale of shares	13(b)	-	-	(170,000)	-	(170,000)
Total comprehensive loss for the year		-	(983,929)	(15,000)	-	(998,929)
Issue of shares		4,000,000	-	-	-	4,000,000
Share issue costs		(234,860)	-	-	-	(234,860)
Share based payments	13(a)	-	-	-	107,737	107,737
Balance at 30 June 2010		20,397,612	(14,757,990)	-	171,490	5,811,112
Loss attributable to members		-	(2,147,080)	-	-	(2,147,080)
Other comprehensive income		-	-	-	-	-
Total comprehensive loss for the year		-	(2,147,080)	-	-	(2,147,080)
Balance at 30 June 2011		20,397,612	(16,905,070)	-	171,490	3,664,032

The above statement of changes in equity should be read in conjunction with the accompanying notes.

**STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2011**

	2011	2010
	\$	\$
CASH FLOWS FROM OPERATING ACTIVITIES		
Payments to suppliers and employees	(2,253,854)	(1,642,920)
Interest received	318,963	127,165
Other income	134	-
Net cash used in operating activities (Note b)	<u>(1,934,757)</u>	<u>(1,515,755)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds on sale of tenements	-	408,400
Proceeds from sale of investments	-	182,242
Proceeds on sale of plant and equipment	-	-
Purchases of plant and equipment	(31,752)	(254,070)
Net cash provided by investing activities	<u>(31,752)</u>	<u>336,572</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issue of shares	-	4,000,000
Share issue costs	-	(234,860)
Net cash provided by financing activities	<u>-</u>	<u>3,765,140</u>
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	(1,966,509)	2,585,957
Cash and cash equivalents at the beginning of the financial year (Note a)	<u>5,458,904</u>	<u>2,872,947</u>
Cash and cash equivalents at the end of the financial year (Note a)	<u>3,492,395</u>	<u>5,458,904</u>
(a) Cash and cash equivalents includes		
Cash at Bank	99,724	35,195
Term Deposits	3,392,671	5,423,709
	<u>3,492,395</u>	<u>5,458,904</u>
Cash at bank earns interest at floating rates based on a daily bank deposit rates.		
Short -term deposits are made for varying periods of between one day and three months, depending on the immediate cash requirements of the Company, and earns interest at the respective short-term deposit rates.		
(b) Reconciliation of net cash used in operating activities to (loss) after income tax		
Loss after income tax	(2,147,080)	(983,929)
Profit on sale of exploration assets	-	(408,400)
Net surplus on sale of investments	-	(177,242)
Share based payments/Employee options expensed	-	107,737
Depreciation	82,904	35,563
(Decrease) / Increase in provision for employee entitlements	(3,042)	30,855
(Increase) / Decrease in trade and other receivables	23,529	(139,951)
Increase/ (Decrease) in trade and other payables	108,932	19,612
Net cash used in operating activities	<u>(1,934,757)</u>	<u>(1,515,755)</u>
(c) Credit Standby Facilities		
Credit Facility	30,000	30,000
Amount Utilised	(1,432)	(4,634)
	<u>28,568</u>	<u>25,366</u>

The only facility is in relation to credit card facilities.

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

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

The financial report is a general purpose financial report that has been prepared in accordance with Australian Accounting Standards, Australian Interpretations, other authoritative pronouncements of the Australian Accounting Standards Board and the *Corporations Act 2001*.

Falcon Minerals Limited is a listed public company, incorporated and domiciled in Australia.

The financial report of Falcon Minerals Limited complies with all Australian equivalents to International Financial Reporting Standards (AIFRS) in their entirety.

The following is a summary of the material accounting policies adopted by the Company in the preparation of the financial report. The accounting policies have been consistently applied, unless otherwise stated.

Basis of Preparation

The accounting policies set out below have been consistently applied to all years presented, except as stated below.

Reporting Basis and Conventions

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

Statement of Compliance

The Company has adopted the following new and amended Australian Accounting Standards and AASB Interpretations as of 1 July 2010.

- AASB 2009-5 Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project (AASB 5, 8, 101, 107, 117, 118, 136, and 139)
- AASB 2010-3 Amendments to Australian Accounting Standards arising from the Annual Improvements Project (AASB 3, 7, 121, 128, 131, 132 and 139)
- AASB Interpretation 19 Extinguishing Financial Liabilities with Equity Instruments and AASB 2009-13 Amendments to Australian Accounting Standards arising from Interpretation 19.

The adoption of these standards did not have any impact in the current period or any prior period and is unlikely to affect future periods.

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2011 reporting periods. Falcon Minerals Limited's assessments of the impact of new standards and interpretations that may affect the Company are set out below:

- (i) AASB 9 Financial Instruments, AASB 2009-11 Amendments to Australian Accounting Standards arising from AASB 9 and AASB 2010-7 Amendments to Australian Accounting Standards arising from AASB 9 (December 2010) (effective from 1 January 2013)

AASB 9 Financial Instruments addresses the classification, measurement and derecognition of financial assets and financial liabilities. The standard is not applicable until 1 January 2013 but is available for early adoption. When adopted, the standard is not expected to impact on the Company's accounting for financial assets as it does not have any available for sale assets other than equity investments. There will be no impact on the Company's accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss and the Company does not have any such liabilities. The Company has decided not to early adopt AASB 9.

- (ii) Revised AASB 124 Related Party Disclosures and AASB 2009-12 Amendments to Australian Accounting Standards (effective from 1 January 2011)

In December 2009 the AASB issued a revised AASB 124 Related Party Disclosures. It is effective for accounting periods beginning on or after 1 January 2011 and must be applied retrospectively. The amendment clarifies and simplifies the definition of a related party. The Company will apply the amended standard from 1 July 2011. When the amendments are applied, the Company will need to disclose any transactions between its subsidiaries and its associates. However, there will be no impact on any of the amounts recognised in the financial statements.

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2011 (CONTINUED)**

(iii) AASB 1053 Application of Tiers of Australian Accounting Standards and AASB 2010-2 Amendments to Australian Accounting Standards arising from Reduced Disclosure Requirements (effective from 1 July 2013)

On 30 June 2010 the AASB officially introduced a revised differential reporting framework in Australia. Under this framework, a two-tier differential reporting regime applies to all entities that prepare general purpose financial statements. Falcon Minerals Limited is listed on the ASX and is not eligible to adopt the new Australian Accounting Standards – Reduced Disclosure Requirements. The two standards will therefore have no impact on the financial statements of the entity.

The Company does not anticipate the early adoption of any of the above Australian Accounting Standards.

Accounting Policies

a) Principles of going concern

The Company has recorded a loss of \$2,147,080 for the year ended 30 June 2011 and as at 30 June 2011 has net cash and cash equivalents of \$3,492,395. The financial report has been prepared on the going concern basis, which contemplates continuity of normal business activities and the realisation of assets and settlement of liabilities in the ordinary course of business. The Directors are of the opinion that cash assets are sufficient to meet the needs of the Company for at least the coming year.

b) Revenue recognition

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.

Asset sales

The gross proceeds of asset sales not originally purchased for the intention of resale are included as revenue at the date an unconditional contract of sale is signed.

c) Exploration and Evaluation Expenditure

Exploration and evaluation costs are written off in the year they are incurred apart from acquisition costs which are carried forward where right of tenure of the area of interest is current and they are expected to be recouped through sale or successful development and exploitation of the area of interest or, where exploration and evaluation activities in the area of interest have not reached a stage that permits reasonable assessment of the existence of economically recoverable reserves.

Where an area of interest is abandoned or the directors decide that it is not commercial, any accumulated acquisition costs in respect of that area are written off in the financial period the decision is made. Each area of interest is also reviewed at the end of each accounting period and accumulated costs are written off to the extent that they will not be recoverable in the future.

d) Financial Instruments

Recognition

Financial instruments are initially measured at cost on trade date, which includes transaction costs, when the related contractual rights or obligations exist. Subsequent to initial recognition these instruments are measured as set out below.

Financial assets at fair value through profit and loss

A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management and within the requirements of AASB 139: Recognition and Measurement of Financial Instruments. Derivatives are also categorised as held for trading unless they are designated as hedges. Realised and unrealised gains and losses arising from changes in the fair value of these assets are included in the income statement in the period in which they arise.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are stated at amortised cost using the effective interest rate method.

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2011 (CONTINUED)**

Held-to-maturity investments

These investments have fixed maturities, and it is the Company's intention to hold these investments to maturity. Any held-to-maturity investments held by the Company are stated at amortised cost using the effective interest rate method.

Available-for-sale financial assets

Available-for-sale financial assets include any financial assets not included in the above categories. Available-for-sale financial assets are reflected at fair value. Unrealised gains and losses arising from changes in fair value are taken directly to equity.

Financial liabilities

Non-derivative financial liabilities are recognised at amortised cost, comprising original debt less principal payments and amortisation.

Fair value

Fair value is determined based on current bid prices for all quoted investments. Valuation techniques are applied to determine the fair value for all unlisted securities, including recent arm's length transactions, reference to similar instruments and option pricing models.

Impairment

At each reporting date, the Company assesses whether there is objective evidence that a financial instrument has been impaired. In the case of available-for-sale financial instruments, a prolonged decline in the value of the instrument is considered to determine whether an impairment has arisen. Impairment losses are recognised in the income statement.

e) Impairment of Assets

At each reporting date, the Company reviews the carrying values of its tangible and intangible assets to determine whether there is any indication that those assets have been impaired. If such an indication exists, the recoverable amount of the asset, being the higher of the asset's fair value less costs to sell and value in use, is compared to the asset's carrying value. Any excess of the asset's carrying value over its recoverable amount is expensed to the income statement.

Impairment testing is performed annually for goodwill and intangible assets with indefinite lives.

Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs.

f) Cash and Cash Equivalents

Cash and short-term deposits in the statement of financial position comprise cash at bank and in hand, and short-term deposits with an original maturity of 3 months or less.

For the purpose of the statement of cash flows, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

g) Earnings per Share

Basic earnings per share is determined by dividing the operating profit or loss after income tax by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year.

h) 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 using the diminishing value method at rates between 20% and 67%.

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2011 (CONTINUED)**

Impairment

The carrying value 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 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 derecognized 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 derecognized.

i) Income Tax

Current Tax

Current tax is calculated by reference to the amount of income taxes payable or recoverable in respect of the taxable profit or tax loss for the period. It is calculated using tax rates and tax laws that have been enacted or substantively enacted by reporting date. Current tax for current and prior periods is recognised as a liability (or asset) to the extent that it is unpaid (or refundable).

Deferred Tax

Deferred tax is accounted for using the comprehensive balance sheet liability method in respect of temporary differences arising from differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax base of those items.

In principle, deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised to the extent that it is probable that sufficient taxable amounts will be available against which deductible temporary differences or unused tax losses and tax offsets can be utilised. However, deferred tax assets and liabilities are not recognised if the temporary differences giving rise to them arise from the initial recognition of assets and liabilities (other than as a result of a business combination) which affects neither taxable income nor accounting profit. Furthermore, a deferred tax liability is not recognised in relation to taxable temporary differences arising from goodwill.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, branches, associates and joint ventures except where the consolidated entity is able to control the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with these investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period(s) when the asset and liability giving rise to them are realised or settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by reporting date. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Company expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

Current and Deferred Tax for the Period

Current and deferred tax is recognised as an expense or income in the income statement, except when it relates to items credited or debited directly to equity, in which case the deferred tax is also recognised directly in equity, or where it arises from the initial accounting for a business combination, in which case it is taken into account in the determination of goodwill or excess.

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2011 (CONTINUED)**

j) Employee Entitlements

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 1 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 1 year have been measured at the present value of the estimated future cash outflows to be made for those benefits.

k) Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian Tax Office. In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense. Receivables and payables in the statement of financial position are shown inclusive of GST.

Cash flows are presented in the cash flow statement on a gross basis, except for the GST component of investing and financing activities, which are disclosed as operating cash flows.

l) 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 recognized as a liability. Lease payments received reduce the liability.

m) Interest in Joint Venture Operations

The joint ventures are not separate legal entities. They are contractual arrangements between the participants for the sharing of costs and output and do not by themselves generate revenue and profit. The Company's direct and indirect interests in the joint ventures are included in the statement of financial position.

n) Provisions

Provisions are recognised when the company has a present obligation, the future sacrifice of economic benefits is probable, and the amount of the provision can be measured reliably.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at reporting date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cashflows estimated to settle the present obligation, its carrying amount is the present value of those cashflows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognised as an asset if it is virtually certain that recovery will be received and the amount of the receivable can be measured reliably.

o) Share Based Payments

Equity settled transactions

The company provides benefits to employees (including senior executives) of the company in the form of share-based payments, whereby employees render services in exchange for shares or rights over shares (equity-settled transactions).

The cost of these equity-settled transactions with employees is measured by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined by using the Black-Scholes option pricing model, further details of which are given in the remuneration report.

In valuing equity-settled transactions, no account is taken of any performance conditions, other than conditions linked to the price of the shares of Falcon Minerals Limited.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award (the vesting period).

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2011 (CONTINUED)**

The cumulative expense recognised for equity-settled transactions at each reporting date until vesting date reflects:

- (i) the extent to which the vesting period has expired; and
- (ii) the company's best estimate of the number of equity instruments that will ultimately vest. No adjustment is made for the likelihood of market performance conditions being met as the effect of these conditions is included in the determination of fair value at grant date. The income statement charge or credit for a period represents the movement in cumulative expense recognised as at the beginning and end of that period.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is only conditional upon a market condition.

If the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified. In addition, an expense is recognised for any modification that increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee, as measured at the date of modification.

If an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award and designated as a replacement award on the date that it is granted, the cancelled and new award are treated as if they were a modification of the original award, as described in the previous paragraph.

p) Comparatives

Certain comparatives have been reclassified to be consistent with the current year's disclosures.

q) Significant Accounting Estimates and Assumptions

The carrying amounts of certain assets and liabilities are often determined based on estimates and assumptions of future events. The key estimate and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of certain assets and liabilities within the next annual reporting period are:

Share based payment transactions

The Company measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined by an external valuer using a Black-Scholes option pricing model.

The Company measures the cost of cash-settled share-based payments at fair value at the grant date using the Black-Scholes formula taking into account the terms and conditions upon which the instruments were granted.

Non-recognition of Deferred tax assets

The Company has decided at this stage that it does not want to include in the balance sheet the potential benefit of deferred tax assets as the Company is still in exploration phase, and it is not probable that the assets would be realised.

2. REVENUE

	2011	2010
	\$	\$
Interest received/receivable – other persons	281,768	181,688
Profit on sale of shares	-	7,242
Transfer from general reserve on sale of shares	-	170,000
Profit on sale of exploration assets	-	408,400
Fuel Tax Credits	134	-
	281,902	767,330

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2011 (CONTINUED)**

3. LOSS FOR THE YEAR

	2011 \$	2010 \$
Loss for the year includes the following:		
Exploration expenditure written-off	1,841,437	1,117,468
Depreciation of plant and equipment	82,904	35,563
Share based payments	-	107,737

4. INCOME TAX

a. The components of tax expense comprise:

Current tax	-	-
Deferred tax	-	-
	-	-

b. The prima facie tax benefit on loss from ordinary activities before income tax is reconciled to the income tax as follows:

Prima facie tax benefit on loss from ordinary activities before income tax at 30% (2010: 30%)	(644,124)	(295,179)
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Add tax effect of:

— Other non-allowable items	22,606	18,402
— Other assessable items	25,156	8,800
— Share based payments	-	32,321
— Tax benefit of revenue losses not recognised	642,280	338,423
	690,042	397,946

Less tax effect of:

— Other non-assessable items	(13,998)	(78,329)
— Other tax benefits not recognised	(31,920)	(24,438)
	(45,918)	(102,767)

Income tax	-	-
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The applicable weighted average effective tax rates are as follows:	0%	0%
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**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2011 (CONTINUED)**

4. INCOME TAX (continued)

	2011	2010
	\$	\$
c. The following deferred tax balances at 30% (2010: 30%) have not been recognised		
Deferred Tax Assets:		
Carry forward revenue losses	4,480,154	3,837,875
Carry forward capital losses	152,026	152,026
Capital raising costs	42,275	56,366
Provisions and accruals	21,370	17,425
	4,695,825	4,063,692

The tax benefits of the above Deferred Tax Assets will only be obtained if:

- (a) the Company derives future assessable income of a nature and of an amount sufficient to enable the benefits to be utilised;
- (b) the Company continues to comply with the conditions for deductibility imposed by law; and
- (c) no changes in income tax legislation adversely affect the company in utilising the benefits.

Deferred Tax Liabilities:

Other	403	558
Accrued interest	13,998	25,157
	14,401	25,715

The above Deferred Tax Liabilities have not been recognised as they have given rise to the carry forward revenue losses for which the Deferred Tax Asset has not been recognised.

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2011 (CONTINUED)**

5. TRADE & OTHER RECEIVABLES

	2011	2010
Current	\$	\$
Prepayments	23,874	17,018
Other	46,679	83,855
GST refund due	83,466	76,675
	<u>154,019</u>	<u>177,548</u>

There are no amounts which are past due or impaired.

6. FINANCIAL ASSETS

Non Current

Other receivables - bonds	<u>14,404</u>	<u>14,404</u>
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7. PLANT & EQUIPMENT

Plant and equipment at cost	15,279	12,954
Less: accumulated depreciation	(7,114)	(4,066)
	<u>8,165</u>	<u>8,888</u>
Office furniture at cost	17,245	17,245
Less: accumulated depreciation	(14,118)	(12,783)
	<u>3,127</u>	<u>4,462</u>
Electronic equipment at cost	101,860	76,795
Less: accumulated depreciation	(69,067)	(49,807)
	<u>32,793</u>	<u>26,988</u>
Software at cost	21,088	17,532
Less: accumulated depreciation	(17,079)	(9,557)
	<u>4,009</u>	<u>7,975</u>
Motor Vehicles	223,305	222,499
Less: accumulated depreciation	(67,517)	(15,778)
	<u>155,788</u>	<u>206,721</u>
Total Plant and equipment at cost	378,777	347,025
Less: accumulated depreciation	(174,895)	(91,991)
	<u>203,882</u>	<u>255,034</u>

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2011 (CONTINUED)**

7. PLANT & EQUIPMENT (Continued)

	2011	2010
	\$	\$
Movements in Plant and Equipment		
Balance at beginning of the year	255,034	36,527
Additions	31,752	254,070
Depreciation expense	(82,904)	(35,563)
Balance at end of the year	<u>203,882</u>	<u>255,034</u>

8. MINERAL EXPLORATION EXPENDITURE

Non Current

Costs bought forward	-	-
Exploration expenditure incurred (net of refunds received) on mineral tenements and joint ventures	1,841,437	1,117,468
Less: Expenditure written off to the statement of comprehensive income	<u>(1,841,437)</u>	<u>(1,117,468)</u>
Costs carried forward	<u>-</u>	<u>-</u>

9. TRADE & OTHER PAYABLES

Current

Other creditors and accruals	<u>167,627</u>	<u>58,695</u>
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All creditors and accruals are not past due.

10. PROVISIONS

Current

Employee entitlements	<u>33,041</u>	<u>36,083</u>
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There were 4 employees (2010: 5 full time employees) at reporting date.

11. ISSUED CAPITAL

	2011	2010	2011	2010
	No	No	\$	\$
ISSUED AND FULLY PAID UP CAPITAL				
Ordinary Shares				
Opening balance	163,578,935	142,526,303	20,397,612	16,632,472
Net movement during the year	-	21,052,632	-	3,765,140
Closing balance	<u>163,578,935</u>	<u>163,578,935</u>	<u>20,397,612</u>	<u>20,397,612</u>
Options				
Opening balance	2,000,000	2,000,000		
Employee options issued	-	-		
Employee options forfeited	-	-		
Closing balance	<u>2,000,000</u>	<u>2,000,000</u>		

Details of options outstanding are included in Note 14.

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2011 (CONTINUED)**

12. ACCUMULATED LOSSES

	2011	2010
	\$	\$
Accumulated Losses:		
Balance at the beginning of the year	(14,757,990)	(13,774,061)
Net loss for the year	(2,147,080)	(983,929)
Balance at the end of the year	<u>(16,905,070)</u>	<u>(14,757,990)</u>

13. RESERVES

(a) Option Premium Reserve:

Balance at the beginning of the year	171,490	63,753
Options issued to employees	-	107,737
Balance at the end of the year	<u>171,490</u>	<u>171,490</u>

(b) General Reserve:

Balance at the beginning of the year	-	15,000
Transfer to income statement on sale of shares	-	(170,000)
Revaluation of financial assets to fair value	-	155,000
Balance at the end of the year	<u>-</u>	<u>-</u>

Total	<u>171,490</u>	<u>171,490</u>
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14. SHARE BASED PAYMENTS

Options are issued to key management personnel as part of their compensation. The options issued may be subject to performance criteria and are issued to key management personnel of Falcon Minerals Limited to increase goal congruence between key management personnel and shareholders.

The following table illustrates the number and weighted average exercise prices (WAEP) of and movements in share options issued under Share Based Payment Scheme during the year:

	2011		2010	
	Number of Options	Weighted Average Exercise Price \$	Number of Options	Weighted Average Exercise Price \$
At beginning of reporting period	2,000,000	0.25	2,000,000	0.25
Granted during the period				
- Employee remuneration	-	-	-	-
- Employee remuneration	-	-	-	-
Balance at end of reporting period	<u>2,000,000</u>	0.25	<u>2,000,000</u>	0.25
Exercisable at end of reporting period	<u>2,000,000</u>		<u>2,000,000</u>	

The outstanding balance at 30 June 2011 is represented by:

1,000,000 options over ordinary shares with an exercise price of 20 cents each, exercisable until 30th September 2012.

1,000,000 options over ordinary shares with an exercise price of 30 cents each, exercisable until 30th September 2012.

Options issued

No options were issued during the year ended 30 June 2011 (2010: Nil)

Options exercised

No options issued under the share based payment scheme were exercised during the year ended 30 June 2011 (2010: Nil).

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2011 (CONTINUED)**

15. KEY MANAGEMENT PERSONNEL

Names and positions held of key management personnel in office at any time during the financial year are:

Key Management Person	Position
Mr Richard Diermajer	Executive Director
Mr Ray Muskett	Non Executive Director
Mr Graeme Cameron	Technical Director
Mr Ronald Smit	Managing Director – Appointed 19 th July 2011

Compensation for Key Management Personnel

	2011	2010
	\$	\$
Short-term employee benefits	452,498	475,253
Post employment benefits	39,153	39,153
Other long-term benefits	-	-
Termination benefits	-	-
Share based payment	-	107,737
Total Compensation	491,651	622,143

Falcon Minerals Limited has applied the option under *Corporations Amendments Regulation 2006* to transfer KMP remuneration disclosures required by *AASB 124 Related Part Disclosures* paragraphs Aus 25.4 to Aus 25.7.2 to the Remuneration Report section of the Directors' report. These transferred disclosures have been audited.

The relevant interest of each director in the shares, debentures, interests in registered schemes and rights or options over such instruments issued by the company and other related bodies corporate, as notified by the directors to the Australian Securities Exchange in accordance with S205G(1) of the Corporations Act 2001, at the balance date is as follows:

Shareholdings of Key Management Personnel

Year Ended 30 June 2011						
Number of Shares held by Key Management Personnel						
	Balance 1 July 2010	Granted as Remuneration	Options Exercised	Net Change Other	Held on date of resignation	Balance 30 June 2011
Richard Diermajer	3,500,000	-	-	-	-	3,500,000
Ray Muskett	445,000	-	-	-	-	445,000
Graeme Cameron	-	-	-	-	-	-
Ronald Smit	-	-	-	-	-	-
TOTAL	3,945,000	-	-	-	-	3,945,000

Shareholdings of Key Management Personnel

Year Ended 30 June 2010						
Number of Shares held by Key Management Personnel						
	Balance 1 July 2009	Granted as Remuneration	Options Exercised	Net Change Other	Held on date of resignation	Balance 30 June 2010
Richard Diermajer	2,500,000	-	-	1,000,000	-	3,500,000
Ray Muskett	445,000	-	-	-	-	445,000
Graeme Cameron	-	-	-	-	-	-
Peter Langworthy	-	-	-	-	-	-
TOTAL	2,945,000	-	-	1,000,000	-	3,945,000

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2011 (CONTINUED)**

15. KEY MANAGEMENT PERSONNEL (Continued)

Option Holdings of Key Management Personnel

Year Ended 30 June 2011								
Number of Options held by Key Management Personnel								
	Balance 1 July 2010	Granted as Remune- ration	Options Exercised	Net Change Other	Held on date of resignation	Balance 30 June 2011	Exercisable	Un- exercisable
Richard Diermajer	-	-	-	-	-	-	-	-
Ray Muskett	-	-	-	-	-	-	-	-
Ronald Smit	-	-	-	-	-	-	-	-
Graeme Cameron	2,000,000	-	-	-	-	2,000,000	2,000,000	-
TOTAL	2,000,000	-	-	-	-	2,000,000	2,000,000	-

Option Holdings of Key Management Personnel

Year Ended 30 June 2010								
Number of Options held by Key Management Personnel								
	Balance 1 July 2009	Granted as Remune- ration	Options Exercised	Net Change Other	Held on date of resignation	Balance 30 June 2010	Exercisable	Un- exercisable
Richard Diermajer	-	-	-	-	-	-	-	-
Ray Muskett	-	-	-	-	-	-	-	-
Peter Langworthy	-	-	-	-	-	-	-	-
Graeme Cameron	2,000,000	-	-	-	-	2,000,000	2,000,000	-
TOTAL	2,000,000	-	-	-	-	2,000,000	2,000,000	-

Other transactions and balances with Key Management Personnel

Consultancy services

There were no other transactions and balances with key management personnel.

16. REMUNERATION OF AUDITORS

	2011	2010
	\$	\$
During the year, the following fees were received or due and receivable by Stantons International for:-		
Audit and review of financial report	27,539	25,579

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2011 (CONTINUED)**

17. EXPLORATION INTERESTS

Exploration

The Company has entered into farm out ventures where the farmee may earn its interest in mining and exploration tenements held by the Company, as set out in the various agreements. The Company's interest in the operations which have been formed for the purposes of exploration for gold and other minerals are as follows:-

Project	Percentage Interest	
	2011	2010
Duketon	20% free carried	20% free carried
North Duketon	20% free carried	20% free carried
Mulgarrie	Nil	30% free carried
Windanning Hill	21.50% diluting	21.50% diluting

There are no costs carried forward in respect of areas of interest.

18. CONTINGENT ASSETS AND LIABILITIES

In the opinion of the directors, there are no contingent assets or liabilities as at 30 June 2011 and no changes in the interval between 30 June 2011 and the date of this report.

19. COMMITMENTS

Exploration Licence Commitments

In order to maintain current rights of tenure to exploration tenements, the Company is required to outlay lease rentals to meet the minimum expenditure requirements of the Western Australian, Victorian, Queensland, New South Wales and South Australian Departments of Minerals and Energy. These obligations are subject to renegotiation upon expiry of the exploration licenses or when application for a mining lease is made. These obligations are not provided for in the financial statements.

	2011	2010
	\$	\$
Not later than one year	2,358,109	1,067,358
After one year but less than five years	4,382,556	2,921,724
	6,740,665	3,989,082
Operating Lease Commitments		
Not later than one year	43,215	20,848
After one year but not later than five years	7,650	-
	50,865	20,848

There are two operating leases being rental leases on the Company's premises. The leases expire on 31st January 2012 and 1 December 2012.

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2011 (CONTINUED)**

20. RELATED PARTIES

Directors

The names of persons who were directors of Falcon Minerals Ltd at any time during the financial year were as follows: R E Diermajer; R Muskett; G Cameron.

Other Related Party Transactions

Transactions between related parties are on commercial terms and conditions, no more favourable than those available to other parties unless otherwise stated.

No amounts in addition to those disclosed in the remuneration report to the financial statements were paid or payable to Directors of the Company in respect of the year ended 30 June 2011.

21. EVENTS SUBSEQUENT TO REPORTING DATE

In the opinion of the Directors there have been no matters that have arisen since 30 June 2011, that have significantly affected, or may significantly affect, the operations of the Company, the results of those operations, or the state of affairs of the Company in future years.

22. ECONOMIC DEPENDENCY

The Company is not economically dependent on any party.

23. PLACE OF INCORPORATION

The Company is incorporated in Australia and its principal place of business is Perth, Western Australia.

24. SEGMENT REPORTING

The Company operates in the mineral exploration industry in Australia. For management purposes, the Company is organised into one main operating segment which involves the exploration of minerals in Australia. All of the Company's activities are interrelated and discrete financial information is reported to the Board (Chief operating Decision Maker) as a single segment. Accordingly, all significant operating decisions are based upon analysis of the Company as one segment. The financial results from this segment are equivalent to the financial statements of the Company as a whole.

25. LOSS PER SHARE

	2011 Cents per share	2010 Cents per share
a) Basic loss per share	(1.31)	(0.66)
b) Net loss used in calculating - Basic loss per share	\$ (2,147,080)	\$ (983,929)
	<u>Number</u>	<u>Number</u>
c) Weighted average number of ordinary shares outstanding during the year used in calculating basic loss per share	<u>163,578,935</u>	<u>148,582,540</u>
d) Effect of dilutive securities		

There were no dilutive potential ordinary shares on issue at balance date. Accordingly, diluted loss per share is the same as basic loss per share.

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2011 (CONTINUED)**

26. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Company's principal financial instruments comprise cash and short term deposits. The main purpose of the financial instruments is to earn the maximum amount of interest at a low risk to the company. The Company also has other financial instruments such as trade debtors and creditors which arise directly from its operations. For the year under review, the Company has not traded in shares or options and holds no such investments at 30 June 2011.

The main risks arising from the Company's financial instruments are interest rate risk and credit risk. The Board reviews and agrees policies for managing each of these and other risks and they are summarised below:

a) Interest Rate Risk Exposures

The Company is exposed to movements in market interest rates on short term deposits. The policy is to monitor the interest rate yield curve out to 120 days to ensure a balance is maintained between the liquidity of cash assets and the interest rate return. The Company does not have short or long term debt, and therefore this risk is minimal.

b) Credit Risk Exposures

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Company. The Company has adopted the policy of only dealing with credit worthy counterparties and obtaining sufficient collateral or other security where appropriate, as a means of mitigating the risk of financial loss from defaults.

The credit risk on financial assets of the Company which have been recognised on the statement of financial position, is the carrying amount, net of any provision for doubtful debts.

The Company is not materially exposed to any individual overseas country or individual customer.

c) Commodity price risk

The Company is not yet in production and is not exposed to any significant extent to commodity price risk.

d) Foreign currency risk

The Company operates in Australia and its expenditure and revenue are denominated in Australia dollars. The Company is not exposed to any significant currency risk.

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2011 (CONTINUED)**

27. FINANCIAL INSTRUMENTS

The Company's exposure to interest rate risk and the effective weighted average interest rate for classes of financial assets and financial liabilities are set out below:

	Floating Interest rate		Fixed Interest Less than 1 year		Non-interest Bearing		Total	
	2011 \$	2010 \$	2011 \$	2010 \$	2011 \$	2010 \$	2011 \$	2010 \$
Financial Assets								
Cash and cash equivalents	-	-	3,392,671	5,423,709	99,724	35,195	3,492,395	5,458,904
Trade and other receivables	-	-	-	-	130,145	160,530	130,145	160,530
Financial assets	-	-	-	-	14,404	14,404	14,404	14,404
Total Financial Assets	-	-	3,392,671	5,423,709	244,273	210,129	3,636,944	5,633,838
Interest Rate	-	-	6.20%	6.11%				
Financial Liabilities								
Trade and other payables	-	-	-	-	167,627	58,695	167,627	58,695
Total Financial Liabilities	-	-	-	-	167,627	58,695	167,627	58,695
Net Financial Assets/ (Liabilities)	-	-	3,392,671	5,423,709	76,646	151,434	3,469,317	5,575,143

- a) Net Fair Values - The financial assets and liabilities included in current assets and current liabilities in the statement of financial position are carried at amounts that approximate net fair values.

Sensitivity Analysis

The Company has performed a sensitivity analysis relating to its exposure to interest rate risk at balance date. This sensitivity analysis demonstrates the effect on the current year results and equity which could result from a change in these risks.

Interest Rate Sensitivity Analysis

At 30 June 2011, the effect on profit and equity as a result of changes in the interest rate, with all other variables remaining constant would be as follows:

	2011 \$	2010 \$
Change in Profit		
- Increase in interest rate by 1%	33,927	54,237
- Decrease in interest rate by 1%	(33,927)	(54,237)
Change in equity		
- Increase in interest rate by 1%	33,927	54,237
- Decrease in interest rate by 1%	(33,927)	(54,237)

DIRECTORS' DECLARATION

The directors of the company declare that:

1. The financial statements and notes, as set out on pages 24 to 44 are in accordance with the Corporations Act 2001 and;
 - (a) comply with Accounting Standards and the Corporations Regulations 2001; and
 - (b) give a true and fair view of the financial position as at 30 June 2011 and of the performance for the year ended on that date of the company;
 - (c) The financial report also complies with International Financial Reporting Standards as disclosed in Note 1.

2. The Chief Executive Officer and Chief Finance Officer have each declared that:
 - (a) the financial records of the company for the financial year have been properly maintained in accordance with section 286 of the Corporations Act 2001;
 - (b) the financial statements and notes for the financial year comply with the Accounting Standards; and
 - (c) the financial statements and notes for the financial year give a true and fair view;

3. 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.



R Diermajer
Director

Dated this 16th day of September 2011

**INDEPENDENT AUDITOR'S REPORT
TO THE MEMBERS OF
FALCON MINERALS LIMITED**

Report on the Financial Report

We have audited the accompanying financial report of Falcon Minerals Limited, which comprises the statement of financial position as at 30 June 2011, the statement of comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration.

Directors' responsibility for the Financial Report

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In note 1, the directors also state, in accordance with Australian Accounting Standard AASB 101 Presentation of Financial Statements, that the financial report of the company, comprising the financial statements and notes, complies with International Financial Reporting Standards.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

Our audit did not involve an analysis of the prudence of business decisions made by directors or management.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*.

Auditor's opinion

In our opinion:

- (a) the financial report of Falcon Minerals Limited is in accordance with the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the company's financial position as at 30 June 2011 and of its performance for the year ended on that date; and
 - (ii) complying with Australian Accounting Standards and the Corporations Regulations 2001.
- (b) the financial report of the Company also complies with International Financial Reporting Standards as disclosed in note 1.

Report on the Remuneration Report

We have audited the remuneration report included in pages 13 to 15 of the directors' report for the year ended 30 June 2011. The directors of the Company are responsible for the preparation and presentation of the remuneration report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with Australian Auditing Standards

Auditor's opinion

In our opinion the remuneration report of Falcon Minerals Limited for the year ended 30 June 2011 complies with section 300 A of the *Corporations Act 2001*.

STANTONS INTERNATIONAL AUDIT AND CONSULTING PTY LTD
(Trading as Stantons International)
(An Authorised Audit Company)

Stantons International Audit & Consulting Pty Ltd.



Martin Michalik
Director

West Perth, Western Australia
16 September 2011

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Stantons International
Chartered Accountants and Consultants

16 September 2011

Board of Directors
Falcon Minerals Limited
Suite 19, 100 Hay Street
SUBIACO WA 6005

Dear Directors

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 audit of the financial statements of Falcon Minerals Limited for the year ended 30 June 2011, 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 audit; and
- (ii) any applicable code of professional conduct in relation to the audit.

Yours faithfully

STANTONS INTERNATIONAL AUDIT AND CONSULTING PTY LTD
(Trading as Stantons International)
(An Authorised Audit Company)



Martin Michalik
Director

STOCK EXCHANGE INFORMATION

The additional information set out below relates to shares, options and tenements that was applicable at 1st September 2011.

DISTRIBUTION OF SHAREHOLDINGS

Size of holding	Number of shareholders
1 – 1,000	216
1,001 – 5,000	687
5,001 – 10,000	611
10,001 – 100,000	1,229
100,001 and over	234
Total shareholders	2,977
Number of shareholders with less than a marketable parcel of \$500 at 6.9 cents per share	1,092

SUBSTANTIAL SHARE HOLDERS – as advised to the Company

Name	No of shares
Xstrata Nickel Australasia	23,011,516

VOTING RIGHTS

All ordinary shares issued by the Company carry one vote per share without restriction.

TWENTY LARGEST SHAREHOLDERS

Name of Shareholders	No of shares	%
1. Xstrata Nickel Australasia	23,011,516	14.07
2. Boom Securities (HK) Ltd	7,686,067	4.70
3. Illawong Investments Pty Ltd	3,944,000	2.41
4. Avon Management Company Pty Ltd	3,500,000	2.14
5. HSBC Custody Nominees	2,642,401	1.62
6. Red Dragon Trading Pty Ltd	1,800,000	1.10
7. Mr Steven Jan Zielinski & Mrs Karen Lyn Zielinski	1,710,000	1.05
8. Pan Australian Nominees Pty Ltd	1,550,000	0.95
9. J P Morgan Nominees Australia Ltd	1,374,733	0.84
10. UBS Wealth Management Australia Nominees Pty Ltd	1,200,000	0.73
11. National Nominees Limited	1,179,098	0.72
12. 666 Pty Ltd	1,111,111	0.68
13. Gascorp Australia Pty Ltd	1,000,000	0.61
14. Hulme Developments Pty Ltd	1,000,000	0.61
15. S & CJ Pty Ltd	1,000,000	0.61
16. Syrain Pty Ltd	1,000,000	0.61
17. Sacrosanct Pty Ltd	1,000,000	0.61
18. Paso Holdings Pty Ltd	960,000	0.59
19. Mr Brett William Thompson	950,000	0.58
20. Mr Anthony Wilson	847,019	0.52
Top 20 largest shareholders	58,465,945	35.75
Total Shares Issued	163,578,935	100.00

TENEMENT SCHEDULE

Project	Tenements	Falcon %	Joint Venture
Nickel (WA) Collurabbie	EL's 38/2009, 38/1598, 38/1985 to 38/1987, ML's 38/974 to 38/976, PL's 38/3390, 38/3398 &, 38/3876	100%	
Nickel & Gold (WA) Duketon	EL 38/2005, PL 38/3566 to 38/3567, PL 38/3568, M 38/1091	20%	Regis 80%
North Duketon	EL 38/1939 PL 38/3358 to 38/3363, 38/3375	20%	Regis 80%
Copper-Gold (SA) Peak-Denison	EL 4350, EL 4417, EL 4488, EL 4536	100%	
Mangun	EL 4444	100%	
Gold (QLD) Saxby	EPM 13630, 15326, 15398, 15872, 16715, 16952, 15851	100%	
Copper-Gold (QLD) Cloncurry	EPM 18210, EPM 18211, EPM 18313, EPM 18289	100%	
Gold/Iron Ore (WA) Windanning Hill	ML 59/379, 59/380	21%	Gindalbie Metals 79% Minjar Gold 79%