FALCON MINERALS LTD

A.C.N. 009 256 535

ANNUAL REPORT 2004

CORPORATE DIRECTORY

DIRECTORS	Anthony Rechner Richard E Diermajer James B Craib
SECRETARY	James Benton Craib
REGISTERED OFFICE	1st Floor, 14 Outram Street West Perth Western Australia 6005 Telephone: (08) 9481 3322 Facsimile: (08) 9481 3330 Email: fcn@indigo.net.au Website: www.falcon.indigo.net.au Postal Address: PO Box 913, West Perth Western Australia 6872
ACN	009 256 535
AUDITORS	Stanton Partners Chartered Accountants 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 Stock Exchange Ltd (code FCN)
SHARE REGISTRY	Advanced Share Registry Level 7, 200 Adelaide Terrace, Perth Western Australia
SOLICITORS	Fearis Salter Power Shervington 52 Ord Street, West Perth Western Australia

CONTENTS

CHAIRMAN'S LETTER

Dear Shareholders

The past year has seen active exploration activity including substantial drilling completed within Falcon's projects. During the year Falcon Minerals raised $3m on the basis of its best projects and is now sufficiently cashed up to effectively contribute to JV expenditure and to continue exploration in its own right.

The joint venture partners WMC and Falcon, conducted extensive exploration at the Collurabbie nickel and platinum group elements (PGE's) sulphide project in WA. The project abuts WMC's new discovery on the adjoining tenement to the north where a 7km strike length zone of nickel, copper and platinum group sulphides was first announced in 2003.

To date the Collurabbie joint venture comprises of defined zones of anomalism for nickel and platinum group elements 1km to 2.5km long (open-ended) which are interpreted to be derived from sulphides. The first phase of RC and diamond drilling commenced in June 2004 in search of either or a combination of larger tonnage low-grade nickel-copper-PGE's with zones of combined high-grade nickel-copper and PGE sulphides unlike any seen in WA before. Initial deeper drilling results confirmed that the near surface anomalism described above is caused by platinum group, nickel and copper sulphides with initial holes returning up to 8m intersections of sulphides at shallow depth.

In relation to the Muskett data package that identifies Olympic Dam style and other large gold/copper volcanogenic targets, Falcon acquired projects throughout Australia and has systematically assessed many of these to more manageable levels using sophisticated computer processing of geophysical data collected in the field. This approach reduces the need for drilling of all targets leaving the better rated targets for drilling. Each of the retained projects has the potential to host a significant deposit in the style of an Olympic Dam or Cadia/Ridgeway for gold and copper. Some targets such as Saxby in Queensland whilst acquired under this initiative resulted in a different style of target than expected containing large zones with extensive sulphide mineralization. Although not economic, a hole drilled at Saxby by Falcon returned a 300m vertically thick and still open zone of extensive high temperature, magmatic disseminated to networks of iron sulphides. Within this zone are narrower bands of massive iron sulphides and blebs of nickel and copper sulphides.

Falcon has been steadily testing some of its many targets and is systematically testing more by drilling. Although not successful in achieving economic intersections so far, the information is valued and there are still more targets to drill. Some large tenements in SA up to 900sq km have large gold calcrete anomalies similar to Tunkilla and Barnes discoveries that are yet to be tested by deep drilling.

The second phase of drilling is expected to commence at Cargo this year for a large gold-copper porphyry system at about 250m depth which is suspected to exist under a thick layer of volcanic lavas and tuffs that display extensive but patchy gold grades over about 20sq km in veins and narrow shears up to 1oz/t gold.

With the company's current strong cash position and excellent portfolio of projects, shareholders can expect an aggressive exploration initiative during the next twelve (12) months.

A Rechner
Chairman

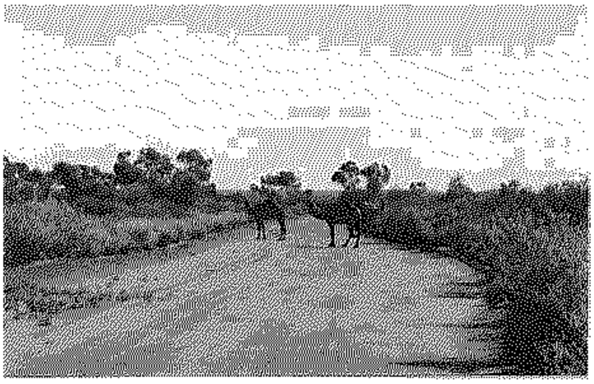
EXPLORATION ACTIVITIES

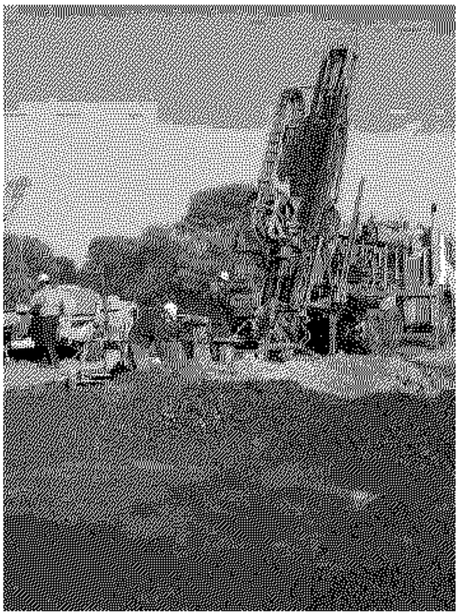
These are shown under the headings of Nickel, Volcanogenic Gold Copper and Olympic Dam styles.

Nickel Sulphide Exploration Projects

Collurabbie Joint Venture W.A. Nickel and Platinum Group Elements-PGEs
(FALCON 30%, WMC 70%)

On August 17th 2004 Falcon announced the intersection of 8m @ 1.2% nickel, 1.6% copper and 3.8 grams per tonne of platinum group elements at 57m metres vertical depth. A second hole 600m south of this intersected a deeper 8cm zone of massive to matrix sulfides with 2.9% nickel and 2.2 g/t PGEs. This area may represent a previously undiscovered nickel sulphide camp in Western Australia and the JV has not identified an equivalent style deposit globally.





In July 2003 Western Mining announced the discovery over a total of 7 kilometers strike of ultramafic containing disseminated nickel sulphides with platinum group credits. This area is the northern extension to an ultramafic belt that continues south into the Collurabbie joint venture ground which is interpreted to have at least two parallel, geochemically anomalous ultramafic horizons, each about 9 kilometres in strike length. There are other interpreted ultramafic horizons that may also be geochemically anomalous. Air core geochemistry anomalous in nickel, copper and platinum group elements (PGEs) was confirmed in July to be derived from nickel sulfide bearing zones.

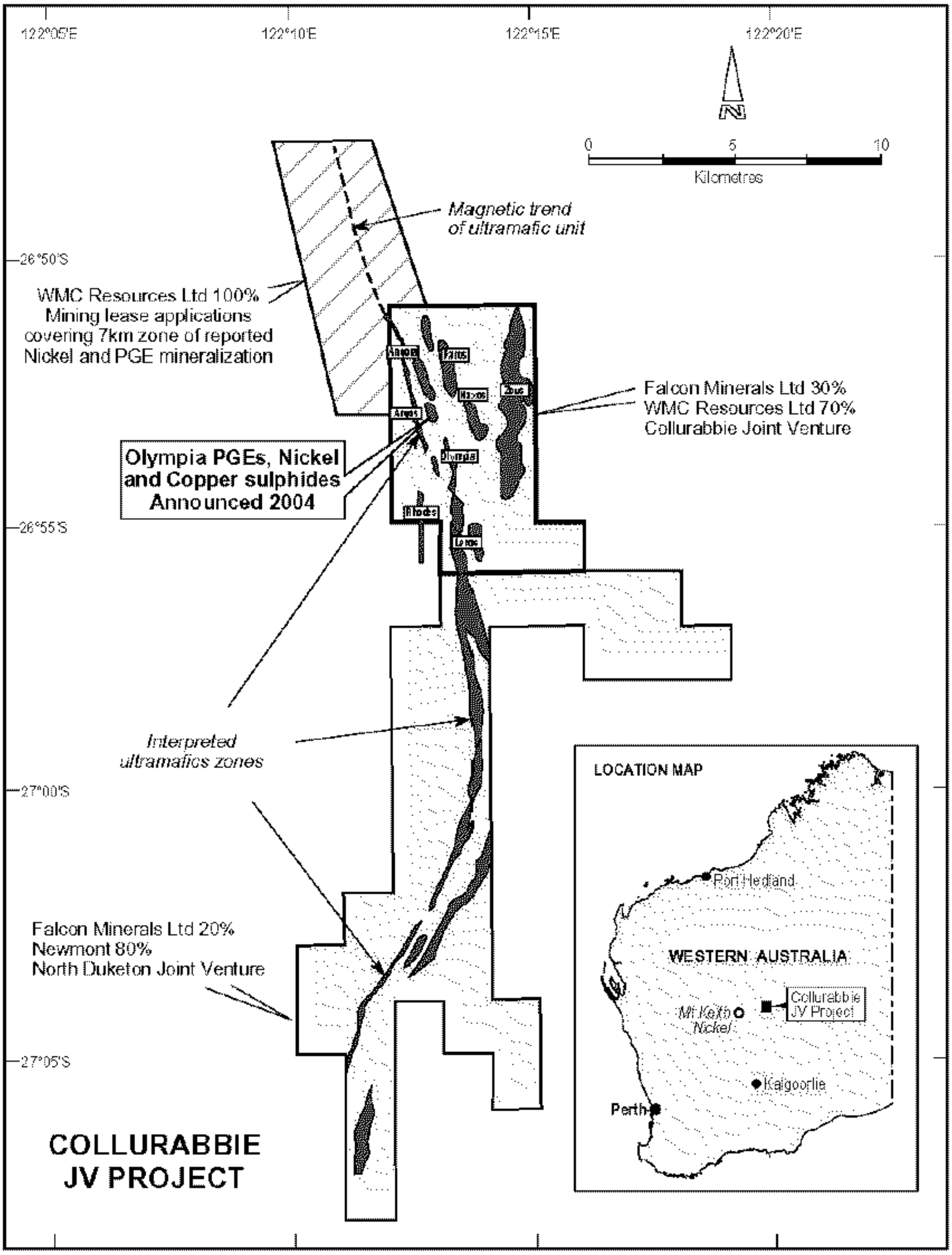
Optical microscopic work and scanning electron microscope analysis reported in June 2004 strongly supported the interpretation of sulphides of nickel, copper and PGE's at depth in fresher rock at Collurabbie.

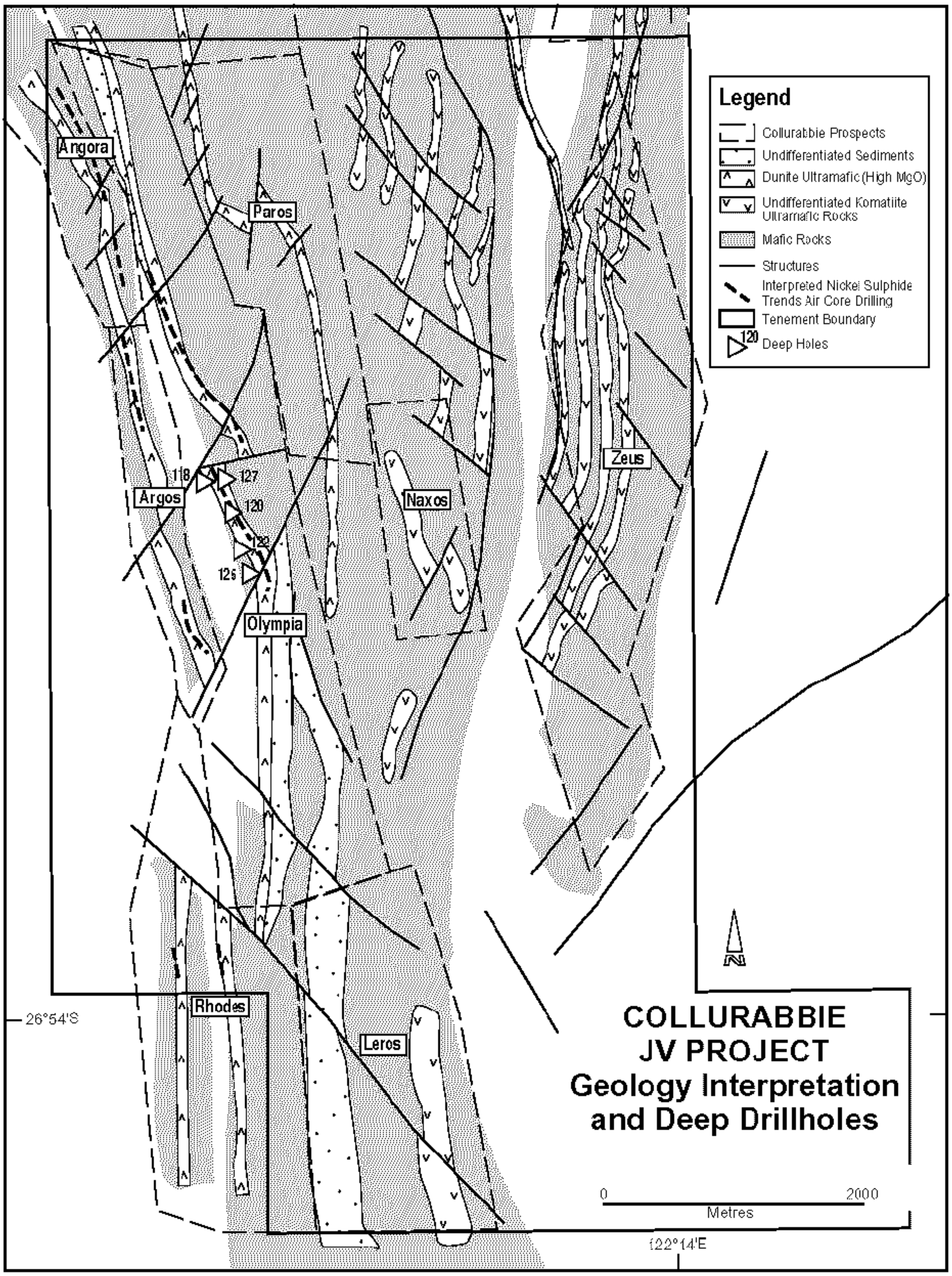
Various phases of shallower air core drilling identified anomalous zones for 1km to 2.5km in strike length. This shallower air core drilling is not complete as other zones covering large areas have not yet been tested. In order to more quickly progress the project it was decided to proceed to the initial phase of deeper drilling and a program comprising 3,200m of diamond drilling and 5,600m of RC percussion drilling commenced in June 2004. That program is expected to continue into late in 2004 and the program may be increased.

The attached interpretation plan shows the eight regions currently the subject of deep drilling. These large areas encompassing magnetic zones between 2 and 6km in length are listed as:

- Agora
- Argos
- Paros
- Naxos
- Olympia
- Rhodes
- Leros
- Zeus

The plan indicates four recent deep drilling and the intended first phase deep drill holes along the named extensive prospective ultramafics.




Legend
Collurabbie Prospects
Undifferentiated Sediments
Dunite Ultramafic (High MgO)
Undifferentiated Komatiite Ultramafic Rocks
Mafic Rocks
Structures
Interpreted Nickel Sulphide Trends Air Core Drilling
Tenement Boundary
120 Deep Holes
Angora
Paros
Argos
Naxos
Zeus
Olympia
Rhodes
Leros
118
127
120
122
125
26°54'S
122°14'E
0
2000
Metres
COLLURABBIE
JV PROJECT
Geology Interpretation
and Deep Drillholes

Mulgarrie, WA – Nickel
(FALCON 100%, Discovery Nickel earning 51%)

During the year Discovery Nickel farmed into this project in the search for Silver Swan style high grade nickel sulfides within komatiite stratigraphy, north and along strike from the Silver Swan nickel deposit some 15 – 20 km to the southeast of this area.

Some years ago, under another joint venture, Falcon's then partner conducted a ground electromagnetic survey and a potential nickel sulphide target was detected by a ground transient electromagnetic survey that produced a weak but persistent electromagnetic anomaly close to some anomalous nickel and platinum soil geochemistry. This was accompanied by the unusual occurrence of olivine mesocumulate rocks from a RAB hole. Recent drilling of one hole by Discovery Nickel at this target intersected an 80m thick zone of olivine rich ultramafic (dunite) indicating an olivine rich channel has been found but no significant sulphides were recorded leaving the anomalous PGE soil geochemistry unexplained. This target warrants further investigation.

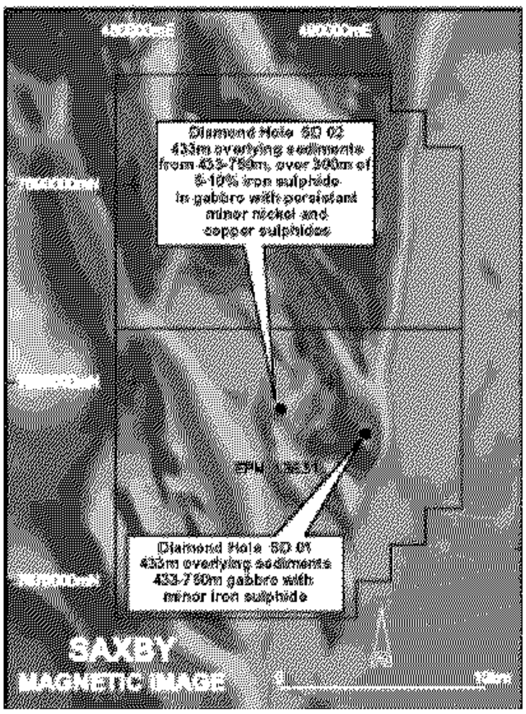
Another target to the north has a stronger TEM and magnetic signature associated with an interpreted sulphide source. One hole by Discovery Nickel at this target intersected magnetic banded iron formation with pyritic sulphides containing up to 0.5% zinc and 0.1% copper and drilling of target was still continuing at the time this report went to print.

North Duketon JV
(FALCON 20% free carried, Newmont 62% and Johnsons Well 18% contributing)

The same general greenstone belt with ultramafic rocks that exists at Collurabbie is interpreted to extend through these tenements for 20 kilometres of strike and some sporadic elevated nickel geochemical results were returned from drilling for gold. It is not known whether nickel sulphides exist in the ultramafic at Duketon. Newmont is a gold focused company and its exploration is addressed under the next section of this report.

Saxby - Queensland: Nickel, Copper, PGEs, and Gold.
(FALCON 100%)

The project is located in the Mt Isa – Cloncurry Belt, approximately 150km north of and along the same belt as the Ernest Henry gold – copper mine.



This tenement was applied for due to its suitable signatures under the Olympic Dam and major Volcanogenic gold-copper initiative of Falcon and subsequent literature research revealed some past deep drilling that intersected nickel and copper sulphide bearing olivine gabbro at 440m basement depth.

After considering its geological potential for various mineralisation styles it was concluded that its best potential lay in finding a sulphide bearing olivine gabbro containing large tonnages of nickel and copper sulfides that may be relatively low in grade but very substantial in mineable tonnage.

Following geophysical modeling, two out of several potential drill targets were selected for deep diamond drilling to about 750m including the 400m of cover that was drilled by mud rotary.

Hole SD02 nearer the centre of the interpreted gabbro complex intersected from 443m (beginning of basement) to end of hole at 750m, a 300m interval of iron sulphide bearing olivine gabbro. The iron sulphides averaged about 5% to 10% with narrower zones over several metre widths of net textured to semi massive iron sulfides.

The assays of the Falcon drilling were anomalous but too low to be of economic significance within the 300m drilled intercept. Nickel and copper assays attained 0.23% and 0.21% respectively.

Optical Microscopic slides and Scanning Electron Microscope examination of a few core segments show the presence of the most common commercial nickel sulphides of pentlandite and violarite. The copper sulphide chalcopyrite is also present. These commercial sulphide species are scattered through the iron sulphide zones in amounts too small to be of economic significance within the drilled intercept.

The end of the hole shows the sulphides to be continuing and geophysical modeling indicates the sulphide gabbro may extend downwards for a few kilometres. It is now known the sulfide gabbro extends laterally for at least 2km.

World class Proterozoic gabbro nickel – copper + - PGEs ore bodies normally have their economic ore zones located at the base or floor of the olivine gabbro sequence and are often discovered along the exposed basal rim of the gabbro intrusive mass. Subsequent deeper drilling generally finds ore at the same basal horizon, sometimes with spectacular rich massive sulphide zones plus weaker disseminated zones above the base. However other gabbros can have disseminated iron sulphides with only weak development of nickel and copper sulfides but they require considerable drilling through to the basal contacts to properly test their potential for economic sulphides.

The basal contact zones under cover at Saxby are not defined. Modeling indicates the olivine content may increase with depth and possibly along the outer rim of the intrusion but these are expensive to drill due to the 440m of covering sediments. The company is still reviewing the project's potential.

EXPLORATION INITIATIVE OLYMPIC DAM STYLE AND OTHER MAJOR VOLCANOGENIC GOLD/COPPER SYSTEMS

During the first half of the year somewhat less drilling at these targets than planned occurred as funds were allocated to the important Collurabbie JV.

Despite the company's partial shift in exploration to maintain its 30% interest in the Collurabbie project, Falcon drilled two deep holes into the Saxby area in Qld and three deep holes into the Belubula area south of Cargo in N.S.W.

In order to advance the exploration of other targets the company concentrated on advanced modeling of geophysics to improve both depth estimates and other geophysical parameters as a pre drill screening tool. Although this work showed some targets to be deeper than first anticipated it improved the rating of other targets such as the Racehorse and McDonald targets in Queensland. Some tenements were consequently dropped however Shepparton, Victoria and Coonamble, NSW are included amongst those retained for drilling.

The Belubula targets south of Cargo that were drilled returned disappointing assay results however unlike Cargo, they did not have a strong gold and copper signature in the overlying andesite lavas and ash that forms an extensive but fluid permeable volcanic layer throughout these areas. Cargo still remains a highly rated target that could reveal a major discovery at depth.

The large (900 km2) Palthrubie – Acraman tenement areas in South Australia were somewhat downgraded as OD targets but substantially up graded as large structural gold prospects based on calcrete sampling in the middle of an increasingly prospective and increasingly recognized gold discovery area in the Gawler Craton of South Australia.

To place the magnitude of OD style targets in perspective the Olympic Dam deposit located in South Australia is a giant deposit with published resources of 2.32 billion tonnes at 1.3% copper, 0.5 g/t gold and 0.4 g/t of uranium oxide (2000/01 Register of Australian Mining). The Prominent Hill deposit to its NW is smaller but expected to have higher bulk grades of gold in the gold only zone.

Olympic Dam is a very large breccia pipe system containing hematite, copper sulphides, gold, silver, uranium and minor rare earths that migrated into the broken rock breccias during quieter hydrothermal phases interrupted by violent eruptive phases that was concealed by 330m of later sediments.

The Prominent Hill is at an earlier stage of exploration and has many similar characteristics to OD such as hematite breccias, copper, gold, silver, minor uranium and about 0.5% rare earths concealed under only 100m of sediments making it relatively shallow. An initial but very significant resource estimate at the open ended copper zone was 97 mt @ 1.5% copper and 0.5g/t gold. The gold rich zones with substantial medium grade intersections will average significantly higher gold grades and the deposit will be open pit in the earlier years of production.

The technology approach is broader based than only these styles and the Saxby large scale mineralisation is an example of an entirely different but significant causative body captured under the initiative that was not expected on tenement application.

The targeting method is able to identify with accuracy some existing deposits including some non OD style that provides confidence in the approach. Ground geophysics has usually confirmed large intrusive style structures at depth. It remains a numbers exercise in testing targets where false hits or targets too deep to drill are included in the coarse net. It has been applied to post Proterozoic rocks for volcanogenic gold-copper targets in eastern Queensland, Victoria and New South Wales. These bodies also have the potential to be large mineralized systems that may be similar and younger bodies to Olympic Dam in South Australia or other large porphyry style gold/copper and gold dominant over copper, volcanogenic to sub volcanogenic systems.

The Racehorse and adjacent Mt MacDonald targets along an anticline are again somewhat different than the others in its geological setting that has caused the company to recently apply for additional ground and will be explored further.

Cargo Gold Copper Project - New South Wales
(FALCON earning 70%)

In August 2002, Falcon farmed into a known volcanogenic gold-copper system at Cargo in NSW with its central breccia pipe, 12km west of the large gold-copper Cadia and Ridgeway mines. The farm-in was based on Cadia/Ridgeway style targets being identified within the joint venture area.

Initial drilling of 12 holes at Cargo in 2003 intersected some wide zones of low grade gold (e.g. 14m @ 1.6 g/t gold and 27m @ 0.3 g/t gold with sporadic higher grade narrow hits up to 16g/t) but did not intersect the suspected causative buried porphyry intrusives long believed to underlie the sporadically mineralized and thick andesite lavas draped over Cargo.

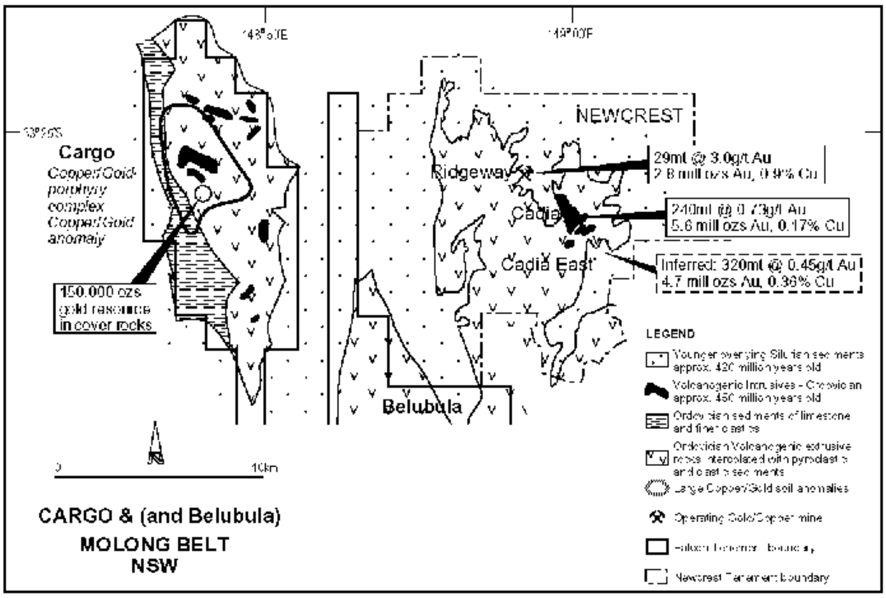
Meanwhile three interesting targets well to the south of Cargo with a similar andesite cover sequence and minor sign of copper and scattered gold workings at surface were deep drilled in early 2004. Assay results were low but there remains some uncertainty about whether those targets were fully tested given the density of geophysical data collected and the single hole in each target.

The focus returned to Cargo and geophysical work coupled with assimilation of many past (mostly shallow) drill holes and bedrock geochemistry has taken time to reach drill targeting stage again. This work shows the last drilling missed a number of intrusive looking bodies at 250-300m depth that will be the subject of some new drilling.

At Cargo past exploration found a gold – copper system that appears to be higher in level than at Cadia meaning that the main intrusive bodies (quartz monzonites) that are exposed at Cadia but up thrust by faulting whereas the richer Ridgeway body at 450m depth is in its original position with respect to the flat lying andesite lava it intruded. A similar buried system at Cargo is considered to have caused widespread low grade gold and some copper mineralisation plus narrow shear or vein hosted high grade gold within the overlying volcanic andesite lavas. A high intensity Induced Polarization (IP) survey completed in late 2002 designed to detect zones of disseminated sulphide accumulations has some likely data errors removed and re run in 2004 with other geophysics. Some previously unexplained IP anomalies that failed to produce significant sulphides from the 2003 drilling have been resolved and a new interpretation as zoned pyrite proximal to intrusive structures is now a new drilling objective.

Previously it was assumed the cause of the high chargeability in the 2003 drilling may have be due to fine magnetite and very fine sulphide grains.

The Cargo enigma is an exploration opportunity with potentially good rewards. Pinpointing where such deep intrusions exist within the Cargo mineralized zone still remains difficult but as new work suggests much of the past drilling missed currently interpreted structures.



Coonamble South - New South Wales:
(FALCON 100%)

Falcon undertook a gravity survey over part of this target and defined a large dense body at depth. Geophysical modeling found it to consist of a central domed intrusion with a thick layer of iron rich material draped around it that extends to a few kilometers depth. The top of the body commences at about 250 to 300m. It is intended to drill a hole into the upper carapace of this body to see if its geochemically or geologically indicative of a mineralized system.

It is under recent sedimentary cover but has some shallow depth historic water bore hole records. One of the deeper holes to 180m, showed 8m of variable coloured weathered rock, including light red volcanic rock with calcite veining to the end of the hole. This could indicate hematite alteration along with carbonate alteration but no assays were recorded on water bore cuttings.

Palthrubie and Bond Hill - South Australia:
(FALCON 100%)

These project areas consist of three Exploration Licence's covering two areas in central South Australia's Gawler Craton.

Research has shown that the areas have mineralizing fluids consistent with Olympic Dam style mineralization including evidence of sericite, chlorite, hematite, fluorite and barite however current interpretation has downgraded its Olympic Dam style potential but its gold potential has increased. The company conducted a broad calcrete auger sampling program including testing some known calcrete gold anomalies that were clearly repeatable. The 1990s calcrete sampling over parts of the 900km2 tenure found three spatially large gold anomalies within these tenements that were not drilled beneath the soil overburden to basement interface.

Deep Well anomaly

Rather than discuss all such anomalies at Palthrubie, the Deep Well example provides a good exploration insight. Deep Well is a gold calcrete anomaly 0.5km x 2km in area @ 5ppb gold with some higher over 15ppb gold core zones. Recent calcrete auger drilling by Falcon has recently extended this anomaly to the SW.

Past explorers drilled some shallow RAB and Air Core holes to bedrock without percussion drilling. At bedrock there were anomalous gold results with the best result so far at the southern end of the calcrete anomaly that has since been extended.

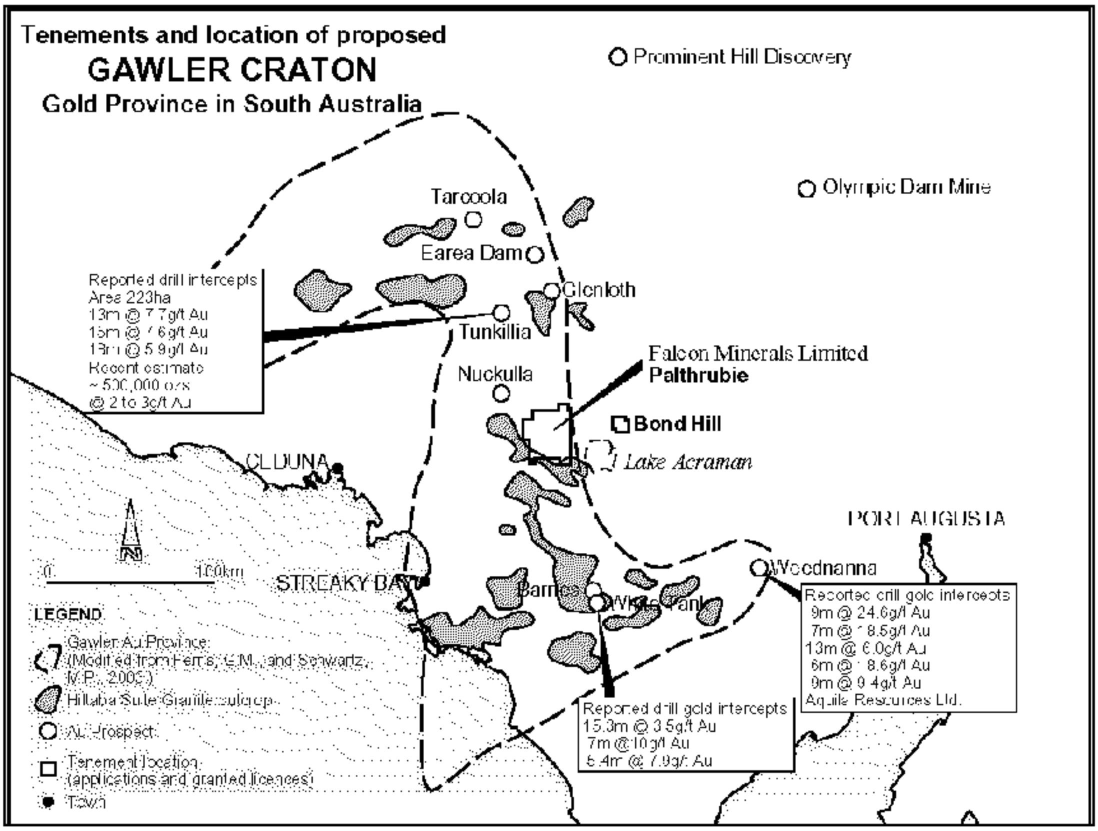
Experience by other active explorers in this area proves these anomalies require percussion drilling to locate significant gold mineralisation. They tend to have depleted gold values in clays above bedrock and large low grade footprints in bedrock with a number of higher grade structural sites within the low grade halo. This is indicative of large alteration systems with zones of higher grade gold requiring systematic drilling.

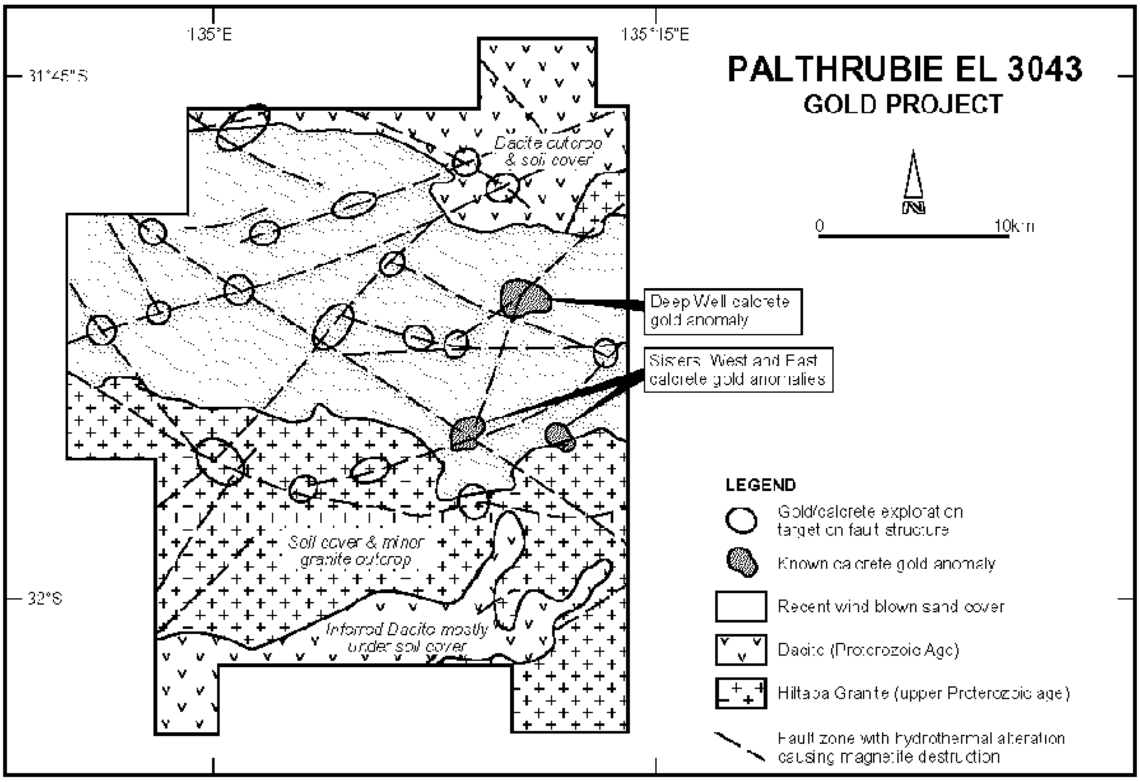
To the south of Falcon's ground, the Barnes calcrete gold anomaly of Adelaide Resources is 1.6km x 0.9km @ 5ppb Au. These dimensions are comparable to the Falcon dimensions @ 5ppb Au.

It is expected that a number of new gold mines will be developed in an arcuate gold belt extending for 400km in this area and led by mine development at Helix Resource's Tunkilla project (at the higher grade resource of 730,000 oz at Area 233, contained within an envelope of 14 Mt at 2.2 g/t for 1 million oz). Following this the Barnes area may see development into mining with a number of higher grade RC intervals at Baggy Green (5km east of Barnes), White Tank (intercepts such as 15.3m @ 3.5 g/t, 7m @ 10 g/t etc) and others.

The Tunkillia gold deposit of Helix Resources is 80km NNW of Palthrubie. Tunkilla was reported by Helix in 2003 after additional drilling as having a preliminary resource of 500,000 ounces at between 2.5 to 3 g/t of gold. with best recently reported intersections including 15m @ 3.5 g/t gold, and 7m @ 10 g/t gold.

Palthrubie lies between the Tuniklia and Barnes discoveries and is similar in many ways to the earlier stages of exploration at these deposits


Tenements and location of proposed
GAWLER CRATON
Gold Province in South Australia
Prominent Hill Discovery
Olympic Dam Mine
Tarcoola
Earea Dam
Glenloth
Tunkillia
Nuckulla
Falcon Minerals Limited
Palthrubie
Bond Hill
Lake Acraman
CEDUNA
PORT AUGUSTA
Woodnanna
STREAKY BAY
Barnes
White Tank
Reported drill intercepts
Area 223ha
13m @ 7.7g/t Au
15m @ 7.6g/t Au
13m @ 5.9g/t Au
Recent estimate
~ 500,000 ozs
@ 2 to 3g/t Au
Reported drill gold intercepts
9m @ 24.6g/t Au
7m @ 18.5g/t Au
13m @ 6.0g/t Au
6m @ 18.6g/t Au
9m @ 9.4g/t Au
Aquila Resources Ltd.
Reported drill gold intercepts
15.3m @ 3.5g/t Au
7m @ 10g/t Au
5.4m @ 7.9g/t Au
0
100km
LEGEND
Gawler Au Province
(Modified from Ferris, G.M., and Schwartz, M.P., 2003)
Hiltaba Suite Granite outcrop
Au Prospect
Tenement location
(applications and granted licences)
Town


PALTHRUBIE EL 3043
GOLD PROJECT
135°E
135°15'E
31°45'S
32°S
0
10km
Dacite outcrop & soil cover
Deep Well calcrete gold anomaly
Sisters West and East calcrete gold anomalies
Soil cover & minor granite outcrop
Inferred Dacite mostly under soil cover
LEGEND
Gold/calcrete exploration target on fault structure
Known calcrete gold anomaly
Recent wind blown sand cover
Dacite (Proterozoic Age)
Hiltaba Granite (upper Proterozoic age)
Fault zone with hydrothermal alteration causing magnetite destruction

Racehorse and Mt McDonald – Queensland:
(FALCON 100%)

Major intrusive targets have been identified at Racehorse and Mt McDonald in eastern central Queensland beneath anticlinal structures with limited exposures of Ordovician aged volcanics at the surface. Past regional exploration by stream and soil sampling in this area by two companies separately identified both target areas as having anomalous copper and gold geochemistry at the surface. Falcon completed a ground gravity survey and the data modeled with quite encouraging results. Consequently some additional ground along strike was applied for and a field trip organized to search for evidence of mineralisation leaking along the fracture zone on the axis of the anticline as a precursor to drilling and possibly some infill geophysics to obtain more modeling detail.

Shepparton – Victoria:
(FALCON 100%)

Modeling and the surrounding geochemical signature at Shepparton has provided encouragement to undertake drilling. A large target in the Shepparton area under soil and younger marine sediments about 100m thick, is located not far from known outcrops of interpreted Cambrian aged volcanics and sediments that was the main focus of past exploration. Approaching the Company's tenure, exposed outcrops display some fluorite, iron sulphides and minor hematite alteration. The area is known for its anomalous copper geochemistry in soils over large areas that have not been adequately explained. Falcon completed a ground gravity survey and processed that data in August 2003 resulting in the definition of a moderately dense body with a drillable upper surface target zone at 350m depth.

Duketon and North Duketon JV W.A.
(FALCON 20% Free Carried, Newmont 62% and Johnson Well 18% contributing)

These tenements covering a large area of about 100 square km located 50kms south of Collurabbie along the same greenstone belt. They have been explored by Newmont for several years with sporadic anomalous gold results, mostly from air core drilling. Whilst this work has been continuing at various parts along structures under soil cover of these extensive tenements, to date no gold intersections of commercial significance have been made.

Murray Basin, Victoria – Mineral Sands
(FALCON 10% free carried, Basin 90%)

Falcon is 10%, free carried to final mining feasibility in the high grade Echo deposit located within the Basin Mineral's Douglas Project in the Murray Basin, Victoria. Drilling of the Echo deposit to date has established 38 million tonnes of ore at 10.7% for 4.1 million tonnes of heavy mineral concentrate.

Keronima (Windanning Hill) JV - Gold
(FALCON 27% diluting, Gindalbie 73%)

While some drilling has occurred since the last report the project has not changed significantly since last years account as follows:

Quoted Reserves and Resources rounded to two significant figures are:-

- Proven and Probable Reserves 62,000 tonnes @ 2.4 g/t gold (4,900 ounces). 97% as Proven Reserves.
- Measured and Indicated Resources 36,000 tonnes @ 2.3 g/t gold (2,700 ounces). 97% as Measured Resources.
- Total Reserves and Resources 98,000 tonnes @ 2.4 g/t gold for 7,600 ounces.

DIRECTORS' REPORT

The directors present the following report for the financial year ended 30 June 2004.

DIRECTORS

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

Anthony Rechner, BSc, MAusIMM (Executive Chairman) –a Director since 3rd July 1987

Mr Rechner (age 56), holds a Bachelor of Science degree in Geology and Physics from the University of Adelaide, South Australia. He is a Member of the Australasian Institute of Mining and Metallurgy with over thirty years experience in Australia and overseas working in petroleum search, mineral exploration and mining.

Mr Rechner's previous involvement as Chairman and Managing Director of Windsor Resources N.L., Brunswick N.L. and Geographe Resources Ltd resulted in these company's evolving from small explorers to major producers at Mount Percy, Galtee More and Chalice respectively. Mr Rechner was operations Manager for West Australian Petroleum and Chevron Oil in North Africa and is currently Chairman of Eagle Bay Resources NL.

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

Mr Diermajer (age 51), who is also a current Director of Eagle Bay Resources N.L., holds a degree in Legal Studies and has an extensive background in mining law and administration from his 12 years experience as an officer 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. During 1981 he established Sentinel Exploration Services, a consultancy firm that provided services to the mining industry throughout Australia in tenement management and administration, property acquisitions, project generation, native title negotiations and mineral exploration.

James Benton Craib JP CPA (Non-executive Director) – a Director since 25th July 1991

Mr Craib (age 66) is an accountant who is currently responsible for the accounting and company secretarial functions of Eagle Bay Resources N.L., Falcon Resources Ltd and Geographe Resources Ltd. He has had considerable experience as an accountant, mainly in the industrial and production sectors. His application of that experience to the requirements of the Company has been invaluable. Mr Craib is also a director of Eagle Bay Resources NL.

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 names	In other names
A Rechner	4,001	5,935,714	333,333	366,666
R E Diermajer	3,000,001	3,288,096	–	633,000
J B Craib	–	350,000	–	0

SENIOR MANAGEMENT

Ray Muskett (Chief Geological Consultant)

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.

Falcon's directors previously utilised Mr Muskett's services in early 1992, as consultant to Geographe Resources (as Newmex Exploration) when the company sought a new approach to gold exploration in WA. Utilising geophysical concepts introduced by Mr Muskett, Geographe acquired properties in the Widgiemooltha area of WA that we farmed out to Samantha Gold.

DIRECTORS' REPORT
(Continued)

Exploration undertaken over specific areas recommended by Mr Muskett in Geographe's farm out document defined a significant and coherent soil gold anomaly that on subsequent drilling revealed the rich Chalice gold discovery in September 1993.

The present approach to exploration by Falcon for Olympic Dam style and other large volcanogenic systems that commenced in November 2001, was developed by Mr Muskett over several years as a way to select large style ore body targets often under deep cover that does not need years of tedious exploration work to close in on mineralisation.

Paul Fromson (Company Secretary: Resigned effective 23rd September 2004)

Paul Fromson is a CPA and Chartered company secretary experienced in mining and exploration companies. He holds a bachelor of commerce from the University of WA and runs his own tax and accounting practice based in Rockingham WA.

James Benton Craib (Company Secretary: Appointed 23rd September 2004)

PRINCIPAL ACTIVITY

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

REVIEW OF OPERATIONS AND RESULTS

Details of the operations of the Company are set out in the Review of Operations on pages 4 to 12.

The Company incurred an after tax operating loss of $2,394,336 (2003: Loss $777,153).

SIGNIFICANT CHANGES IN STATE OF AFFAIRS

During the year the company had three separate issues of capital.

1. The Company issued 1,000,000 fully paid shares to acquire a further interest in the tenements comprising the Company's "Olympic Dam" style exploration strategy. The Company issued the shares pursuant to a contractual obligation to issue a further parcel of 1 million shares in the event that the Company's share price remained above 15 cents for 5 consecutive trading days on the ASX.

2. The Company issued a further 1,000,000 fully paid shares to acquire the remaining interest in the tenements comprising the Company's "Olympic Dam" style exploration strategy. The Company issued the shares pursuant to a contractual obligation to issue a further parcel of 1 million shares in the event that the Company's share price remained above 20 cents for 5 consecutive trading days on the ASX.

3. The company completed a placement of 9.2 million shares at 15.5 cents each together with 4.6 million free options.

4. Following the above placement the company completed a one for eight pro rata issue which resulted in 13,684,630 shares being issued at 15 cents together with 13,684,630 free options.

The above options which total 18,284,630 are all listed with an exercise price of 20 cents by 30 June 2005. No person entitled to exercise the option had or has any right by virtue of the options to participate in any share issue of any other body corporate.

Other than this there were no significant events which affected the state of affairs of the company.

DIVIDENDS

No dividend has been paid since the end of the previous financial year and no dividend is recommended for the current year.

MATTERS SUBSEQUENT TO THE END OF THE FINANCIAL YEAR

No matters have arisen since 30 June 2004 that have significantly affected or may significantly affect:

(a) the operations, in financial years subsequent to 30 June 2004, of the company; or

(b) the results of those operations; or

(c) the state of affairs, in financial years subsequent to 30 June 2004, of the company

other than disclosed in Note 21 to the financial statements.

LIKELY DEVELOPMENTS AND EXPECTED RESULTS OF OPERATIONS

Likely developments in the operations of the company have been set out in the accompanying Review of Operations. Further information on the likely developments and expected results of operations of the company have not been included in this report because the directors believe it would be likely to result in unreasonable prejudice to the negotiations.

MEETINGS OF DIRECTORS

The following table sets out the number of meetings of the Company's directors held during the year ended 30 June 2004.

There were 3 directors meetings during the year and the number of meetings attended by each director were:

A Rechner	3	J B Craib	3
R E Diermajer	3		

AUDIT COMMITTEE

There is no separate audit committee because the directors do not believe that the size of the Company warrants it. The board carries out the functions of an audit committee.

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 Note 15 to the financial statements), 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 2004, 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 Note 15.

DIRECTORS' AND HIGHEST PAID EXECUTIVE REMUNERATION

(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, entertainment and motor vehicle are provided as a part of 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;
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:

Directors & Highest Paid Executives Remuneration								
	PRIMARY			**POST EMPLOYMENT**		**EQUITY**		**TOTAL**
	Salary, Fees & Superannuation	Cash Bonus	Non-Monetary	Super-annuation	Retirement Benefits	Options	Other Benefits	$
Directors								
Anthony Rechner - Executive Chairman								
2004	100,900	-	470	-	-	-	-	101,370
2003	95,450	-	939	-	-	-	-	96,389
Richard Diermajer - Managing Director								
2004	100,900	-	6,645	-	-	-	-	107,545
2003	95,450	-	939	-	-	-	-	96,389
Jim Craib - Non Executive Director								
2004	10,900	-	-					10,900
2003	15,450	-	-	-	-	-	-	15,450
Total Remuneration Directors								
2004	212,700	-	7,115	-	-	-	-	219,815
2003	206,350	-	1,878	-	-	-	-	208,228
Highest Paid Executives								
Ray Muskett - Consultant Geologist								
2004	90,000	-	-	-	-	-	-	90,000
2003	60,000	-	-	-	-	-	-	60,000
Paul Fromson - Company Secretary								
2004	29,513	-	-	-	-	-	-	29,513
2003	36,037	-	-	-	-	-	-	36,037
Total Remuneration: Highest Paid Executives								
2004	119,513	-	-	-	-	-	-	119,513
2003	96,037	-	-	-	-	-	-	96,037

INDEMNIFICATION

There are company indemnities for directors however, there are no insurances in regard to their positions.

Signed in accordance with a resolution of the directors dated this 29th day of September 2004.

A RECHNER
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 responsibility 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 two of the Directors, who operate in an executive capacity, supported by 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:

Anthony Rechner, BSc, MAusIMM (Executive Chairman) –a director since 3rd July 1987

Mr Rechner (age 56), holds a Bachelor of Science degree in Geology and Physics from the University of Adelaide, South Australia. He is a Member of the Australasian Institute of Mining and Metallurgy with over thirty years experience in Australia and overseas working in petroleum search, mineral exploration and mining.

Mr Rechner's previous involvement as Chairman and Managing Director of Windsor Resources N.L., Brunswick N.L. and Geographe Resources Ltd resulted in these companies evolving from small explorers to major producers at Mount Percy, Galtee More and Chalice respectively. Mr Rechner was operations Manager for West Australian Petroleum and Chevron Oil in North Africa and is currently Chairman of Eagle Bay Resources NL.

Richard Edward Diermajer (Managing Director) – a director since 3rd July 1987

Mr Diermajer (age 51) holds a degree of Legal Studies and has an extensive background in mining law and administration from his 12 years experience as an officer 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. During 1981 he established Sentinel Exploration Services, a consultancy firm that provided services to the mining industry throughout Australia in tenement management and administration, property acquisitions, project generation, native title negotiations and mineral exploration. Mr Diermajer is also a director of Eagle Bay Resources NL.

James Benton Craib JP CPA (Non-executive Director) – a director since 25th July 1991.

Mr Craib (age 66) is an accountant who was previously responsible for the accounting and company secretarial functions of Eagle Bay Resources N.L., Falcon Resources Ltd and Geographe Resources Ltd. He has had considerable experience as an accountant, mainly in the industrial and production sectors. His application of that experience to the requirements of the Company has been invaluable. Mr Craib is also a director of Eagle Bay Resources NL.

Independent Directors

Under ASX guidelines none of the current board are considered to be independent directors. Mr Rechner and Mr Diermajer are both executive directors and Mr Craib is a former employee of the company and the ASX guidelines deem them not to be independent by virtue of their positions or former positions. 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.

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.

Board Committees

In view of the size of the Company and the nature of its activities, the Board has considered that establishing formally constituted committees for audit, board nominations and remuneration would contribute little to its effective management. Accordingly audit matters, the nomination of new Directors and the setting, or review, of remuneration levels of Directors and senior executives 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). Where the Board considers that particular expertise or information is required, which is not available from within their number, appropriate external advice may be taken and reviewed prior to a final decision being made by the Board.

Remuneration

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 director. 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 a 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 Stanton Partners. The previous auditors had been in place for approximately 5 years and had conducted thorough and professional audits however the Board considered that a change after a 5 year term would contribute to good corporate governance.

ASX CORE PRINCIPLES OF CORPORATE GOVERNANCE AND ASX GUIDELINES

Australian Stock Exchange Ltd (ASX) has published 10 core principles of corporate governance 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.

ASX Principle 1: Lay Solid Foundations *Recognise and publish the respective roles and responsibilities of the board and management*	**Comment/Response by Company**
ASX Recommendations	
1.1 Formalise and disclose the functions reserved to the Board and those delegated to management	The Board is comprised of an Executive Chairman, a Managing Director and a Non Executive Director. Management of the company is carried out by the two executive directors with little or no delegation to staff. The full board meets on a regular basis for both management and board meetings.
ASX Principle 2: Board Structure *Have a board of an effective composition, size and commitment to adequately discharge its responsibilities and duties*	**Comment/Response by Company**
ASX Recommendations	
2.1 A majority of Board members should be independent directors	None of the three directors are independent according to the ASX definition of independence due to two directors being executive and the non executive director being a former employee. In view of the size of the company and the nature of its activities the Board considers that the current Board is a cost effective and practical method of directing and managing the company.
2.2 The chairperson should be an independent director	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.
2.3 The roles of chairperson and chief executive officer should not be exercised by the same individual	As stated above the company operates with an Executive chairman and a Managing Director. The Managing Director fulfils the role of chief executive officer.
2.4 The Board should establish a nomination committee	In view of the size of the Company and the nature of its activities, the Board has considered that establishing formally constituted committees for audit, board nominations and remuneration would contribute little to its effective management. Accordingly the nomination of new Directors and the setting, or review, of remuneration levels of Directors and senior executives 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).

2.5 The information indicated in Guide to reporting on Principle 2 should be provided. (See Guide Notes at end of table)	Not applicable.
ASX Principle 3: Ethical and responsible decision-making *Actively promote ethical and responsible decision-making*	**Comment/Response by Company**
ASX Recommendations 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	In view of the size of the Company and the nature of its activities, the Board has considered that a informal code of conduct is appropriate to guide executives, management and employees in carrying out their duties and responsibilities.
3.2 Disclose the policy concerning trading in company securities by directors, officers and employees	The Company does not have a formal policy which sets out time restrictions on share dealings. The Company policy is that of the Corporations Law 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.
3.3 Provide the information indicated in Guide to Reporting on Principles. (See Guide Notes at end of table)	Not applicable – see above.
ASX Principle 4: Financial reporting integrity *Have a structure in place to independently verify and safeguard the integrity of the company's financial reporting*	**Comment/Response by Company**
ASX Recommendations 4.1 Require the chief executive officer (or equivalent) and the chief financial officer (or equivalent) to state in writing to the Board that the company's financial reports present a true and fair view, in all material respects, of the company's financial condition and operational results and are in accordance with relevant accounting standards	Due to the size and nature of the company and its activities and the size and structure of the Board, the financial reports are dealt with in some detail at full board meetings where the Managing Director and Company Secretary/Financial Controller would report first hand to the full board. The Board also to a certain extent relies on the auditors to ensure compliance with relevant accounting standards and gives full and complete cooperation to its auditors without absolving itself of its responsibility. The full Board takes responsibility for the accounts.
4.2 The Board should establish an audit committee	In view of the size of the Company and the nature of its activities, the Board has considered that establishing formally constituted committees for audit, board nominations and remuneration would contribute little to its effective management. Accordingly audit matters 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).

4.3 Structure the audit committee so that it consists of: - Only non-executive directors - A majority of independent directors - An independent chairperson who is not the chairperson of the Board - At least three members	Not applicable – see above.
4.4 Create a formal operating charter for the audit committee	Not applicable – see above.
4.5 Understand and provide the information indicated in the Guide to reporting on Principle 4. (See Guide Notes at end of table)	Not applicable – see above.
ASX Principle 5: Timely and balanced disclosure *Promote timely and balanced disclosure of all material matters concerning the company*	**Comment/Response by Company**
ASX Recommendations 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	Due to its size and structure the Board is able to meet on a regular basis for both management and board meetings to ensure compliance with ASX Listing Rule disclosure requirements. The full Board is accountable for ASX compliance.
5.2 Understand and provide the information indicated in the Guide to Reporting on Principle 5. (See Guide Notes at end of table)	See above.
ASX Principle 6: Shareholder rights *Respect the rights of shareholders and facilitate the effective exercise of those rights*	**Comment/Response by Company**
ASX Recommendations 6.1 Design and disclose a communications strategy to promote effective communication with shareholders and encourage effective participation at general meetings	See the section on Communication to Market and Shareholders.
6.2 Request the external auditor to attend the annual general meeting and be available to answer shareholder questions about the audit and the preparation and content, of the auditor's report	It is company policy that the auditor attend the AGM and part of the agenda is the tabling of the accounts and inviting shareholders to ask the directors or the auditor any questions about the report including the audit report.
ASX Principle 7: Risk Management *Establish a sound system of risk oversight and management and internal control*	**Comment/Response by Company**

ASX Recommendations 7.1 The Board or appropriate board committee should establish policies on risk oversight and management	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).
7.2 The chief executive officer (or equivalent) and the chief financial officer (or equivalent) should state to the Board in writing that: 7.2.1 the statement given in accordance with best practice recommendation 4.1 (the integrity of financial statements) is founded on a sound system of risk management and internal compliance and control which implements the polices adopted by the Board 7.2.2 the company's risk management and internal compliance and control system is operating efficiently and effectively in all material respects	Due to the size and nature of the company and its activities and the size and structure of the Board, risk management and internal compliance and controls are dealt with by the full Board at its regular management and Board meetings. A written report is not provided because the executive directors would basically be reporting to themselves. The non executive director meets face to face with senior staff individually on a regular basis to satisfy himself directly that risk management and internal compliance is being attended to. As above
7.3 Information indicated in the Guide to Reporting on Principle 7 should be understood and provided. (See Guide Notes at end of table)	Not applicable for reasons stated above
ASX Principle 8: Enhanced Performance *Fairly review and actively encourage enhanced board and management effectiveness*	**Comment/Response by Company**
ASX Recommendations 8.1 Disclose the process for performance evaluation of the Board, its committees and individual directors, and key executives	Due to the size and structure of the Board a formal evaluation process is not conducted. The Company operates with only one full time employee and that person operates in an administrative capacity. The company uses consultants for geological and company secretarial functions and pays market rates for experienced professionals.
ASX Principle 9: Remunerate fairly *Ensure that the level and composition of remuneration is sufficient and reasonable and its relationship to corporate and individual performance is defined*	**Comment/Response by Company**
ASX Recommendations 9.1 Provide disclosure in relation to the company's remuneration policies to enable investors to understand (i) the costs and benefits of these policies and (ii) the link between remuneration paid to directors and key executives and corporate performance.	The company does not have a remuneration policy other than to ensure that Directors, staff and consultants are paid market rates in accordance with their qualifications, experience and contribution to the company. Directors remuneration for both executive and non executive directors is compared to other "junior explorers" as a guide to industry rates. There are no schemes of retirement benefits.

9.2 The Board should establish a remuneration committee	In view of the size of the Company and the nature of its activities, the Board has considered that establishing formally constituted committees for audit, board nominations and remuneration would contribute little to its effective management. Accordingly remuneration matters 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).
9.3 The structure of non-executive directors' remuneration should be clearly distinguished from that of 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.
9.4 Ensure equity-based executive remuneration is made in accordance with thresholds set in plans approved by shareholders	No Directors, executives or staff has any equity based remuneration. In the past options have been issued to Directors and these were approved at a shareholders meeting with a formal notice and explanatory memorandum where full details were disclosed to all shareholders for their approval.
9.5 Ensure information indicated in ASX Guide to Reporting on Principle 9 is understood and provided. (See Guide Notes at end of table)	See above
ASX Principle 10: Interest of Stakeholders *Recognise the legal and other obligations of all legitimate stakeholders*	**Comment/Response by Company**
ASX Recommendations 10.1 Establish and disclose a code of conduct to guide compliance with legal and other obligations to legitimate stakeholders	In view of the size of the Company and the nature of its activities, the Board has considered that a informal code of conduct is appropriate to guide executives, management and employees in carrying out their duties and responsibilities.

ASX Guide to Reporting on Principles

ASX rules requires that the following material should be included in the corporate governance section of the annual report:

- Principles 1 to 10 inclusive - an explanation of any departure from best practice recommendations 1.1 to 10.1
- Principle 2 - the skills, experience and expertise relevant to the position of director held by each director in office at the date of the annual report.
- Principle 2 - The names of the directors considered by the board to constitute independent directors and the company's materiality thresholds.
- Principle 2 - A statement as to whether there is a procedure agreed by the board for directors to take independent professional advice at the expense of the company.
- Principle 2 - The term of office held by each director in office at the date of the annual report
- Principle 2 - The names of members of the nomination committee and their attendance at meetings of the committee.
- Principle 4 - Details of the names and qualifications of those appointed to the audit committee, or, where an audit committee has not been formed, those who fulfil the functions of an audit committee.
- Principle 4 - The number of meetings of the audit committee and the names of the attendees.

- Principle 8 - Whether a performance evaluation for the board and its members has taken place in the reporting period and how it was conducted.
- Principle 9 - Disclosure of the company's remuneration policies referred to in best practice recommendation 9.1 and in Box 9.1.
- Principle 9 - The names of the members of the remuneration committee and their attendance at meetings of the committee.
- Principle 9 - The existence and terms of any schemes for retirement benefits, other than statutory superannuation, for non-executive directors.

ASX guidelines also recommend that the following material should be made publicly available, ideally by posting it to the company's website in a clearly marked corporate governance section:

- Principle 1 - a statement of matters reserved for the board or a summary of the board charter or a statement of delegated authority to management.
- Principle 2 - A description of the procedure for the selection and appointment of new directors to the board.
- Principle 2 - The charter of the nomination committee or a summary of the role, rights, responsibilities and membership requirements for that committee.
- Principle 2 - The nomination committee's policy for the appointment of directors.
- Principle 3 - Any applicable code of conduct or a summary of its main provisions. This disclosure may be the same as that required under principle 10.
- Principle 3 - The trading policy or a summary of its main provisions.
- Principle 4 - The audit committee charter.
- Principle 4 - Information on procedures for the selection and appointment of the external auditor, and for the rotation of external audit engagement partners.
- Principle 5 - A summary of the policies and procedures designed to guide compliance with Listing Rule disclosure requirements.
- Principle 6 - A description of the arrangements the company has to promote communication with shareholders.
- Principle 7 - A description of the company's risk management policy and internal compliance and control system.
- Principle 8 - A description of the process for performance evaluation of the board, its committees and individual directors, and key executives.
- Principle 9 - The charter of the remuneration committee or a summary of the role, rights, responsibilities and membership requirements for that committee.
- Principle 10 - Any applicable code of conduct or a summary of its main provisions.

STANTON PARTNERS

1 HAVELOCK STREET
WEST PERTH 6005
WESTERN AUSTRALIA

TELEPHONE: (08) 9481 3188

Facsimile: (08) 9321 1204

e-mail: australia@stanton.com.au

INDEPENDENT AUDIT REPORT

**TO THE MEMBERS OF
FALCON MINERALS LIMITED**

SCOPE

The financial report and directors' responsibility
The financial report comprises the statement of financial position, statement of financial performance, statement of cash-flows, accompanying notes to the financial statements, and the director's declaration for Falcon Minerals Limited (the Company), for the year ended 30 June 2004.

The directors of the Company are responsible for the preparation and true and fair presentation of the financial report in accordance with the *Corporations Act 2001*. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report.

Audit approach
We conducted an independent audit in order to express an opinion to the members of the Company. Our audit was conducted in accordance with Australian Auditing Standards in order to provide reasonable assurance as to whether the financial report is free of material misstatement. The nature of an audit is influenced by factors such as the use of professional judgement, selective testing, the inherent limitations of internal control, and the availability of persuasive rather than conclusive evidence. Therefore, an audit cannot guarantee that all material misstatements have been detected.

We performed procedures to assess whether in all material respects the financial report presents fairly, in accordance with the *Corporations Act 2001*, including compliance with Accounting Standards and other mandatory financial reporting requirements in Australia, a view which is consistent with our understanding of the Company's financial position, and of its performance as represented by the results of its operations and cash flows.

We formed our opinion on the basis of these procedures, which included:

- examining, on a test basis, information to provide evidence supporting the amounts and disclosures in the financial report, and
- assessing the appropriateness of the accounting policies and disclosures used and the reasonableness of significant accounting estimates made by the directors.

While we considered the effectiveness of management's internal controls over financial reporting when determining the nature and extent of our procedures, our audit was not designed to provide assurance on internal controls.

INDEPENDENCE

In conducting our audit, we followed applicable independence requirements of Australian professional ethical pronouncements and the *Corporations Act 2001.*

AUDIT OPINION

In our opinion, the financial report of Falcon Minerals Limited is in accordance with:

a) the *Corporations Act 2001*, including:

   (i) giving a true and fair view of the Company's financial position as at 30 June 2004 and of its performance for the year ended on that date; and

   (ii) complying with Accounting Standards in Australia and the Corporations Regulations 2001; and

b) other mandatory professional reporting requirements in Australia.

STANTON PARTNERS

J P Van Dieren
Partner

Perth, Western Australia
29 September 2004

DIRECTORS' DECLARATION

In the opinion of the directors of Falcon Minerals Ltd.

(a) The accompanying financial statements and notes are in accordance with the Corporations Act 2001, comply with the accounting standards and give a true and fair view of the Company's financial position as at 30 June 2004 and of it's performance for the year ended on that date.

(b) At the date of this declaration there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of the directors.

A RECHNER Director	J CRAIB Director

Perth, Western Australia
29th September 2004.

STATEMENT OF FINANCIAL PERFORMANCE
FOR THE YEAR ENDED 30 JUNE 2004

	NOTES	2004 $	2003 $
Revenue from ordinary activities	2	**205,740**	537,861
Expenses from ordinary activities	3	**(2,600,076)**	(1,315,014)
Loss from ordinary activities before income tax expense		**(2,394,336)**	(777,153)
Income tax expense relating to ordinary activities	5	–	–
Loss from ordinary activities after related income tax expense		**(2,394,336)**	(777,153)
Total changes in equity other than those resulting from transactions with owners as owners	13	**(2,394,336)**	(777,153)
Loss Per Share (cents) Basic Loss per share	25	**(2.10)**	(0.88)

The diluted less per share is not disclosed as it does not show an inferior position

STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2004

	NOTES	2004	2003
CURRENT ASSETS		**$**	$
Cash assets		**3,652,954**	1,356,367
Receivables	6	**59,709**	21,087
TOTAL CURRENT ASSETS		**3,712,663**	1,377,454
NON-CURRENT ASSETS			
Other financial assets	7	**33,000**	2,576
Plant and Equipment	8	**69,282**	8,568
Exploration expenditure carried forward	9	**-**	1,095,705
TOTAL NON-CURRENT ASSETS		**102,282**	1,106,849
TOTAL ASSETS		**3,814,945**	2,484,303
CURRENT LIABILITIES			
Payables	10	**223,969**	69,279
Provisions	11	**1,411**	1,660
TOTAL CURRENT LIABILITIES		**225,380**	70,939
TOTAL LIABILITIES		**225,380**	70,939
NET ASSETS		**3,589,565**	2,413,364
EQUITY			
Contributed equity	12	**13,125,451**	9,554,914
Accumulated losses	13	**(9,535,886)**	(7,141,550)
TOTAL EQUITY	14	**3,589,565**	2,413,364

The above statements of financial performance should be read in conjunction with the accompanying notes.

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2004

	2004	2003
CASH FLOWS FROM OPERATING ACTIVITIES	**$**	$
Receipt from sale of mining tenement	**20,000**	500,000
Payments to suppliers and employees	**(1,006,961)**	(851,148)
Interest received	**143,369**	37,861
Sundry Income	**308**	-
GST (paid)/received	**(79,157)**	35,621
Net cash used in operating activities (Note b)	**(922,441)**	(277,666)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds on sale of investment	**2,063**	–
Purchases of plant and equipment	**(73,571)**	(775)
Net cash provided by/(used in) investing activities	**(71,508)**	(775)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issue of shares net of raising costs	**3,290,536**	931,334
Net cash provided by financing activities	**3,290,536**	931,344
NET INCREASE/(DECREASE) IN CASH	**2,296,587**	652,893
Cash at the beginning of the financial year (Note a)	**1,356,367**	703,474
Cash at the end of the financial year (Note a)	**3,652,954**	1,356,367
(a) Cash includes		
Cash at Bank	**88,163**	94,646
Term Deposits	**3,564,791**	1,261,721
	3,652,954	1,356,367

(b) Reconciliation of net cash used in operating activities to operating (loss) after income tax

Operating (loss) after income tax	**(2,394,336)**	(777,153)
Exploration expenditure written off	**2,310,347**	476,870
Exploration expenditure written off on mining tenement disposed of during the year	**-**	2,587,153
Provision for diminution of debtors & investments	**17,000**	-
Write back of provision for diminution on mining tenement disposed of during the year	**-**	(2,012,079)
Tenement acquired for shares	**240,000**	108,000
Exploration expenditure incurred	**(1,066,864)**	(735,289)
Depreciation and amortisation	**12,857**	26,293
Movement in provision for employee entitlements	**(249)**	15
Loss on sale of investment	**513**	–
(Increase)/Decrease in receivables	**8,264**	30,006
(Increase)/Decrease in creditors and borrowing's	**29,184**	(17,103)
(Increase)/Decrease in GST payable	**(79,157)**	35,621
Net cash used in operating activities	**(922,441)**	(277,666)

(c) There were no credit facilities as at 30 June 2004

(d) Non Cash Financing Activities

During the year the Company issued two tranches of 1,000,000 ordinary fully paid shares as consideration for the acquisition of a further 5% and then a final 5% interest in various tenements which are part of the Company's exploration initiative on identifying Olympic Dam Style ore bodies and other large volcanogenic gold/copper deposits. The shares were recorded at the market price of the date of issue, being 15 cents and 13 cents respectively per share giving a total consideration of $280,000.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2004

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This financial report is a general purpose financial report which has been drawn up in accordance with Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board, Urgent Issues Group Consensus views and the Corporations Act 2001.

The financial report has been prepared on an accruals basis and in accordance with the historical cost convention, except for certain assets which, as noted, are at directors valuation. The accounting policies have been consistently applied by the company and, except where there is a change in accounting policy, consistent with those of previous years. Comparative information is reclassified where appropriate to enhance comparability.

a) Principles of going concern

The Company has recorded a loss of $2,369,022 for the year ended 30 June 2004 and as at 30 June 2004 has net cash assets of $3,652,954. 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

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

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

i) such costs are expected to be recouped through successful development and exploitation or from sale of the area; or

ii) exploration and evaluation activities in the area have not at balance date reached a stage which permits a reasonable assessment of the existence or otherwise of economically recoverable reserves, and active operations in, or relating to, the area are continuing.

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

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

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

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2004 (CONTINUED)

d) Mine Properties

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

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

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

e) Acquisition of Assets

The cost method of accounting is used for acquisition of assets regardless of whether shares or other assets are acquired. Cost is determined as the fair value of the assets given up at the date of acquisition plus costs incidental to the acquisition. On acquisition of an investment in a controlled entity the identifiable net assets are measured at their fair value. The excess of the fair value of the purchase consideration over the fair value of identifiable net assets acquired (ie goodwill) is amortised over the period during which the related benefits are expected to arise.

f) Cash

For the purpose of the statement of cash flows, cash includes deposits at call, which are readily convertible to cash on hand and which are used in the cash management function on the day to day basis, net of outstanding bank overdrafts and term deposits with 3 months or less to maturity.

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) Recoverable Amount

The recoverable amount of an asset is the net amount expected to be recovered through the net cash inflows arising from its continued use and subsequent disposal. The expected net cash flows included in determining recoverable amounts of non-current assets are not discounted to their present value.

Where the carrying amount of a non-current asset is greater than its recoverable amount the asset is revalued to its recoverable amount. To the extent that a revaluation decrement reverses a revaluation increment previously credited, and still included in the balance of the revaluation reserve, the decrement is debited to the reserve, otherwise the decrement is recognised as an expense in the statement of financial performance.

i) Property, plant and equipment

Plant and equipment is stated at cost.

Plant and equipment is depreciated using both the straight line and diminishing value methods at rates between 20% and 60%.

j) Investments

Monies not immediately required are placed on short term deposits with banks.

Current

Investments in marketable securities are stated at the lower of cost and current market value determined on an individual investment basis.

Non Current

Investments in other companies are carried at lower of cost and recoverable amount, being a directors' valuation based on net assets of the investee at time of valuation.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2004 (CONTINUED)

k) Accounts Payable

Accounts payable represent the principal amounts outstanding at balance date plus, where applicable, any accrued interest.

l) Receivables

Trade accounts receivable, amounts due from related parties and other receivables represent the principal amounts due at balance date plus accrued interest and less, where applicable, any unearned income and provisions for doubtful accounts.

m) Income Tax

Income Tax has been brought to account using a method of tax effect accounting whereby income tax expense for the period is calculated on the accounting profit after adjusting for items which, as a result of their treatment under income tax legislation, create permanent differences between that profit and the taxable income. The tax effect of timing differences which arises from the recognition in the accounts of the items of revenue and expenses in periods different from those in which they are assessable or allowable for income tax purposes, are represented in the statement of financial position as "future income tax benefits" or "provision for deferred income tax", as the case may be, at current tax rates. A future income tax benefit is only being carried forward as an asset where realisation of the benefit can be regarded as being assured beyond reasonable doubt.

n) Employee Entitlements

The following liabilities arising in respect of employee entitlements are measured at the amounts expected to be paid when the liability is settled plus related on-costs:

- Wages and salaries and annual leave regardless whether they are expected to be settled within 12 months of balance date.
- Other employee entitlements which are expected to be settled within 12 months of balance date.

o) Comparatives

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

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2004 (CONTINUED)

2. REVENUES FROM ORDINARY ACTIVITIES

	2004	2003
	$	$
Interest received/receivable – other persons	143,369	37,861
Proceeds on sale of investments	2,063	–
Proceeds on sale of tenement	60,000	500,000
Other income	308	–
	205,740	537,861

3. EXPENSES FROM ORDINARY ACTIVITIES

Classification of expenses by nature:

	2004	2003
Depreciation of plant & equipment	12,857	26,293
Exploration expenditure written off	2,310,347	476,870
Exploration expenditure written off on mining tenements disposed of during year	-	2,587,153
Reversal of provision for diminution of exploration tenement	-	(2,012,079)
Operating lease rentals: premises	21,585	21,157
Movement in provision for employee entitlements	(249)	15
Administration expenses	252,960	215,605
Cost of investments sold	2,576	
	2,600,076	1,315,014

4. LOSS FROM ORDINARY ACTIVITIES

Loss from ordinary activities before income tax expense is stated after charging/(crediting):

	2004	2003
Depreciation of non current assets	12,857	26,293
Loss on sale of tenement	–	75,074
Loss on sale on investment	513	–

5. INCOME TAX

(a) The prima facie tax benefit on the Operating loss differs by more than 15% from the income tax provided in the financial statements and is reconciled as follows:

	2004	2003
Operating loss before income tax:	(2,394,336)	(777,153)
Prima facie tax benefit at 30% (2003: 30%)	(718,301)	(233,146)
Tax effect of permanent differences:		
Non–deductible expenditure	84,623	645
Other tax benefits not recognised:		
Tax benefit of revenue losses not recognised	633,678	232,501
Income tax benefit attributable to operating loss:	–	–

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2004 (CONTINUED)

5. INCOME TAX (Continued)

(b) As at 30 June 2004 the company had estimated gross revenue tax losses of approximately $6,256,611 (2003: $5,622,933) available to offset against future taxable income. These tax losses have not been brought to account as the benefit cannot be regarded as being virtually certain of realisation.

The benefit of tax losses will only be obtained if:

(i) the company derives future assessable income of a nature and of an amount sufficient to enable the benefit from the deductions for the losses to be realised;

(ii) the company continues to comply with the conditions for deductibility imposed by the tax legislation; and

(iii)no changes in tax legislation adversely affect the company in realising the benefit from the deductions for the losses.

6. CURRENT ASSETS – RECEIVABLES

	2004	2003
	$	$
Sundry debtors	3,913	13,910
Amounts due from director related entity	-	7,177
GST Refund due	55,796	–
	59,709	21,087

7. NON–CURRENT ASSETS – OTHER FINANCIAL ASSETS

Shares listed on prescribed Stock Exchange	40,000	36,800
Less: provision for diminution in value	(7,000)	(34,224)
Total investments at Directors' valuation	33,000	2,576

The company holds 200,000 (2003: Nil) of the common shares of Discovery Nickel Ltd. The market value of these shares at 30 June 2004 was $33,000 (2003: Nil).

8. NON – CURRENT ASSETS PLANT & EQUIPMENT

Plant and equipment at cost	11,188	22,281
Less: accumulated depreciation	(3,854)	(19,605)
	7,334	2,676
Office furniture at cost	21,488	38,415
Less: accumulated depreciation	(18,069)	(35,223)
	3,419	3,192
Electronic equipment at cost	-	64,629
Less: accumulated depreciation	-	(61,929)
	-	2,700
Motor vehicles at cost	64,492	–
Less: accumulated depreciation	(5,963)	–
	58,529	–
Total Plant and Equipment at cost	97,168	125,325
Less: accumulated depreciation	(27,886)	(116,757)
	69,282	8,568
Movements in Plant and Equipment		
Balance at beginning of the year	8,568	34,086
Additions	73,571	775
Depreciation expense	(12,857)	(26,293)
Balance at end of the year	69,282	8,568

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2004 (CONTINUED)

9. NON – CURRENT ASSETS - EXPLORATION EXPENDITURE

	2004	2003
	$	$
Exploration expenditure incurred (net of refunds received) on mineral tenements and joint ventures	**1,214,642**	768,372
Capitalised expenditure at the beginning of the financial year	**1,095,705**	1,379,277
	2,310,347	2,147,647
Less: expenditure written off to statement of financial performance	**(2,310,347)**	(3,064,023)
Reversal of provision for diminution of carrying value of tenements	**-**	2,012,079
	-	1,095,705

Capitalised exploration expenditure, represents the accumulated cost of acquisition and subsequent cost of exploration and evaluation of the properties less amounts written off and provided for. Ultimate recoupment of these costs is dependent on successful development and commercial exploitation, or alternatively sale of the respective areas of interest.

10. PAYABLES

	2004	2003
	$	$
Other creditors and accruals	**222,879**	45,917
Amount payable to director related entity	**1,090**	-
GST Payable	**-**	23,362
	223,969	69,279

11 PROVISIONS

Employee entitlements	1411	1660

There was 1 full time employee (prior year 1 full time employee) at reporting date.

12. CONTRIBUTED EQUITY

	2004	2003	2004	2003
	No	No	$	$
ISSUED AND FULLY PAID UP CAPITAL				
Ordinary Shares				
Opening balance	**99,277,043**	81,504,381	**9,554,914**	8,515,580
Placement of shares at 15.5 cents each	**9,200,000**	–	**1,426,000**	–
Issue – Share purchase plan	**-**	5,772,662	**-**	242,450
Issue – to acquire mining tenements	**1,000,000**	2,000,000	**150,000**	108,000
Issue – to acquire mining tenements	**1,000,000**	-	**130,000**	-
Placement of shares at 7.5 cents each	**-**	10,000,000	**-**	750,000
Pro Rata Issue at 15 cents each	**13,684,630**	-	**2,052,694**	-
Capital Raising Costs	**-**	–	**(188,157)**	(61,116)
Closing balance	**124,161,673**	99,277,043	**13,125,451**	9,554,914

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2004 (CONTINUED)

12. CONTRIBUTED EQUITY (CONTINUED)

OPTIONS

Listed Options exercisable at 20 cents by 30/06/05

	2004	2003	**2004**	2003
	No	No	**$**	$
Opening Balance	**-**	-	**-**	-
Free Options attached to placement	**4,600,000**	-	**-**	-
Free Options attached to pro rata issue	**13,684,430**	-	**-**	-
Closing Balance	**18,284,430**	-	**-**	-

The Company in the prior year had on issue 4,300,000 unlisted options exercisable at 20 cents per option by 30 November 2003. The options expired on 30 November 2003.

13. ACCUMULATED LOSSES

	2004	2003
	$	$
Accumulated Losses:		
Balance at the beginning of the year	**(7,141,550)**	(6,364,397)
Net loss for the year	**(2,394,336)**	(777,153)
Balance at the end of the year	**(9,535,886)**	(7,141,550)

14. TOTAL EQUITY

Total Equity:		
Total equity at the beginning of the year	**2,413,364**	2,151,183
Total changes in equity recognised in the Statement of Financial Performance	**(2,394,336)**	(777,153)
Transactions with owners as owners:		
Contributions of equity	**3,570,537**	1,039,334
Total equity at the end of the year	**3,589,565**	2,413,364

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2004 (CONTINUED)

15. REMUNERATION OF SPECIFIED DIRECTORS AND SPECIFIED EXECUTIVES

Remuneration

	Primary			Post Employment		Equity	Other Benefits	TOTAL
	Salary & Fees	Cash Bonus	Non-Monetary	Super-annuation	Retirement Benefits	Options		$
Specified Directors								
Anthony Rechner - Executive Chairman								
2004	100,900	-	470	-	-	-	-	101,370
2003	95,450	-	939	-	-	-	-	96,389
Richard Diermajer - Managing Director								
2004	100,900	-	6,645	-	-	-	-	107,545
2003	95,450	-	939	-	-	-	-	96,389
Jim Craib - Non- Exec. Director								
2004	10,900	-	-	-	-	-	-	10,900
2003	15,450	-	-	-	-	-	-	15,450
Total Remuneration Specified Directors								
2004	212,700	-	7,115	-	-	-	-	219,815
2003	206,350	-	1,878	-	-	-	-	208,228
Specified Executives								
Ray Muskett - Consultant Geologist								
2004	90,000	-	-	-	-	-	-	90,000
2003	60,000	-	-	-	-	-	-	60,000
Paul Fromson – Company Secretary								
2004	29,513	-	-	-	-	-	-	29,513
2003	36,037	-	-	-	-	-	-	36,037
Total Remuneration Specified Executives								
2004	119,513	-	-	-	-	-	-	119,513
2003	96,037	-	-	-	-	-	-	96,037

Transactions with Directors or Director Related Entities

Consultancy services

Messrs A Rechner and R Diermajer are respectively directors and shareholders of Tangram Pty Ltd and Frontlaw Pty Ltd (trading as Sentinel Exploration Services), which have provided exploration and administrative consultancy services to the Company on normal terms and conditions. Amounts paid to these companies during the year in respect of professional services rendered are included in remuneration of directors.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2004 (CONTINUED)

15 REMUNERATION OF SPECIFIED DIRECTORS AND SPECIFIED EXECUTIVES (CONTINUED)

Shareholdings

Year Ended 30 June 2004
Number of Shares held by Specified Directors & Executives

	Balance 1 July 2003	Received as Remune-ration	Options Exercised	Net Change Other	Balance 30 June 2004
Specified Directors					
Anthony Rechner	5,591,050	-	-	699,999	6,291,049
Richard Diermajer	5,655,096	-	-	633,000	6,288,096
Jim Craib	350,000	-	-	-	350,000
Specified Executives					
Ray Muskett	2,040,000	-	-	1,778,400	3,818,400
Paul Fromson	250,000	-	-	(30,000)	220,000
TOTAL	13,886,146	-	-	3,081,399	16,967,545

Option Holdings

Year Ended 30 June 2004
Number of Options held by Specified Directors & Excecutives

	Balance 1 July 2003	Granted as Remune-ration	Options Exercised	Net Change Other	Balance 30 June 2004	Exercisable	Un-exercisable
Specified Directors							
Anthony Rechner	2,000,000	-	-	(1,300,001)	699,999	699,999	-
Richard Diermajer	2,000,000	-	-	(1,367,000)	633,000	633,000	-
Jim Craib	300,000	-	-	(300,000)	-	-	
Specified Executives							
Ray Muskett	-	-	-	300,000	300,000	300,000	-
Paul Fromson	-	-	-	-	-	-	-
TOTAL	4,300,000	-	-	(2,667,001)	1,632,999	1,632,999	-

16. REMUNERATION OF AUDITORS

CURRENT	2004	2003
	$	$
Audit and review of financial report	**15,375**	15,210
Other services (prior auditors)	**7,204**	4,290
	22,579	19,500

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2004 (continued)

17. JOINT VENTURES

Exploration

The Company has entered into unincorporated joint ventures where the joint venturer 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 joint ventures which have been formed for the purposes of exploration for gold and other minerals are as follows:-

Project	JOINT VENTURES Percentage Interest	
	2004	2003
Duketon	20% free carried	20% free carried
North Duketon	20% free carried	20% free carried
German Well	25% free carried	25% free carried
Mulgarrie	100% diluting	80%
Windanning Hill	27% diluting	27% diluting
Toolondo	10% free carried	10% free carried
Collurabbie Hills	30%	100% diluting to 30%
Bond Hill	100%	90%
Palthrubie	100%	90%
Lake Acreman	100%	90%
Shepparton	100%	90%
Saxby	100%	90%
Mt McDonald	100%	90%
Racehorse Mt	100%	90%
Coonamble South	100%	90%
Narromine	100%	90%
Molong	100%	90%
Cargo	70% earning	70% earning
Belubula	70% earning	70% earning

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.

The total costs carried forward in respect of these joint venture areas of interest are:

	2004	2003
	$	$
Exploration and evaluation phases	-	1,066,283

18. CONTINGENT ASSETS AND LIABILITIES

A claim from 2001/2002 for $38,000 in relation to transactions with Kohlberger East has been received subsequent to year end. The action is being defended and the directors are of the opinion that the amount will not be payable.

The company is due to receive a further $150,000 from the sale of its Cooljarloo mineral sands tenement. These proceeds are contingent on a mining lease being granted over the tenement. These proceeds have not been recorded in the accounts.

The directors are of the opinion that there are no other contingent liabilities as at 30 June 2004.

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.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2004 (CONTINUED)

	2004	2003
	$	$
Not later than one year	**1,072,857**	1,310,422
After one year but less than two years	**244,537**	679,478
After two years but less than five years	**475,155**	965,486
After five years	-	–
	1,792,549	2,955,386
Operating Lease Commitments		
Not later than one year	**11,275**	13,530
After one year but not later than five years	-	5,638
	11,275	19,168

There is one operating lease being a rental lease on the Company's premises. The lease expires on 30th November 2004 however there is an option to extend for a further two years.

Farm-In Arrangements

The Company has entered into a contractual arrangement to earn a 70% interest in the Cargo prospect. The 70% interest requires the expenditure of $3,000,000 staged over four years. The arrangement is not a commitment as such, however, to earn the interest the Company will be required to meet the expenditure threshold.

20. RELATED PARTIES

Directors

The names of persons who were directors of Falcon Minerals Ltd at all times during the financial year were as follows: A Rechner; J B Craib; and R E Diermajer.

Information on remuneration of directors is disclosed in Note 15.

Directors' interests in shares and options

Directors' interest in shares and options are disclosed in note 15.

21. EVENTS SUBSEQUENT TO REPORTING DATE

In the opinion of the Directors, there have not been any matters that have arisen since 30 June 2004, 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.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2004 (CONTINUED)

24. SEGMENT REPORTING

The operations of the Company involve just one business segment being that of mineral exploration within Australia.

25. LOSS PER SHARE

	2004	2003
	Cents per share	Cents per share
a) Basic Loss per share	**(2.10)**	(0.88)
		$
b) Net loss used in calculating		
- Basic loss per share	**(2,394,336)**	(2,006,841)
	Number	Number
c) Weighted average number of ordinary shares outstanding during the year used in calculating basic loss per share	**113,774,739**	88,549,175

* Diluted loss per share is not disclosed as it does not show an inferior position.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2004 (CONTINUED)

26. FINANCIAL INSTRUMENTS

a) Interest Rate Risk Exposures

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

	Floating Interest rate		Fixed Interest Less than 1 year		Non-interest Bearing		Total	
	2004	2003	**2004**	2003	**2004**	2003	**2004**	2003
	$	$	$		**$**	$	**$**	$
Financial Assets								
Cash assets	**88,163**	94,646	**3,564,791**	1,261,721	–	–	**3,652,954**	1,356,367
Receivables	-	–	-	–	**59,709**	21,087	**59,709**	21,087
Investments	-	–	-	–	**33,000**	2,576	**33,000**	2,576
Total Financial Assets	**88,163**	94,646	**3,564,791**	1,261,721	**92,709**	23,663	**3,745,663**	1,380,030
Interest Rate	**0.4%**	0.4%		4.75%				

	Floating Interest rate		Fixed Interest Less than 1 year		Non-interest Bearing		Total	
	2004	2003	**2004**	2003	**2004**	2003	**2004**	2003
	$	$	**$**	$	**$**	$	**$**	$
Financial Liabilities								
Payables	–	–	–	–	**223,969**	69,279	**223,969**	69,279
Total Financial Liabilities	–	–	–	–	**223,969**	69,279	**223,969**	69,279
Net Financial Assets/(Liabilities)	**88,163**	94,646	**3,564,791**	1,261,721	**(131,260)**	(45,616)	**3,521,694**	1,310,751

b) Credit Risk Exposures - Credit risk represents the loss that would be recognised if counterparties failed to perform as contracted. The credit risk on financial assets, excluding investments, 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) 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.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2004 (CONTINUED)

27. THE IMPACT OF ADOPTING INTERNATIONAL ACCOUNTING STANDARDS

The Australian Accounting Standards Board is adopting the Standards of the International Accounting Standards Board for application to reporting periods beginning on or after 1 January 2005. Pending Accounting standard AASB 1 'First-time Adoption of Australian Equivalents to International Financial Reporting Standards' prescribes transitional provision for first-time adopters.

AASB 1047 'Disclosing the Impacts of Adopting Australian Equivalents to International Financial Reporting Standards' requires financial reports to disclose information about the impacts of any changes in accounting policies in the transition period leading up to the adoption date and will apply for June 2004 reporting.

The company has allocated internal resources and in conjunction with its auditors is assessing those accounting policies and key areas that are likely to be impacted by the transition to International Financial Reporting Standards (IFRS). As the company has a 30 June year end, priority has been given to the consideration of the impact of the Australian equivalents to the IFRS and the preparation of a balance sheet in accordance with those Australian equivalent standards as at 30 June 2004. This will form the basis of accounting for Australian equivalents of IFRS in the future, and is required when the company prepares its first fully IFRS compliant report for the year ended 30 June 2006. As required by AASB 1047, the key accounting policies which will change and may have an impact on the financial report of the company are set out below.

Exploration and evaluation expenditure

In terms of the exposure drafts issued by the International Accounting Standards Board (IASB) and the Australian Accounting Standards Board (AASB) on exploration and evaluation expenditure, entities are permitted to continue their previous accounting policies but all exploration and evaluation expenditure would be subject to an annual impairment test. Under the impairment test, exploration and evaluation expenditure would be carried at recoverable value which will be determined at the higher of fair value less costs to sell, and value in use. The likely impact is that exploration and evaluation expenditure will not meet the recoverable value test and will need to be written off in the year incurred.

Taxation

Under the Australian equivalent to IAS 12 "Income Taxes", a balance sheet approach will be adopted for calculating taxation, replacing the "statement of financial performance approach". This method recognizes deferred tax balances for all temporary differences arising between the carrying value of an asset or liability and its tax base. Whilst there will be enhanced disclosure of the composition of the deferred tax assets and liabilities it is not expected that there will be any significant impact in terms of the statement of financial position or performance.

Financial Instruments

Under AASB 139 "Financial Instruments: Recognition and Measurement" financial instruments will be required to be classified into five categories and to be measured based on the nature of the classification. The five categories and basis of measurement are:

- Financial asset or financial liability measured at fair value through the statement of financial performance
- Held to maturity investments measured at amortised cost, subject to impairment
- Loans and receivables measured at amortised cost, subject to impairment
- Available for sale assets measured at fair value with changes in fair value measured directly in equity
- Financial liability measured at amortised cost

This will result in a change in the current accounting policy that does not classify financial instruments.

Impairment of Assets

Under the Australian equivalent to IAS 36 "Impairment of Assets" the recoverable amount of an asset is determined as the higher of net selling price and value in use. This will result in the company's current accounting policy which determines recoverable amount of an asset on the basis of discounted (undiscounted) cashflows. Under the new policy it is likely that the impairment of assets will be recognized sooner and the amount of write downs will be greater.