FALL RIVER RESOURCES LTD.

AND CONTROLLED ENTITIES
ABN 86 115 229 984

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED SEPTEMBER 30, 2009

FALL RIVER RESOURCES LTD
AND CONTROLLED ENTITIES
ABN 86 115 229 984

COMPANY INFORMATION

Directors

David Sutton	– Chairman, Non-Executive Director
Jack Mulready	– Technical Director
Stephen Pearce	– Non-Executive Director and Joint Company Secretary
Bruce McLeod	– Non-Executive Director

Secretary
David Hughes – Joint Company Secretary

Registered Office

In Canada	711 – 675 West Hastings Street, Vancouver, BC
In Australia	Level 7, 151 Macquarie Street, Sydney NSW Ph: 02 9276 1292

Auditors

K S Black & Co.	Level 24, MLC Centre 19 Martin Place Sydney NSW

Share Registry

In Canada	Computershare Investor Services Inc 3rd Floor, 510 Burrard Street, Vancouver, BC, Canada
In Australia	Computershare Investor Services Pty Ltd Level 3, 60 Carrington Street, Sydney, NSW, Australia Ph: 1300 85 05 05

Stock Exchange Listing
Australian Securities Exchange – Australia – Code FRV

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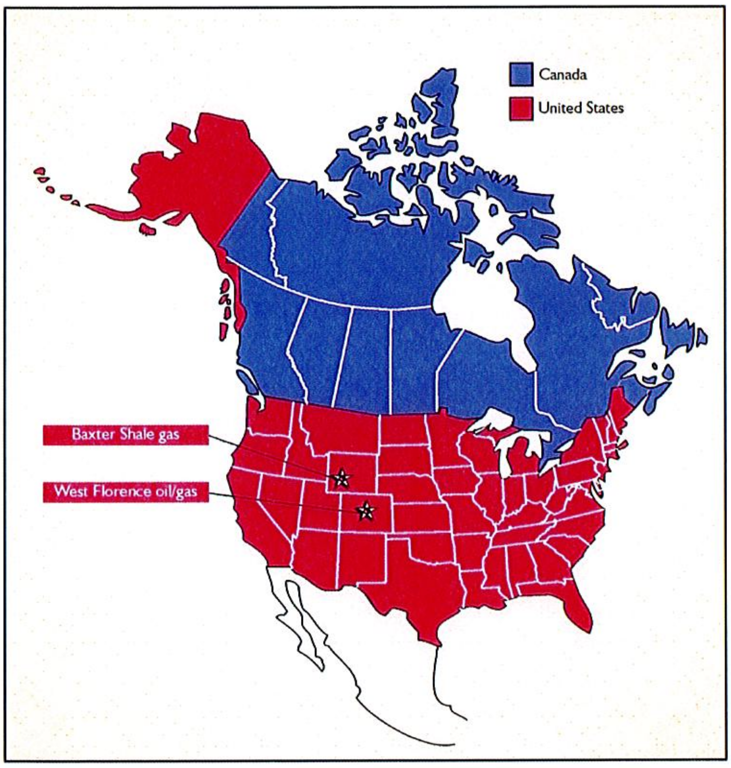
FALL RIVER RESOURCES LTD

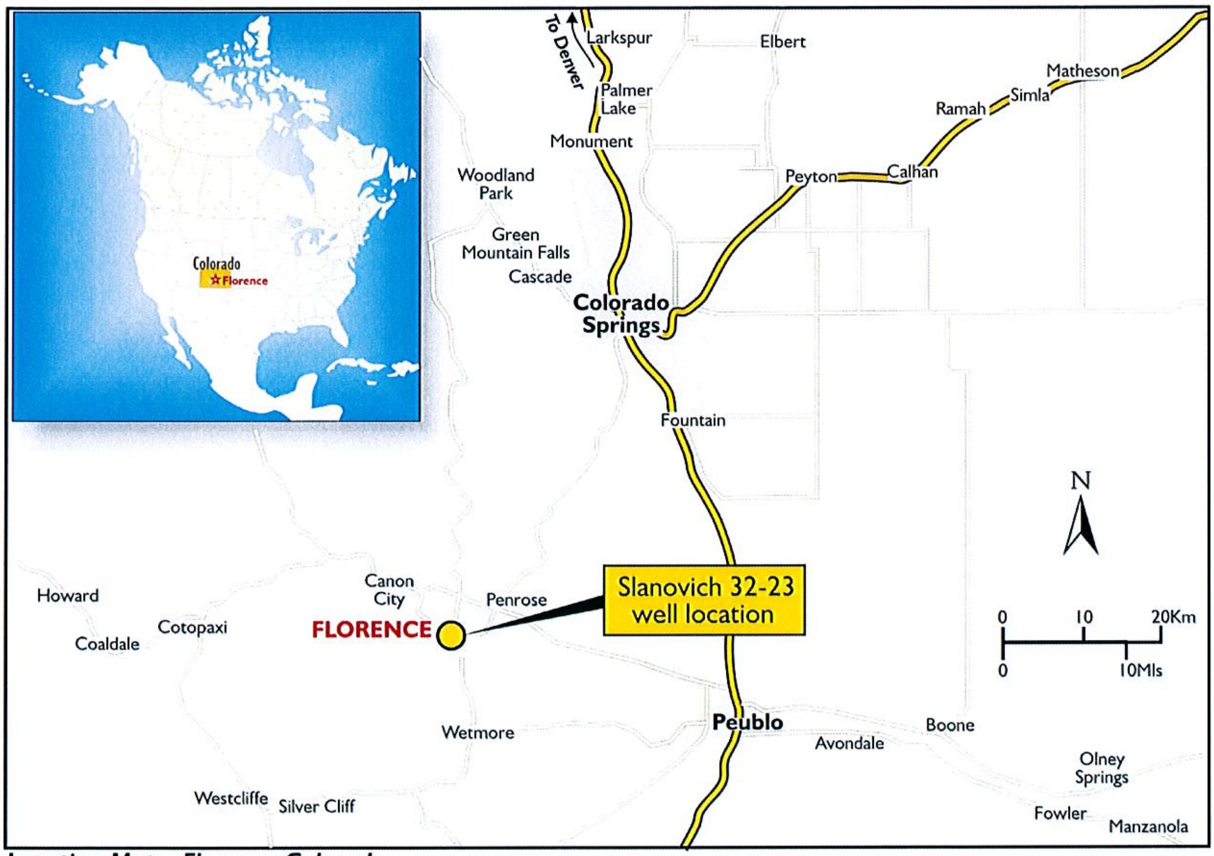
OPERATIONS REPORT FOR THE FINANCIAL YEAR ENDED 30 SEPTEMBER 2009

The company is preparing for a reconstruction which will see it take a new direction.
Activity has been severely restricted over the past year as exploration funds were severely limited.
Production from the Slanovich 32-23 well has declined to non-commercial levels and a new well at West Florence will be required.



ONSHORE USA

West Florence Exploration Joint Venture, Colorado (Fall River 25%)
Production from the Slanovich 32-23 well has declined to 8 barrels of oil per month, (0.27 bopd), which at present prices renders it non-commercial.
It is now evident that a new well, designed to tap the potential of the Pierre Formation reservoir, will be required if the project is to proceed.
The Operator, Victoria Petroleum USA is believed to be in the process of finalising the sale of its interest to a US based company.



Location Map - Florence Colorado

Baxter Shale Project, Green River Basin, Wyoming
Current gas prices in the US have undermined the economic viability of this project in the short term.
The company is close to an agreement with its joint venture partner and Operator to convert its interest in the Baxter project to a royalty.

The information prepared on operations in this report relating to oil and gas activities has been prepared by Jack Mulready who has significant experience relevant to the style of mineralisation and type of deposit under consideration, and to the activity which he is undertaking, to qualify as a Competent Person as defined in the 2004 Edition of the "Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves". Jack Mulready consents to the inclusion in the report of the matters based on his information in the form and context in which it appears.

Jack Mulready
Technical Director
BSc, BA, Fell. Dipl Management RMIT, Dip Ed
MGSA, AAPG Cert. Geol. No, 5321

Directors' Report

The Directors' present their report together with the Financial Report of Fall River Resources Limited ("the Company") and of the consolidated entity, being the Company and its controlled entities for the financial year ended 30 September 2009.

1. Directors

The Directors of the Company at any time during and since the end of the financial year are:

David Sutton	Chairman - Non-Executive
Jack Mulready	Technical Director – Executive
Stephen Pearce	Non-Executive Director
Bruce McLeod	Non-Executive Director

Unless otherwise stated Directors held office for the full period.

Robert Barraket was appointed as an alternate Director to Stephen Pearce on 6/8/09 and resigned on 18/8/09.

2. Principal Activities

During the year the principal continuing activities of the consolidated entity were oil and gas exploration in the United States of America and the review of resource based investment opportunities to add shareholder value.

There were no significant changes to those activities during the period under review.

3. Review of Results

The consolidated net loss of the consolidated entity after providing for income tax for the financial year ended 30 September 2009 was $1,906,395 compared to a loss for the previous corresponding period of $2,417,485.

4. Financial Position

The net assets of the consolidated group have decreased from a deficiency of $2,071,364 at 30 September 2008 to a deficiency of $3,962,174 at 30 September 2009.

5. Dividends

The directors do not recommend the payment of a dividend.

6. Significant Changes in the State of Affairs

There were no significant changes to the state of affairs of the consolidated entity during the financial year.

Directors' Report (Continued)

7. Matters Subsequent to Balance Date

- On 15 October 2009 the Company announced the signing of a Memorandum of Understanding ("MOU") between Fall River Resources Limited (Fall River) and Earth Heat Limited ("Earth Heat") which provides for the acquisition by Fall River of all of the issued shares in Earth Heat. Consideration for the acquisition is $2.6m to be satisfied by the allotment and issue of 260.0m new Fall River shares at $0.01. Earth Heat hold a number of geothermal exploration leases and lease applications.

  The MOU further provides for the following:

  - Shareholder agreement to a capital consolidation on the basis of one new share for each three shares currently held.
  - The consent of Fall River Noteholders and creditors, who consequent to the capital consolidation being approved, will in aggregate be offered on a pro rata basis a total of 69.0m new Fall River Shares in satisfaction of their outstanding obligations.
  - A capital raising of not less than $2,000,000 to sophisticated investors within 3 months of shareholders approval of the transaction.
  - Allotment of 5.0m new Fall River shares to a Director in part satisfaction of claims for remuneration. The balance of those claims will be satisfied by a cash payment of $40,000.
  - Allotment of 40.0m new Fall River shares to T J Mann & Associates Pty Ltd. This fee is inclusive of the costs associated with the $2 million capital raising and for the introduction of the transaction, and the raising of at least $120,000 in new capital for working capital purposes.
  - The payment of debt to Earth Heat creditors to a maximum of $33,000.

  The transaction and its completion is subject to the satisfactory completion of due diligence and the satisfactory completion of the relevant purchase and sale agreement.

  At the completion of the transaction and following the proposed capital raising the Company will have approximately 604m new shares on issue.

  In addition the transaction requires the approval of Fall River shareholders. A special meeting of members is scheduled to be held on 8 January 2010 to consider the proposal.

  Forming part of the information circular was a report from Alpha Securities Pty Limited who were retained to consider and prepare an independent expert's report in relation to the proposal as a whole, and its effect on shareholders. The independent expert has concluded that the proposed acquisition of all the fully paid shares in Earth Heat Limited is fair and reasonable to non-associated shareholders of Fall River Resources Limited.

- The Company had on issue 750,000 options exercisable at $0.18 prior to 10 November 2009.

  None of these options were exercised prior to their expiry date and as a consequence have lapsed.

- On 18 December 2009 the financial report was authorised for issue by a resolution of Directors.

Directors' Report (Continued)

Except for the matters referred to above, there is no other matter or circumstance that has arisen since 30 September 2009 that has significantly affected or may significantly affect:

a) the operations, in financial years subsequent to 30 September 2009, of the consolidated group;
b) the results of those operations; or
c) the state of affairs, in financial years subsequent to 30 September 2009 of the consolidated group.

8. Likely Developments

Except for information disclosed on certain developments and the expected results of those developments included under review of operations, further information on likely developments in operations of the consolidated group and the expected results of those operations have not been disclosed in this report because the Directors' believe it would be likely to result in unreasonable prejudice to the consolidated group.

9. Information on Directors'

David Sutton
Chairman - Non-Executive Director

Experience and expertise
Mr Sutton has many years experience as a director of companies in stockbroking and investment banking. He is a director of Martin Place Securities Pty Limited, a licenced securities dealer where he is responsible for corporate finance and stockbroking activities. He is also a director of a number of listed companies including Imperial Corporation Limited. Appointed a Director of the Company on 29 February 2008.

Special responsibilities
Chairman of Board of Directors
Member of the audit committee.

Bruce McLeod
Non-Executive Director

Experience and expertise
Mr McLeod is a director of a number of listed mining companies, including Imperial Corporation Limited and Carnegie Corporation Limited. He has extensive experience in the Australian capital markets over the past 16 years being involved in debt raising and equity capital for a number of property projects and companies, as well as the takeover and rationalisation of listed and unlisted companies.

Special responsibilities
Nil

Jack Mulready
Executive Director

Experience and expertise
Mr Mulready is a petroleum geologist with over 39 years of international experience in the oil and gas industry in North America, Australasia, Asia & South East Asia, Papua New Guinea and Africa. Jack is a past Vice President of the Petroleum Exploration Society of Australia and past President at state level, a member of the Geological Society of Australia and a member of the American Association of Petroleum

Geologists. Mr Mulready holds degrees as a Bachelor of Science and a Bachelor of Arts from the University of Melbourne and a Fellowship Diploma of Management from the Royal Melbourne Institute of Technology.

Special responsibilities
Member of the Audit Committee

Stephen Pearce
Non-Executive Director and Joint Company Secretary

Experience and expertise
Mr Pearce is a practising lawyer who specialises in corporate and securities work in association with a corporate administration services company, Hastings Management Corp. in Vancouver, British Columbia. Stephen serves as a director and/or officer of the following mainly resource related public companies: Neodym Technologies Inc. (TSX-V) (Director, Corporate Secretary), Sable Resources Ltd. (TSX-V) (Director, Corporate Secretary), and Golden Goliath Resources Ltd (TSX-V) (Corporate Secretary). Stephen has a law degree from the University of British Columbia and economics degree from York University.

Special responsibilities
Member of the audit committee.

10. Joint Company Secretary

Stephen Pearce and David Hughes are Joint Company Secretaries. For information on the experience and expertise of Stephen Pearce refer to information on directors.

David Hughes was appointed joint company secretary on February 6, 2008. He has held similar positions with other listed companies for over 20 years.

11. Meetings of Directors

The number of meetings of the Company's Board of Directors and of each board committee held during the year ended 30 September 2009 and the number of meetings attended by each Director is as follows:

Director	Directors' Meetings		Audit Committee Meetings	
	Attended	Held whilst in office	Attended	Held whilst in office
B W McLeod	9	9	-	-
J Mulready	9	9	1	1
S Pearce	2	9	1	1
D Sutton	9	9	1	1

12. Remuneration Report

This report outlines the remuneration agreements in place for directors and executives of Fall River Resources Limited.

Remuneration Committee

Due to the size of the Company's operations Directors do not believe that the establishment of a remuneration committee is warranted. All matters that would normally be the responsibility of a remuneration committee are dealt with by the full board of Directors. The Chairman is responsible for the annual review of Directors remuneration.

Directors' Report (Continued)

Executive Compensation and Non-Executive Remuneration
The full Board of Directors sets remuneration policies and practices generally and makes specific recommendations on remuneration packages and other terms of employment for Executive Directors, other Senior Executives and Non-Executive Directors.

Executive remuneration and other terms of employment are reviewed annually having regard to performance against goals set at the start of the year, relevant comparative information and independent expert advice. As well as basic salary, remuneration packages include superannuation. Directors and executives are also able to participate in an Employee Share Acquisition Share Plan.

Remuneration packages are set at levels that are intended to attract and retain executives capable of managing the consolidated group's operations.

Remuneration of Non-Executive Directors is determined by the Board within the maximum amount approved by shareholders from time to time.

Additional information of key management personnel is disclosed in Note 12 related party transactions.

Key Management Personnel Compensation
Table of Benefits and Payments for the Year Ended 30 September 2009
The following table sets forth all annual and long term compensation for services in all capacities to the Group for the two most recently completed financial years, in respect of the individual(s) who were, at the end of the most recently completed financial year, acting as directors or executive officers.

Name and Position	Year 2008	Salary ($)	Bonus ($)	Other Annual Compensation and Superannuation ($)	Total ($)
Jack Mulready Executive Director	2009 2008	$226,872 $146,447	Nil Nil	$13,128 $13,180	$240,000 $159,627
Stephen Pearce	2009 2008	$52,383 $48,818	Nil Nil	Nil Nil	$52,383 $48,818
Bruce McLeod	2009 2008	$45,000 $30,000	Nil Nil	$4,050 $2,700	$49,050 $32,700
David Sutton	2009 2008	$45,000 $30,000	Nil Nil	$4,050 $2,700	$49,050 $32,700
David Hughes	2009 2008	$24,000 $16,000	Nil Nil	Nil Nil	$24,000 $16,000

Notes:
(1) Remuneration is not based on performance criteria.
(2) Remuneration is not currently linked to company performance or share price.

Directors' Report (Continued)

13. Directors' Interests
The relevant interest of each director in the share capital of the company as at the date of this report is set out below:

Director	Number of shares owned or over which control is exercised	Number of options owned or over which control is exercised - including exercise price
Jack Mulready	590,300	800,000 @ $0.18 CAD$
Stephen Pearce	374,000	720,000 @ $0.18 CAD$
David Sutton	2,251,250	Nil
Bruce McLeod	2,250,000	Nil

14. Share Options

The Company adopted its current stock option plan (the "Plan") effective December 19, 2005. Under the Plan, the Company may grant options to acquire ordinary shares to a maximum of 10% of the issued and outstanding common shares at the date of grant. The fair value of share options is estimated using the Black-Scholes option pricing model.

The Company has the following history of stock options outstanding:

	NUMBER OF OPTIONS	WEIGHTED AVERAGE EXERCISE PRICE
Balance, September 30, 2008	2,690,000	$ 0.18
Granted	-	-
Expired	250,000	$ 0.18
Balance, September 30, 2009	2,440,000	$ 0.18

250,000 options exercisable at $0.18 were unexercised at their expiry date, 10 January 2009 and as a consequence have lapsed.

All options granted had exercise prices higher than market on the day of grant.

The following table summarizes information about the stock options outstanding at September 30, 2009:

EXPIRY DATE	EXERCISE PRICE	NUMBER OF OPTIONS OUTSTANDING	NUMBER OF OPTIONS EXERCISABLE
November 10, 2009	$ 0.18	750,000	750,000
July 13, 2010	$ 0.18	650,000	650,000
November 4, 2010	$ 0.18	1,040,000	1,040,000
	$ 0.18	2,440,000	2,440,000

Directors' Report (Continued)

Subsequent to the end of the financial year a further 750,000 options exercisable at $0.18 prior to 10 November 2009 remained unexercised at their expiry date and have lapsed.

15. Environmental Regulations

There are significant environmental regulations surrounding mining activities which have been conducted by Fall River Resources Limited. However, there has been no breach of these regulations during the financial year or in the period subsequent to the end of the financial year and up to the date of this report.

16. Auditors

The appointment of K S Black & Co as auditor of the Company was confirmed by shareholders at the annual general meeting of the company held on 28 February 2009. K S Black & Co continue in office.

17. Non-Audit Services

The directors have adopted specific policies and procedures for the engagement of non-audit services and are satisfied that the provision of non-audit services during the period by the auditor (or by another person or firm on the auditors' behalf) is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001.

The aggregate fees billed by the Company's external auditors for the last financial year are as follows:

	SmytheRatcliffe		K S Black & Co.	
	2009	**2008**	**2009**	**2008**
Audit fees – Full Year	-	$25,000	$22,000	$20,000
– Half Year	-	$20,000	$7,800	$7,000
Tax related services	-	-	-	-
Other	-	-	$1,600	-

18. Indemnifying Officers

During or since the end of financial year the Company has not indemnified or made a relevant agreement to indemnify an officer or auditor of the Company or any related body corporate against liability incurred as such by an officer or auditor.

19. Proceedings on Behalf of the Company

Apart from the matter discussed in Note 10 to the financial statements, no person has applied for leave of court to bring proceedings to which the Company is a party for the purpose of taking responsibility on behalf of the Company for all or any part of those proceedings. The Company was not a party to any such proceedings during the year.

20. Auditors' independence Declaration under section 307C of the Corporations Act 2001

A copy of the Auditors' Independence Declaration as required under section 307C of the Corporations Act 2001 is attached and forms part of the director's report for the twelve month period ended 30 September 2009.

This Directors Report, incorporating the Remuneration Report, is signed in accordance with a resolution of the Board of Directors.

B W McLeod
Director
Dated: 22 December 2009

AUDITOR'S INDEPENDENCE DECLARATION UNDER 307C OF THE CORPORATIONS ACT 2001

To The Directors of Fall River Resources Ltd and Controlled Entities

I declare that to the best of my knowledge and belief, during the year ended 30 September 2009, there have been:

(i) No contraventions of the auditor independence requirements as set out in the Corporations Act 2001 in relation to the audit, and

(ii) No contravention of any applicable code of professional conduct in relation to the audit.

Stuart H. Cameron

Stuart Cameron
Partner

K S Black & Co
Chartered Accountants
Sydney, 22 December 2009

DIRECTORS' DECLARATION

The Directors of the Company declare that:

a The financial statements and notes of the Company and of the consolidated entity, set out on pages 17 to 40 are in accordance with the Corporations Act 2001, including:

 i Giving a true and fair view of the financial position of the Company and the consolidated group as at 30 September 2009 and of their performance, as represented by the results of their operations and their cash flows, for the year ended on that date; and

 ii Complying with Accounting Standards and the Corporations Regulations 2001; and

b The directors have been given the declarations required by section 295A of the Corporations Act 2001 from the Chief Executive Officer and Chief Financial Officer; and

c In the directors' opinion there are reasonable grounds to believe the company will be able to pay its debts as and when they fall due.

Signed in accordance with a resolution of the Board of Directors.

B W McLeod
Director

Dated: 22 December 2009

Suite 2404
Level 24 MLC Centre
19-21 Martin Place
Sydney NSW 2000

K.S. Black & Co.

ABN — 57 446 398 808

Level 1, 460 Church Street
North Parramatta NSW 2151

PO Box 2210
North Parramatta NSW 1750

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF FALL RIVER RESOURCES LTD

Report on the Financial Report

We have audited the accompanying financial report of Fall River Resources Ltd (the company) and Fall River Resources Ltd and Controlled Entities (the consolidated group), which comprises the balance sheet as at 30 September 2009, and the income statement, statement of changes in equity and cash flow statement for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' Responsibility for the Financial Report

The Directors of Fall River Resources Ltd are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Act 2001. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101: Presentation of Financial Statements, that compliance with the Australian equivalents to International Financial Reporting Standards (IFRS) ensures that the financial report comprising the financial statement and notes, complies with IFRS.

Auditor's Responsibility

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

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

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

Independence

In conducting our audit, we have complied with the independence requirements of the Corporations Act 2001. We confirm that the independence declaration required by the Corporations Act 2001, provided to the directors of Fall River Resources Ltd on 22 December 2009 would be in the same terms if it had been given to the directors at the time that this auditor's report was made.

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF FALL RIVER RESOURCES LTD (Cont'd)

Basis for Qualified Auditor's Opinion
Property and Equipment includes $381,159 in relation to the tenements. This valuation derives from a director's valuation. We have been unable to verify that this value is not impaired. Accordingly, Property and Equipment should be reduced by $381,159 and the loss for the year and deficiency in shareholders equity should be increased by $381,159.

Qualified Auditor's Opinion
In our opinion, except for the effect on the financial statements of the matter referred to in the preceding paragraph the financial report of Fall River Resources Ltd and Fall River Resources Ltd and Controlled Entities is in accordance with the Corporations Act 2001, including:

(i) giving a true and fair view of the company's and consolidated group's financial position as at 30 September 2009 and of their performance for the year ended on that date; and
(ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001.

The financial report also complies with international Financial Reporting Standards as disclosed in Note 1.

Report of the Remuneration Report
We have audited the Remuneration Report included on pages 10 to 12 of the Directors Report for the year ended 30 September 2009. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the Corporations Act 2001. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Auditor's Opinion
In our opinion, the Remuneration Report of Fall River Resources Ltd for the year ended 30 September 2009, complies with section 300A of the Corporations Act 2001.

Significant Uncertainty Regarding Going Concern
Without qualification to the opinion expressed above, we draw attention to Note 2 to the financial statements. As at 30 September 2009, the Company had a deficiency in shareholders equity of $3,962,174, and a loss for the year ended of $1,906,395. The Company's ability to continue as a going concern is dependent upon the successful completion of additional financing.

KS Black & Co
Chartered Accountants

Stuart H. Cameron

Stuart H. Cameron
Partner

Sydney, 22 December 2009

FALL RIVER RESOURCES LTD
AND CONTROLLED ENTITIES
ABN 86 115 229 984

CONSOLIDATED BALANCE SHEET
AS AT 30 SEPTEMBER 2009

	Consolidated		Company	
	2009	2008	**2009**	2008
	$	$	**$**	$
ASSETS				
Current				
Cash and cash equivalents	**42,659**	131,484	**42,659**	131,484
Restricted cash – prepaid debenture interest	**7,498**	268,088	**7,498**	268,088
Accounts receivable	**62,826**	414,399	**62,826**	24,206
Loan receivable (Note 4)	**59,543**	57,453	**-**	-
	172,526	871,424	**112,983**	423,778
Restricted Cash (Note 6)	**1**	318,715	**1**	318,715
Property and Equipment (Note 5)	**381,159**	899,316	**-**	3,027
Debenture Sinking Fund	**545**	445,490	**545**	445,490
Debenture Discount And Financing Costs	**-**	29,339	**-**	29,339
Loans to Controlled Entity	**-**	-	**5,902,399**	6,389,524
TOTAL ASSETS	**554,231**	2,564,284	**6,015,928**	7,609,873
LIABILITIES				
Current				
Accounts payable and accrued liabilities	**1,537,651**	1,213,997	**1,507,456**	1,186,671
Due to related parties (Note 12)	**551,880**	311,880	**551,880**	311,880
Interest bearing liabilities (Note 8)	**814,521**	879,981	**814,521**	879,981
	2,904,052	2,405,858	**2,873,857**	2,378,532
Asset Retirement Obligation	**156,543**	156,543	**156,543**	156,543
Convertible Debentures (Note 7)	**1,455,810**	2,073,247	**1,455,810**	2,073,247
	4,516,405	4,635,648	**4,486,210**	4,608,322
(Deficiency in)/Net Assets	**(3,962,174)**	(2,071,364)	**1,529,718**	3,001,551
SHAREHOLDERS' EQUITY				
Share Capital (Note 9)	**12,100,668**	12,100,668	**12,100,668**	12,100,668
Warrants (Note 9)	**119,034**	119,034	**119,034**	119,034
Foreign Exchange Reserve	**(62,934)**	(78,519)	**-**	-
Equity Portion Of Convertible Debenture (Note 7)	**57,919**	57,919	**57,919**	57,919
Accumulated Losses	**(16,176,861)**	(14,270,466)	**(10,747,903)**	(9,276,070)
(DEFICIENCY IN) /SHAREHOLDERS EQUITY	**(3,962,174)**	(2,071,364)	**1,529,718**	3,001,551

Contingent Liabilities (Note 10)
Commitments (Note 11)
Subsequent Events (Note 14)

The accompanying notes are an integral part of these consolidated financial statements.

FALL RIVER RESOURCES LTD
AND CONTROLLED ENTITIES
ABN 86 115 229 984

CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED 30 SEPTEMBER 2009

	Consolidated		Company	
	2009	2008	**2009**	2008
	$	$	**$**	$
Revenues				
Natural gas and petroleum	**2,068**	185,902	**-**	-
Expenses				
Directors fees	**142,383**	108,818	**142,383**	108,818
Debenture interest, discount amortization and accretion	**220,993**	420,951	**220,993**	420,951
Equipment depreciation	**3,027**	3,078	**3,027**	3,078
Foreign exchange loss	**(6,895)**	58,589	**(6,895)**	58,589
Interest on loans	**56,721**	107,009	**56,721**	67,481
Management fees	**58,000**	41,000	**58,000**	41,000
Office	**47,010**	49,198	**47,009**	49,198
Professional fees	**240,788**	204,386	**220,633**	181,501
Miscellaneous	**-**	4,718	**-**	4,718
Shareholder costs	**34,299**	42,718	**34,299**	42,718
Doubtful debts	**-**	55,564	**-**	55,564
Property investigation	**39,158**	291,558	**-**	121,456
Regulatory and filing fees	**29,866**	42,820	**29,358**	42,571
Salaries and benefits	**350,713**	252,029	**350,713**	252,029
Travel and promotion	**1,325**	3,068	**1,325**	3,068
	1,217,388	1,685,504	**1,157,566**	1,452,740
Loss Before Other Items	**(1,215,320)**	(1,499,602)	**(1,157,566)**	(1,452,740)
Other Items				
Current asset impairment expense	**(318,714)**	-	**(318,714)**	-
Natural gas and petroleum properties impairment expense	**-**	(781,161)	**-**	(505,252)
Natural gas and petroleum properties written off	**(474,235)**	(176,095)	**-**	-
Interest income	**-**	37,163	**-**	37,163
Other revenue	**101,874**	2,210	**4,447**	2,211
Loss Before Income Tax Expense	**(1,906,395)**	(2,417,485)	**(1,471,833)**	(1,918,618)
Income Tax Expense	**-**	-	**-**	-
Net Loss For The Year	**(1,906,395)**	(2,417,485)	**(1,471,833)**	(1,918,618)
Loss Per Share, Basic and diluted	**(0.021)**	(0.027)	**(0.016)**	(0.21)
Weighted Average Number Of Common Shares Outstanding, Basic and diluted	**90,536,522**	90,536,522	**90,536,522**	90,536,522

The accompanying notes are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 SEPTEMBER 2009

Consolidated Group	Share Capital	Foreign Currency Translation	Convertible Debentures	Accumulated Losses	Total
Balance 30 September 2007	12,219,702	-	57,919	(11,852,981)	424,640
Net loss for period	-	-	-	(2,417,485)	(2,417,485)
Transfer to reserves	-	(78,519)	-	-	(78,519)
Balance 30 September 2008	12,219,702	(78,519)	57,919	(14,270,466)	(2,071,364)
Net loss for period	-	-	-	(1,906,395)	(1,906,395)
Transfer to reserves	-	15,585	-	-	15,585
Balance 30 September 2009	12,219,702	(62,934)	57,919	(16,176,861)	(3,962,174)

Company	Share Capital	Foreign Currency Translation	Convertible Debentures	Accumulated Losses	Total
Balance 30 September 2007	12,219,702	-	57,919	(7,357,452)	4,920,169
Net loss for period	-	-	-	(1,918,618)	(1,918,618)
Transfer to reserves	-	-	-	-	-
Balance 30 September 2008	12,219,702	-	57,919	(9,276,070)	3,001,551
Net loss for period	-	-	-	(1,471,833)	(1,471,833)
Transfer to reserves	-	-	-	-	-
Balance 30 September 2009	12,219,702	-	57,919	(10,747,903)	1,529,718

The accompanying notes are an integral part of these consolidated financial statements.

FALL RIVER RESOURCES LTD
AND CONTROLLED ENTITIES
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CONSOLIDATED CASHFLOW STATEMENT
FOR THE YEAR ENDED 30 SEPTEMBER 2009

	Consolidated		Company	
	2009	2008	**2009**	2008
	$	$	**$**	$
Cash Flows Provided By (Used In)				
Operating Activities				
Net loss	**(1,906,395)**	(2,417,485)	(1,471,833)	(1,918,618)
Adjustment for items not requiring an outlay of cash:				
Debenture discount amortization and accretion	**220,993**	420,951	220,993	420,951
Equipment amortization	**3,027**	3,078	3,027	3,078
Unrealized foreign exchange loss	**(6,895)**	58,589	(6,895)	58,589
Impairment of current assets	**318,714**	781,161	318,714	-
Natural gas and petroleum properties written off	**474,235**	176,095	-	-
	(896,321)	(977,611)	(935,994)	(1,436,000)
Changes in non-cash working capital				
Accounts receivable	**351,573**	(362,876)	330,745	701,252
Restricted cash	**260,590**	(11,131)	260,590	(11,131)
Debenture financing costs and sinking funds	**474,284**	112,597	474,284	112,597
Accounts payable and accrued liabilities	**258,194**	313,157	320,785	348,111
	1,344,641	51,747	1,386,404	1,150,829
Net cash provided by / (used in) operating activities	**448,320**	(925,864)	450,410	(285,171)
Investing Activities				
Property and equipment - purchases	-	(76,594)	-	-
- disposals	-	615,299	-	-
Loan receivable	**2,090**	101,988	-	-
Net cash provided by / (used in) investing activities	**2,090**	640,693	-	-
Financing Activities				
Convertible debentures	**(617,437)**	-	(617,437)	-
Due to related parties	**240,000**	49,979	240,000	49,979
Net cash provided by / (used in)financing activities	**(377,437)**	49,979	(377,437)	49,979
Foreign Exchange Gain/(Loss) From Holding Cash	**(161,798)**	78,519	(161,798)	78,519
Increase (Decrease) In Cash and cash equivalents	**(88,825)**	(156,673)	(88,825)	(156,673)
Cash and cash equivalents, Beginning Of Year	**131,484**	288,157	131,484	288,157
Cash and cash equivalents, End Of Year	**42,659**	131,484	42,659	131,484

The accompanying notes are an integral part of these consolidated financial statements.

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

Management has prepared the general purpose consolidated financial report of the Company in accordance with the requirements of the Corporations Act 2001 and Australian Accounting Standards (including Australian Accounting Interpretations and other authoritative pronouncements of the Australian Accounting Standards Board). Compliance with these standards ensures compliance with International Financial Reporting Standards.

Management has also made estimates and assumptions that affect the amounts of assets, liabilities, revenues and expenses reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

The financial statements have been prepared on an accruals basis and are based on historical costs, modified where applicable by the measurement at fair value of selected non current assets, financial assets and financial liabilities.

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

a) Consolidation

The consolidated financial statements include the accounts of the Company, and its wholly owned subsidiary, Spring River Resources Ltd., a company incorporated to carry out the Company's resource operations in the United States of America ("U.S.A.").

b) Foreign Currency Translation

The Company's presentation currency is the Australian dollar. Transactions in foreign currencies are translated into Australian dollars as follows:

I) Monetary items, at the rate prevailing at the balance sheet date;
II) Non-monetary items, at the historical exchange rate; and
III) Revenues and expenses, at the rate in effect at the time of the transaction.

Gains or losses arising on translation are included in the income statement.

c) Property and Equipment

I) Oil and Gas Interests

The Company follows the full cost method of accounting for natural gas and petroleum property interests whereby all costs of acquisitions, exploring for and developing natural gas and petroleum reserves are initially capitalized into areas of interest. Such costs include land acquisition costs, geological and geophysical expenses, and carrying charges on non-producing properties, costs of drilling and overhead charges directly related to acquisition and exploration activities.

Areas of interest are assessed periodically to ascertain whether impairment has occurred.

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

II) Amortization

Costs capitalized are amortized on the unit-of-production method based on the estimated gross proved reserves as determined by independent petroleum engineers. Petroleum products and reserves are converted to a common unit of measure, using six thousand cubic feet of natural gas to one barrel of oil.

III) Office Equipment

Equipment is stated at cost less accumulated amortization, which is recorded over the useful lives of the assets on the declining balance basis at the rate of 30%.

d) Asset Retirement Obligations

The Company is required to recognize a liability for an asset retirement obligation on long-lived assets when a legal liability exists and the amount of the liability is reasonably determinable. Asset retirement obligations are calculated on discounted future payment estimates and the liability is recognised over the expected term of the obligation. Subsequent adjustments are made on a prospective basis when there are changes to the underlying assumptions. Corresponding amounts and adjustments are added to the carrying value of the asset and amortized.

e) Financing Fees

Discount and deferred financing fees arising from debt issues are amortized over the term of debt applying the effective interest rate method.

f) Revenue Recognition

Revenue from the sale of natural gas, natural gas liquids and crude oil is recognized when title passes from the Company to its customers. Costs associated with the operating of wells and facilities, delivery and production-based royalty expenses, are recognized in the same period in which the related revenue is earned.

g) Loss Per Share

Loss per share is calculated based on the weighted average number of common shares outstanding. The Company uses the treasury stock method to compute the dilutive effect of options, warrants and other similar instruments. Under this method, the dilutive effect on loss per share is calculated to reflect on the use of the proceeds that could be obtained upon the exercise of options and warrants.

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

It assumes that the proceeds would be used to purchase common shares at the average market price during the period. Basic and diluted loss per share are equal as the effects of the assumed conversion of outstanding options and warrants would be anti-dilutive.

h) Income Taxes

The Company follows the balance sheet method of accounting for income taxes. Under this method future income tax assets and liabilities are determined based on differences between the financial statements carrying values and their respective income tax basis (temporary differences) and on unclaimed losses carried forward. Future income tax assets and liabilities are measured using the tax rates expected to be in effect when the temporary differences are likely to reverse or when losses are expected to be utilized. The effect on future income tax assets and liabilities of a change in tax rates is included in operations in the period in which the change is enacted or substantially assured. The amount of deferred income tax assets recognized is limited to the amount of the benefit that has a probability of recovery.

i) Financial Instrument Policies

Recognition and Initial Measurement

Financial instruments, incorporating financial assets and financial liabilities, are recognised when the entity becomes a party to the contractual provisions of the instrument. Trade date accounting is adopted for financial assets that are delivered within timeframes established by marketplace convention.

Financial instruments are initially measured at fair value plus transactions costs where the instrument is not classified as at fair value through profit or loss. Transaction costs related to instruments classified as at fair value through profit or loss are expensed to profit or loss immediately. Financial instruments are classified and measured as set out below.

Derecognition

Financial assets are derecognised where the contractual rights to receipt of cash flows expires or the asset is transferred to another party whereby the entity no longer has any significant continuing involvement in the risks and benefits associated with the asset. Financial liabilities are derecognised where the related obligations are either discharged, cancelled or expired. The difference between the carrying value of the financial liability extinguished or transferred to another party and the fair value of consideration paid, including the transfer of non-cash assets or liabilities assumed, is recognised in profit or loss.

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Classification and Subsequent Measurement

i. Financial assets at fair value through profit or loss

Financial assets are classified at fair value through profit or loss when they are held for trading for the purpose of short term profit taking, where they are derivatives not held for hedging purposes, or designated as such to avoid an accounting mismatch or to enable performance evaluation where a group of financial assets is managed by key management personnel on a fair value basis in accordance with a documented risk management or investment strategy. Realised and unrealised gains and losses arising from changes in fair value are included in profit or loss in the period in which they arise.

ii. Loans and receivables

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

iii. Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets that have fixed maturities and fixed or determinable payments, and it is the group's intention to hold these investments to maturity. They are subsequently measured at amortised cost using the effective interest rate method.

iv. Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are either designated as such or that are not classified in any of the other categories. They comprise investments in the equity of other entities where there is neither a fixed maturity nor fixed or determinable payments.

v. Financial Liabilities

Non-derivative financial liabilities (excluding financial guarantees) are subsequently measured at amortised cost using the effective interest rate method.

Fair value

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

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment

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

j) New Standards but not yet effective

A number of Australian Accounting Standards have been issued and amended and are applicable to the Company but not yet effective. These have not been adopted at reporting date. It is not anticipated that these new or amended standards and interpretations will have a material impact in the financial report.

2. NATURE OF OPERATIONS AND GOING CONCERN

a) The Company was incorporated under the Alberta *Business Corporations Act* as 777231 Alberta Ltd. on February 5, 1998. On April 24, 1998, it changed its name to Trent-Severn Watershed Ltd. and on November 14, 2002 to Fall River Resources Ltd. The Company registered as a foreign company in Australia on August 29, 2005. The principal business activities include the evaluation, acquisition, exploration and development of natural gas and petroleum properties.

b) At September 30, 2009, the Company had a deficiency in shareholders equity of $3,962,174, and loss for the year then ended of $1,906,395.

These consolidated financial statements have been prepared on the basis of accounting principles applicable to a going concern, which assumes the realization of assets and discharge of liabilities in the normal course of business.

The Company's ability to continue as a going concern is dependent upon the successful completion of additional financing, and upon its ability to attain profitable operations. Management intends to seek further funds through public offerings and private placements to finance its ongoing evaluation, acquisition, exploration and development activities. These consolidated financial statements do not give effect to any adjustments that would be necessary should the Company not be able to continue as a going concern.

3. FINANCIAL INSTRUMENTS

The Company classifies its financial instruments into loans and receivables, held-to-maturity, held-for-trading or available-for-sale categories.

Financial Risk Management

The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework.

Financial Instrument Risk Exposure

The Company is exposed in varying degrees to a variety of financial instrument related risks. The Board approves and monitors the risk management process.

The Company is exposed to the following risks related to its financial assets and liabilities:

Currency Risk

The Company is exposed to foreign currency fluctuations to the extent expenditures incurred are not denominated in Canadian dollars. The Company has not entered into any foreign currency contracts to manage foreign currency risk.

Credit Risk

The Company is not exposed to significant credit risk arising from its financial instruments. This risk is minimized as the majority of cash and restricted cash have been placed with major financial institutions.

The maximum exposure to credit risk at balance date is as follows:

	Consolidated		Company	
	2009	**2008**	**2009**	**2008**
Accounts receivable	62,826	414,399	62,826	24,206
Loan receivable	59,543	57,453	-	-

The maximum exposure to credit risk by country is as follows:

	Consolidated		Company	
	2009	**2008**	**2009**	**2008**
Australia	56,791	18,171	-	-
United States / Canada	65,578	453,681	62,826	24,206

3. FINANCIAL INSTRUMENTS (Continued)

Market and Interest Rate Risk

The only significant market risk exposure to which the Company is exposed is interest rate risk. Interest rate risk consists of two components:

a) To the extent that payments made or received on the Company's monetary assets and liabilities are affected by changes in prevailing market interest rates, the Company is exposed to interest rate cash flow risk.

b) To the extent that changes in prevailing market interest rates differ from the interest rates in the Company's monetary assets and liabilities, the Company is exposed to interest rate price risk.

The Company's convertible debentures and notes payable are principally at fixed interest rates and, therefore, the Company's exposure to interest rate cash flow risk over the term of the debentures is minimal. The Company is exposed to interest rate price risk on its notes payable and convertible debentures to the extent that changes in prevailing market interest rates differ from the fixed interest rate.

			Fixed Interest Maturing in			
	%	Floating Interest Rate	1 Year or Less	Over 1 to 5 Years	Non-Interest Bearing	Total
CONSOLIDATED						
2009						
Financial Assets						
Cash and cash equivalents	3	42,659				42,659
Restricted cash – prepaid Debenture interest	12	7,498				7,498
Accounts receivable					62,826	62,826
Loan receivable					59,543	59,543
Restricted cash					1	1
Debenture Sinking Fund	12	545				545
Financial Liabilities						
Accounts payable and accrued liabilities					1,537,651	1,537,651
Due to related parties					551,880	551,880
Interest bearing liabilities	8		814,521			814,521
Convertible Debentures	12		1,455,810			1,455,810

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 SEPTEMBER 2009

3. FINANCIAL INSTRUMENTS (Continued)

	%	Floating Interest Rate	Fixed Interest Maturing in 1 Year or Less	Fixed Interest Maturing in Over 1 to 5 Years	Non-Interest Bearing	Total
COMPANY						
2009						
Financial Assets						
Cash and cash equivalents	3	42,659				42,659
Restricted cash – prepaid Debenture interest	12	7,498				7,498
Accounts receivable					62,826	62,826
Loan receivable					-	-
Restricted cash					1	1
Debenture Sinking Fund	12	545				545
Financial Liabilities						
Accounts payable and accrued liabilities					1,507,456	1,507,456
Due to related parties					551,880	551,880
Interest bearing liabilities	8		814,521			814,521
Convertible Debentures	12		1,455,810			1,455,810

	%	Floating Interest Rate	Fixed Interest Maturing in 1 Year or Less	Fixed Interest Maturing in Over 1 to 5 Years	Non-Interest Bearing	Total
CONSOLIDATED						
2008						
Financial Assets						
Cash and cash equivalents	4	131,484				131,484
Restricted cash – prepaid Debenture interest	12	268,088				268,088
Accounts receivable					414,399	414,399
Loan receivable					57,453	57,453
Restricted cash					318,715	318,715
Debenture Sinking Fund	12	445,490				445,490
Financial Liabilities						
Accounts payable and accrued liabilities					1,213,997	1,213,997
Due to related parties					311,880	311,880
Interest bearing liabilities	8		879,981			879,981
Convertible Debentures	12		2,073,247			2,073,247

3. FINANCIAL INSTRUMENTS (Continued)

	%	Floating Interest Rate	Fixed Interest Maturing in: 1 Year or Less	Fixed Interest Maturing in: Over 1 to 5 Years	Non-Interest Bearing	Total
COMPANY						
2008						
Financial Assets						
Cash and cash equivalents	4	131,484				131,484
Restricted cash – prepaid	12	268,088				268,088
Debenture interest						24,206
Accounts receivable					-	-
Loan receivable						
Restricted cash					318,715	318,715
Debenture Sinking Fund	12	445,490				445,490
Financial Liabilities						
Accounts payable and accrued liabilities					1,186,671	1,186,671
Due to related parties					311,880	311,880
Interest bearing liabilities	8		879,981			879,981
Convertible Debentures	12		2,073,247			2,073,247

Sensitivity Analysis

The following tables demonstrate the sensitivity to a change in interest rates in relation to the Group's loss and assets.

The Group's exposure to interest rate rise extends only to financial assets as financial liabilities are the subject of fixed interest rates.

Consolidated – 2009	Carrying Amount AUD	+ 1.0% of AUD interest rate	-1.0% of AUD interest rate
Financial assets	50,702	507	(507)
Tax charge 30%	-	(152)	152
	50,702	355	(355)

Company – 2009	Carrying Amount AUD	+ 1.0% of AUD interest rate	-1.0% of AUD interest rate
Financial assets	50,702	507	(507)
Tax charge 30%	-	(152)	152
	50,702	355	(355)

The above analysis assumes all other variables remain constant.

3. FINANCIAL INSTRUMENTS (Continued)

Consolidated – 2008	Carrying Amount AUD	+ 1.0% of AUD interest rate	-1.0% of AUD interest rate
Financial assets	845,062	8,451	(8,451)
Tax charge 30%	-	(2,535)	2,535
	845,062	5,916	(5,916)

Company– 2008	Carrying Amount AUD	+ 1.0% of AUD interest rate	-1.0% of AUD interest rate
Financial assets	845,062	8,451	(8,451)
Tax charge 30%	-	(2,535)	2,535
	845,062	5,916	(5,916)

Liquidity Risk

The Company ensures that there is sufficient capital in order to meet short-term business requirements, after taking into account the Company's holdings of cash. The Company's cash is invested in business accounts, which are available on demand.

Maturity Analysis	Carrying Amount $	Contractual Cash flows $	< 6 months $	6-12 months $	1-3 years $
Consolidated 2009					
Accounts payable	1,537,651	1,537,651	1,537,651		
Related parties	551,880	551,880	551,880		
Interest bearing liabilities	814,521		814,521		
Convertible debentures	1,455,810		1,455,810		
Consolidated 2008					
Accounts payable	1,213,997	1,213,997	1,213,997		
Related parties	311,880	311,880	311,880		
Interest bearing liabilities	879,981		879,981		
Convertible debentures	2,073,247		2,073,247		
Company 2009					
Accounts payable	1,507,456	1,507,456	1,507,456		
Related parties	551,880	551,880	551,880		
Interest bearing liabilities	814,521		814,521		
Convertible debentures	1,455,810		1,455,810		
Company 2008					
Accounts payable	1,186,671	1,186,671	1,186,671		
Related parties	311,880	311,880	311,880		
Interest bearing liabilities	879,981		879,981		
Convertible debentures	2,073,247		2,073,247		

4. LOAN RECEIVABLE

The loan is unsecured, bears no interest and is repayable on demand.

5. PROPERTY AND EQUIPMENT

	COST	ACCUMULATED DEPRECIATION AND AMORTIZATION	WRITE DOWN OF OIL AND GAS INTERESTS	2009 NET BOOK VALUE	2008 NET BOOK VALUE
Undeveloped oil and gas interests	$ 1,162,034	$ (275,910)	$ (515,130)	$ 370,994	$ 886,124
Asset retirement obligation	10,165	-	-	10,165	10,165
Office equipment	6,105	(6,105)	-	-	3,027
	$ 1,178,304	$ (282,015)	$ (515,130)	$ 381,159	$ 899,316

Movements in carrying amounts

Movements in carrying amounts for each class of property and equipment during the current financial year.

	Consolidated 2009 $	Consolidated 2008 $	Company 2009 $	Company 2008 $
Oil and gas interests	-	806,842	-	-
Additions	-	(49,458)	-	-
Disposals	-	(615,299)	-	-
Amount written off	-	(142,085)	-	-
Balance 30 September 2009	-	-	-	-
Undeveloped oil and gas interest	886,124	1,637,893	-	-
Unrealised exchange (loss)	(40,895)	-	-	-
Prior period adjustment	-	(47,202)	-	
Additions	-	76,594	-	-
Amount written off	(474,235)	-	-	-
Amortization	-	(781,161)	-	-
Balance 30 September 2009	370,994	886,124	-	-
Asset Retirement Obligations				
Carrying value at beginning	10,165	44,175		
Additions	-	-	-	-
Amount written-off	-	(34,010)	-	-
Balance 30 September 2009	10,165	10,165	-	-
Office equipment				
Carrying value at being	3,027	6,105	3,027	6,105
Additions	-	-	-	-
Disposals	-	-	-	-
Depreciation expense	(3,027)	(3,078)	(3,027)	(3,078)
Balance 30 September 2009	-	3,027	-	3,027

6. RESTRICTED CASH

On March 23, 2006, the Company purchased AUD$320,000 of non-refundable trade dollars from a public Australian company engaged in bartering services including accounting, legal, printing, office supplies and office space in addition to offering the Company's shares to its members for investment. As at September 30, 2009, AUD$318,715 of the trade dollars remain. An amount of $318,714 has been provided against the carrying value of this asset as at 30 September 2009.

7. CONVERTIBLE DEBENTURES

	Consolidated		Company	
	2009	2008	**2009**	2008
	$	$	**$**	$
Convertible debentures	**1,458,619**	2,080,918	**1,458,619**	2,080,918
Equity portion of convertible debentures	**(57,919)**	(57,919)	**(57,919)**	(57,919)
Interest accrual	**34,235**	34,235	**34,235**	34,235
Foreign exchange (gain) loss	**20,875**	16,013	**20,875**	16,013
Liability portion of convertible debentures	**1,455,810**	2,073,247	**1,455,810**	2,073,247

a) On September 23, 2005, the Company closed a convertible note financing for a total of $1,158,776. The Company received gross proceeds of $1,042,900, a discount of $115,876. The notes bear simple interest of 12% payable quarterly, and matured November 30, 2008. At the discretion of the note holder, notes may be converted into share capital units comprised of one ordinary share of the Company and one half of one share purchase warrant exercisable for one year from date of issue, subject to an expiry no later than November 30, 2008. Note conversion prices range from $0.20 to $0.35 per unit over their life and whole warrants are exercisable at prices ranging from $0.24 to $0.42 per unit over their life. Fees amounting to $128,382 were recorded and deferred in connection with the offering, including $23,182 recorded for agent's warrants. A total of 245,026 agent's warrants were issued exercisable until September 23, 2007 at a price of $0.20 per warrant and expired without being exercised.

b) On April 24, 2006, the Company closed a convertible note financing for a total of $953,333. The Company received gross proceeds of $858,000, a discount of $95,333. The notes bear simple interest of 12% payable quarterly, and matured November 30, 2008. At the discretion of the note holder, notes may be converted into share capital units comprised of one ordinary share of the Company and one half of one share purchase warrant exercisable for one year from date of issue, subject to an expiry no later than November 30, 2008. Note conversion prices range from $0.20 to $0.35 per unit over their life and whole warrants are exercisable at prices ranging from $0.24 to $0.42 per unit over their life. Fees amounting to $74,971 were recorded and deferred in connection with the offering, including $20,595 recorded for agent's warrants. A total of 331,760 agent's warrants were issued exercisable until April 24, 2007 at a price of $0.20 per warrant and until April 24, 2008 at a price of $0.25 per warrant.

In accordance with Australian Accounting Standards, the convertible notes have been split between their liability and equity components.

In accordance with the terms of the debentures, the Company is required to deposit, in trust, a minimum amount equivalent to two month's interest on the debenture outstanding at the time of the deposit. The amount deposited in trust at September 30, 2009 was $7,498 (2008 - $268,088).

7. CONVERTIBLE DEBENTURES (Continued)

In addition, the Company was required to accumulate, in trust, minimum sinking fund balances calculated as a percentage of the principal amount of debentures then outstanding as follows:

SINKING FUND CONTRIBUTION DATE	SINKING FUND BALANCE
June 30, 2006	10%
June 30, 2007	20%
June 30, 2008	30%

On November 28, 2008 debenture holders received payments totalling $622,299 representing their proportionate entitlement to these trust funds being an amount equal to 30% of the principal amount of the outstanding debentures at maturity.

The Company is currently negotiating with debenture holders in relation to the redemption of the balance of the principal amount of the debentures and accrued interest.

8. INTEREST BEARING LIABILITIES

	Consolidated and Company	
MATURITY DATE	**September 30, 2009**	**September 30, 2008**
September 30, 2009	$ 814,521	$ 879,981

Accrued interest to date in the amount of $116,585 is included in the balance.

9. SHARE CAPITAL

a) Shares Issued and Outstanding

	Consolidated and Company			
	NUMBER			
	September 30, 2009	September 30, 2008	**September 30, 2009**	September 30, 2008
Balance, beginning of year	**90,536,522**	90,536,522	**$ 12,100,668**	$ 12,100,668
Balance, end of year	**90,536,522**	90,536,522	**$ 12,100,668**	$ 12,100,668

There were no shares issued by the Company during the twelve month period ended September 30, 2009 or September 30, 2008.

9. SHARE CAPITAL (Continued)

b) Warrants

	Consolidated and Company			
	NUMBER		CONSIDERATION	
	2009	2008	**2009**	2008
Expired	**(41,773,972)**	(18,049,210)	**$ -**	$ -
Issued in private placement	**-**	-	**-**	-
	(41,773,972)	(18,049,210)		
Balance, beginning of year	**41,773,972**	59,823,182	**119,034**	119,034
Balance, end of year	**-**	41,773,972	**$ 119,034**	$ 119,034

As at September 30, 2009 the Company had no outstanding warrants on issue. The 41,773,972 warrants issued in 2007 pursuant to a private placement expired on 9 May 2009 unexercised.

c) Share Options

The Company adopted its current stock option plan (the "Plan") effective December 19, 2005. Under the Plan, the Company may grant options to acquire ordinary shares to a maximum of 10% of the issued and outstanding common shares at the date of grant. The fair value of share options is estimated using the Black-Scholes option pricing model.

The Company has the following history of stock options outstanding:

	NUMBER OF OPTIONS	WEIGHTED AVERAGE EXERCISE PRICE
Balance, September 30, 2008	2,690,000	$ 0.18
Granted	-	-
Expired	(250,000)	$ 0.18
Balance, September 30, 2009	2,440,000	$ 0.18

All options granted had exercise prices higher than market on the day of grant.

The following table summarizes information about the stock options outstanding at September 30, 2009:

EXPIRY DATE	EXERCISE PRICE	NUMBER OF OPTIONS OUTSTANDING	NUMBER OF OPTIONS EXERCISABLE
November 10, 2009	$ 0.18	750,000	750,000
July 13, 2010	$ 0.18	650,000	650,000
November 4, 2010	$ 0.18	1,040,000	1,040,000
	$ 0.18	2,440,000	2,440,000

10. CONTINGENT LIABILITIES

a) The Company had an employment agreement in place with a director effective until October 31, 2010. Remuneration payable pursuant to that agreement was $250,000 per annum. The director relinquished his employment with the Company effective February 29, 2008.

The Director subsequently disputed the repudiation of his employment contract and issued a Statutory Demand on the Company dated 21 July 2008 in the amount of $130,306.

The Company had initiated a counter claim against the director. Pursuant to consent orders filed in the Supreme Court of New South Wales on 30 October 2008 the parties agreed:

1. That the Statutory Demand served on the Company dated July 21, 2008 in the amount of $130,306 be set aside.
2. The Company's costs be paid as assessed or agreed

The Company's counter claim is now being held in abeyance. Subsequent to the setting aside of the statutory demand served on the Company, the Director and his wife have lodged complaints with the Australian Government Workplace Ombudsman.

The Director is claiming outstanding annual leave entitlements of $77,010 and outstanding superannuation to the amount of $29,327.

The Company disputes that any amounts are owing and has responded to requisitions received from the Workplace Ombudsman and has been represented at mediation meetings.

The Directors wife's complaint states that she is owed the following:

- Gross salary to the amount of $26,693
- Outstanding annual leave to the amount of $4,703
- Outstanding superannuation to the amount of $6,532

The Company disputes the amount of this claim. Except for $6,779 paid during the year against outstanding wages and superannuation owing to the Directors wife. There are no amounts provided in the Company's financial statements for any of the above mentioned items.

b) The Company will be liable for asset retirement obligations with respect to one of its oil and gas tenements that was abandoned during the period. The Company will accrue the related asset retirement obligation when the costs are known.

c) The Company made a late payment of the cash call for one of its wells which has resulted in legal issues. The matter that remains to be resolved with the operator and penalties, if any, will be accrued when the Company has reached a resolution with the operator.

11. COMMITMENTS

The Company has an employment agreement with one employee who is also a director. The remuneration payable is $240,000pa. This agreement is in effect until October 31, 2010. Subject to shareholder approval for the transaction described in the MOU this agreement will terminate on January 8, 2010.

12. RELATED PARTY TRANSACTIONS

I) Related Party Transactions

Related party transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties. Amounts due to related parties are unsecured with no specific terms of repayment.

During the year, salaries of $240,000 (2008 - $265,747) and Directors fees of $150,483 (2008 - $108,818) were paid or accrued by the Company to Directors.

Loans payable includes $238,701 due to a Company owned by a Director of the Company. A Loan of $52,005 including interest was repaid to a Company owned by a Director of the Company.

Joint Venture contributions were paid on behalf of a Company of which one of its Directors is also a Director of the Company. The balance of loans owing at balance date was $59,543. There is a corresponding loan from this Company of $100,000 at balance date.

Interest paid or accrued on convertible debentures owing to the related parties amounted to $777 (2008 - $6,385).

Office accommodation and administration fees of $72,000 (2008 – 24,600) were paid or accrued to a Company of which two of the Company's Director's are also Directors. A Loan payable of $20,175 including interest is payable to this Company.

Loans were made available by a Company of which one of its Directors is also a Director of the Company. The loans are unsecured and accrue interest at 8% pa. the balance of the loans at balance date including interest is $633,047.

12. RELATED PARTY TRANSACTIONS (Continued)

II) Key Management personnel

Key management personnel include the directors and joint company secretary.

The names of persons who were directors of the Company at any time during the financial year were:
B W McLeod
J Mulready
S Pearce
D Sutton

D L Hughes is a Joint Company Secretary.
S Pearce is a Joint Company Secretary.

III) Remuneration of key management personnel

Shares or options over unissued shares in the Company held during the financial year by any key management personnel of the Company including their related parties as at 30 September 2009 are disclosed in the Note 13 to the Directors Report. No movements occurred during the year.

The full Board of Directors sets remuneration policies and practices generally and makes specific recommendations on remuneration packages and other terms of employment for Executive Directors, other Senior Executives and Non-Executive Directors.

Executive remuneration and other terms of employment are reviewed annually having regard to performance against goals set at the start of the year, relevant comparative information and independent expert advice. As well as basic salary, remuneration packages include superannuation. Directors and executives are also able to participate in an Employee Share Acquisition Share Plan.

Remuneration packages are set at levels that are intended to attract and retain executives capable of managing the consolidated group's operations.

Remuneration of Non-Executive Directors is determined by the Board within the maximum amount approved by shareholders from time to time.

Additional information of key management personnel is disclosed in the Directors Report.

13. INCOME TAXES

The Company is subject to income taxes on its non-consolidated financial statements in Canada and the U.S.A. The consolidated provision for income taxes varies from the amount that would be computed from applying the aggregate federal and provincial income tax rates to the loss before income taxes as follows:

	Consolidated		Company	
	2009	2008	**2009**	2008
	$	$	**$**	$
Prima facie income tax expense	**(571,586)**	(725,246)	**(441,550)**	(575,585)
Temporary differences	**-**	-	**-**	-
Unrecognized tax losses	**571,586**	725,246	**441,550**	575,585
	-	-	**-**	-

The significant components of the Company's future income tax assets are as follows:

	Consolidated	
	2009	2008
	$	$
Non-capital losses carried forward	**3,590,223**	3,018,637
Resource deductions	**1,903,412**	1,903,412
Share issue costs carried forward	**219,930**	219,930
Valuation allowance for future income tax assets	**(5,713,565)**	(5,141,979)
	-	-

The Company has available tax losses of approximately CAD$5,928,000 that may be offset against future Canadian taxable income.

The Company has resource pools of approximately CAD$7,111,000 available to offset future taxable income. The tax benefit of these amounts is available for carry-forward indefinitely, but has not been recognised.

14. SUBSEQUENT EVENTS

- On 15 October 2009 the Company announced the signing of a Memorandum of Understanding ("MOU") between Fall River Resources Limited (Fall River) and Earth Heat Limited ("Earth Heat") which provides for the acquisition by Fall River of all of the issued shares in Earth Heat. Consideration for the acquisition is $2.6m to be satisfied by the allotment and issue of 260.0m new Fall River shares at $0.01. Earth Heat hold a number of geothermal exploration leases and lease applications.

  The MOU further provides for the following:

  - Shareholder agreement to a capital consolidation on the basis of one new share for each three shares currently held.

14. SUBSEQUENT EVENTS (Continued)

- The consent of Fall River Noteholders and creditors, who consequent to the capital consolidation being approved, will in aggregate be offered on a pro rata basis a total of 69.0m new Fall River Shares in satisfaction of their outstanding obligations.

- A capital raising of not less than $2,000,000 to sophisticated investors within 3 months of shareholders approval of the transaction.

- Allotment of 5.0m new Fall River shares to a Director in part satisfaction of claims for remuneration. The balance of those claims will be satisfied by a cash payment of $40,000.

- Allotment of 40.0m new Fall River shares to T J Mann & Associates Pty Ltd. This fee is inclusive of the costs associated with the $2 million capital raising and for the introduction of the transaction, and the raising of at least $120,000 in new capital for working capital purposes.

- The payment of debt to Earth Heat creditors to a maximum of $33,000.

The transaction and its completion is subject to the satisfactory completion of due diligence and the satisfactory completion of the relevant purchase and sale agreement.

At the completion of the transaction and following the proposed capital raising the Company will have approximately 604m new shares on issue.

In addition the transaction requires the approval of Fall River shareholders. A special meeting of members is scheduled to be held on 8 January 2010 to consider the proposal.

Forming part of the information circular was a report from Alpha Securities Pty Limited who were retained to consider and prepare an independent expert's report in relation to the proposal as a whole, and its effect on shareholders. The independent expert has concluded that the proposed acquisition of all the fully paid shares in Earth Heat Limited is fair and reasonable to non-associated shareholders of Fall River Resources Limited.

- The Company had on issue 750,000 options exercisable at $0.18 prior to 10 November 2009.

  None of these options were exercised prior to their expiry date and as a consequence have lapsed.

- On 22 December 2009 the financial report was authorised for issue by a resolution of Directors.

15. MANAGEMENT OF CAPITAL

The Company manages its cash, ordinary shares, stock options and warrants as capital. The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to pursue the development of its mineral properties and to maintain a flexible capital structure, which optimizes the costs of capital at an acceptable risk. The Company does not have any externally imposed capital requirements to which it is subject.
The Company manages the capital structure and makes adjustment to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Company may attempt to issue new shares, issue debt, acquire or dispose of assets, or adjust the amount of cash and cash equivalents.

In order to facilitate the management of its capital requirements, the Company prepares expenditure budgets that are updated as necessary depending on various factors, including successful capital deployment and general industry conditions.

16. AUDITORS REMUNERATION

Details of the amounts paid or payable to the auditors for services provided during the year are set out below:

	Consolidated		Company	
	2009	2008	2009	2008
	$	$	$	$
Audit and review of financial statements				
- SmytheRatcliffe	-	45,000	-	45,000
- K S Black & Co	30,800	20,000	30,800	20,000
Other assurance services	1,600	-	1,600	-
	32,400	65,000	32,400	65,000

17. SEGMENT REPORTING

The consolidated entity operates predominately in one industry in North America. The principal activities of the consolidated group is the continued exploration for oil and gas.

CORPORATE GOVERNANCE STATEMENT

Overview

The Company and the Board of Directors are committed to achieving and demonstrating the highest standards of corporate governance and aim to comply with the "Principles of Good Corporate Governance and Best Practice recommendations" set by the ASX Corporate Governance Council.

However, given the current size of both the Company's operations and the Board of Directors, it is not appropriate, cost effective or practical to comply fully with those principles and recommendations.

Where a recommendation has not been followed, this fact has been disclosed together with the reasons for the departure.

Consistent with the ASX best practice recommendations, the Company's corporate government practices are regularly reviewed.

Compliance with ASX Corporate Governance Council best practice recommendations

The ASX listing rules requires public listed companies to include in their annual report a statement regarding the extent to which they have adopted the ASX Corporate Governance Council best practice recommendations.

This statement provides details of the Company's adoption of the best practice recommendations.

Principle 1 – Lay solid foundations for management and oversight

Companies should establish and disclose their respective roles and responsibilities of Board and management.

Board Responsibilities

The Board of Directors is accountable to shareholders for the performance of the Group. In carrying out its responsibilities, the Board undertakes to serve the interest of shareholders honestly, fairly and diligently.

The Board's responsibilities are encompassed in a formal charter published on the Company's website. The charter is reviewed annually to determine whether any changes are necessary or desirable.

The responsibilities of the Board include:

- Reporting to shareholders and the market;
- Ensuring adequate risk management processes exist and are complied with;
- Reviewing internal controls and external audit reports;
- Ensuring regulatory compliance;
- Monitoring financial performance, including approval of the annual and half-yearly financial reports and liaison with the Company auditors;
- Reviewing the performance of senior management;
- Monitoring the Board composition, Director selection and Board processes and performance;
- Validating and approving corporate strategy;
- Reviewing the assumptions and rationale underlying the annual plans; and
- Authorising and monitoring major investment and strategic commitments.

Directors Education

The Company issues a formal letter of appointment for new Directors setting out the terms and conditions relevant to that appointment and the expectations of the role of the director. The Company also provides a formal induction process which provides key information on the nature of the business and its operations.

Continuing education is provided via the regular Board updates.

Role of Chairman

The Chairman is appointed by fellow board members and acts as the link between the board and the CEO.

He acts as the link between the board and the Company, establishing and maintaining an effective working relationship with the CEO. The Chairman sets the tone for the board, including the establishment of a common purpose. He is responsible for chairing board meetings and shaping the agenda in relation to goals, strategy, budget and executive performance.

The Chairman ensures all board members contribute and reach consensus in making decisions. He also assists in the selection of board committee members.

The Chairman provides direction to the board in matters of corporate governance.

The Chairman's other responsibilities include:

- Ensuring that general meetings are conducted efficiently and that shareholders have adequate opportunity to air their views and obtain answers to their queries.
- Present the view of the Board formally.

Role of Chief Executive Officer

The Board delegates responsibility for implementing the strategic direction and for managing the day to day operations of the Company to the CEO.

There are clear lines of communication established between the Chairman and CEO to ensure that the responsibilities and accountabilities of each are clearly understood.

The CEO has a formal service contract in place setting out duties, responsibilities, rights, conditions of service and termination entitlements. Performance is assessed against pre-determined objectives on an annual basis or more frequently if required.

Evaluating Performance of Senior Executives

The Board evaluates the performance of the senior executives and discharges its responsibilities in relation to remuneration of executives. In meeting this purpose, the Board's duties include (among others):

- regularly reviewing the executive remuneration policy of the Company to ensure that it is clearly linked to the performance of the Company and it motivates senior executives to pursue both short term deliverables and long term growth;
- reviewing all aspects of the remuneration (including base pay, incentive payments, equity awards, retirement rights and service contracts) and any proposed change to the terms of employment of the CEO and his or her direct reports;
- developing and reviewing appropriate succession plans for key executives; and
- reviewing the recruitment, retention and termination policies and procedures for senior executives.

The Board has available to it the services of independent professional advisers to assist in the search for high calibre people at all levels and to ensure that the terms and conditions offered by the Company are competitive with those offered by comparable companies.

Principle 2 – Structure the Board to add value

Companies should have a Board of an effective composition, size and commitment to efficiently discharge its responsibilities and duties.

Composition of the Board

At the date of this report, the Board is comprised of one Executive Director and three Non-Executive Directors. The Chairman is a Non-Executive Director.

The Board has determined that three non-executive Directors are independent.

In determining independence the Board has regard to the guidelines of Directors' independence in the ASX Corporate Governance Council and Best Practice Recommendations and other best practice guidelines.

Each director's independent status is regularly assessed by the Board.

The Company does not comply with recommendation 2.4 which provides that the Board should establish a nominations committee. The Board considers that it is not of sufficient size to justify the establishment of a separate nominations committee.

The Board considers that its composition provides for the timely and efficient decision making required for the Company in its current circumstances.

The Board's size and composition is subject to limits imposed by the Company's constitution which provides for a minimum of three Directors and a maximum of set by ordinary resolution of members.

Details of the members of the Board, their experience, expertise and qualifications are set out in the Directors Report on page 8.

The position/status and term in office of each Director at the date of this report is as follows: -

Name of Director	Position/Status	Term in Office
David Sutton	Chairman – Non-Executive	28 months
Bruce McLeod	Non-Executive Director	28 months
Jack Mulready	Technical Director - Executive	48 months
Stephen Pearce	Non-Executive Director	60 months

The Board met 9 times during the financial year. Directors attendance is set out on page 9 in the Directors Report.

Access to independent professional advice

All Directors are required to bring an independent judgement to bear on Board decisions.

To facilitate this, each Director has the right of access to all relevant Company information and to the Company's executives. The Directors also have access to external resources as required to fully discharge their obligations as Directors of the Company. The use of this resource is co-ordinated through the Chairman of the Board.

Nomination committee

The role of the nominations committee is undertaken by the full Board of Directors.

The Board reviews its composition on an annual basis to ensure that the Board has the appropriate mix of expertise and experience. When a vacancy exists, for whatever reasons, or where it is considered that the Board would benefit from the services of a new Director with particular skills, the Board will select appropriate candidates with relevant qualifications, skills and experience. External advisors may be used to assist in such a process. The Board will then appoint the most suitable candidate who must stand for election at the next general meeting of shareholders.

For Directors retiring by rotation, the Board assesses that director before recommending re-election.

The Australian Securities Exchange Corporate Governance Council's "Principles of Good Corporate Governance and Best Practice Recommendations" recommends the appointment of a Nomination

Committee for prospective Board appointments. The Board considers the Company and the Board are currently not of sufficient size to justify the establishment of a Separate Nomination Committee.

Board performance evaluation

The Company has processes in place to review the performance of the Board and its committees and individual Directors. Each year the Board of Directors give consideration to broad corporate governance matters, including the relevance of existing committees and to reviewing its own and individual Directors' performance. The Chairman is responsible for monitoring the contribution of individual Directors and consulting with them in any areas of improvement.

Principle 3 – Promote ethical and responsible decision making

Companies should actively promote ethical and responsible decision making.

Code of conduct

The Board acknowledges the need for continued maintenance of the highest standards of Corporate Governance Practices and ethical conduct by all Directors and employees of the consolidated entity.

The Company has established a code of conduct applicable to all Directors and employees. The requirement to comply with the code is mandatory and is communicated to all employees. The code sets out standards of conduct, behaviour and professionalism.

The shareholder communications strategy, the securities trading policy, the continuous disclosure policy collectively form a solid ethical foundation for the Company's ethical practices.

Policy on dealing in Company securities

The Company has a policy on how and when the Directors and employees may deal in the Company's securities. The purpose of this policy is to ensure that the Directors and employees deal in the Company's securities in a manner which properly reflects their fiduciary duty and that they do not transact in those securities whilst in possession of price sensitive information.

This policy requires all Directors and employees to seek approval from the Chairman and Company Secretary prior to dealing in the Company's securities.

The Company has introduced compliance standards and procedures to ensure that the policy is properly implemented. In addition there is also an internal review mechanism to assess compliance and effectiveness.

Principle 4 – Safeguard Integrity in financial reporting

Companies should have a structure to independently verify and safeguard the integrity of their financial reporting.

Audit Committee

The Board has formed a separate Audit Committee. The members of the Audit Committee during the year were:

- David Sutton – Chairman
- Jack Mulready
- Stephen Pearce

The structure of the Audit Committee does not comply with recommendation 4.2 which recommends that the Audit Committee consists of only Non-Executive Directors, and it is chaired by an independent chair, who is not chair of the board.

The Board considers that given its current size and structure it is neither appropriate nor cost effective for the Audit Committee to consist of only independent Directors, and have an independent chair.

The committee met once during the year. The Audit Committee has adopted a formal charter which set out the responsibilities of the Audit Committee.

The responsibilities of the Audit Committee include:

- reviewing the annual and half year financial reports to ensure compliance with Australian Accounting Standards and generally accepted accounting principles;
- monitoring corporate risk management practices;
- review and approval of the consolidated entity's accounting policies and procedures;
- reviewing external audit plans;
- reviewing the nomination, performance and independence of the external auditors; and
- organising, reviewing and reporting on any special reviews or investigations deemed necessary by the Board.

The Audit Committee has received confirmation in writing from the Chairman and the Company Secretary that:

- The Company's Financial Report for the financial year ended 30 September 2009 presents a true and fair view in all material respects of the Company's financial position and operational results and are in accordance with relevant accounting standards.

External auditors

The full Board is responsible for the appointment, removal and remuneration of the external auditors, and reviewing the terms of their engagement, and the scope and quality of the audit. In fulfilling its responsibilities, the Board receives regular reports from management and the external auditors at least once a year, or more frequently if necessary. The external auditors have a clear line of direct communication at any time to the Chairman of the Board.

The current auditors, K S Black & Co have confirmed that they conform with the requirements The Australian accounting bodies' statement on professional independence which requires mandatory rotation of audit partners for listed companies every five years.

The Auditors are required to attend the Annual General Meeting and be available to answer shareholder questions about the conduct of the audit and the preparation and content of the Auditors Report.

Principle 5 – Making timely and balanced disclosure

Companies should promote timely and balanced disclosure of the matters concerning the Company. The Company promotes timely and balanced disclosure of any material matters concerning the Company.

The Company has a written policy on information disclosure that focuses on the continuous disclosure of any information concerning the Company and its controlled entities that a reasonable person would expect to have a material effect on the price of the Company's securities.

The Company Secretary in consultation with the Chairman and Directors, is responsible for communications with the ASX. He is also responsible for ensuring compliance with the continuous disclosure requirements of the ASX Listing Rules, and overseeing and co-ordinating information disclosure to the ASX, analysts, brokers, shareholders, the media and the general public.

Principle 6 – Respect the rights of shareholders

Companies should respect the rights of shareholders and facilitate their effective exercise of those rights.

Communication with shareholders

The Board recognises and respects the rights of our shareholders as the beneficial owners of the Company. In order to facilitate the effective exercise of those rights, the Company follows a communications strategy that aims to empower shareholders by:

- communicating effectively with them;
- providing easy access to balanced and understandable information about the Company; and
- encouraging and facilitating shareholder participation in general meetings.

The Company achieves this through the following avenues:

Regular mailings

The Company provides shareholders with copies of all announcements made to the ASX by mail on request. Copies are also available via an electronic link to the ASX web site, ensuring that all shareholders are kept informed about the Company.

Shareholders also have the option of receiving a hard copy of the Annual Report each year.

General meetings

All shareholders are invited to attend the Annual General Meetings which are held in Sydney. The full Board and senior executives are present and available to answer questions from the floor, as are the External Auditor and a representative from the Company's legal advisors.

The Company posts corporate information in the Investor Section of its Company website at www.fallriverresources.com

Principle 7 – Recognise and manage risk

Companies should establish a sound system of risk oversight and management and internal control.

The Board oversees the establishment, implementation and review of the Company's Risk Management System. To ensure it meets its responsibilities, the Board has implemented appropriate systems for identifying, assessing, monitoring and managing material risk throughout the organisation.

The Board identifies potential areas of business risk arising from changes in the financial and economic circumstances of its operating environment.

The Board regularly assesses the Company performance in light of risks identified.

The Board reviews the effectiveness of the implementation of the Company's risk management and internal control system on a regular basis.

The Board does not employ an internal auditor, although as part of the Company's strategy to implement an integrated framework of control, the Board requested the external auditors review internal control procedures. Recommendations once presented are considered by the Board.

The Board has received written consent from the Chairman and the Company Secretary that the integrity of the financial statements is founded on a sound system of risk management, internal compliance and control system which is operating efficiently in all material respects.

The Board requires the declaration prior to the Directors signing the Company's financial statements.

Principle 8 – Remunerate fairly and responsibly

Companies should ensure that the level and composition of remuneration is sufficient and reasonable and that the relationship to performance is clear.

The role of the Remuneration Committee is undertaken by the full Board of Directors. The Committee has adopted a formal charter. The main responsibilities of the Committee are: -

- review and approve the Group's policy for determining executive remuneration and any amendments to that policy;
- review the on-going appropriateness and relevance of the policy;
- consider and make recommendations on the remuneration of executive Directors (including base salary, incentive payments, equity awards and service contracts);
- review and approve the design of all equity based plans;
- review and approve the total proposed payments under each plan; and
- review and approve the remuneration levels for non-executive Directors.
- The committee meets as often as required but no less than once per year.
- The committee met once during the year and the Committee Members attendance record is disclosed in the Table of Directors Meetings including in the Directors report at page 9.

Executive Directors and executive remuneration

The remuneration committee reviews and approves the policy for determining an executive's remuneration and any amendments to that policy.

Executive remuneration and other terms of employment are reviewed annually having regard to relevant comparative information and independent expert advice.

Remuneration packages include basic salary, superannuation and the rights of participation in the Company's Employee Share Purchase Plan.

Remuneration packages are set at levels that are intended to attract and retain executives capable of effectively managing the Company's operations.

Consideration is also given to reasonableness, acceptability to shareholders and appropriateness for the current level of operations.

Non-executive Directors

Remuneration of Non-Executive Directors is determined by the Board based on relevant comparative independent expert advice and the maximum amount approved by shareholders from time to time.

Non-Executive Directors have the right to participate in the Company's Employee Share Purchase Plan.

Further information on Directors and executive remuneration is included in the remuneration report which forms part of the Directors' report.

Australian Securities Exchange Limited – Additional Information as at 30 November 2009

Additional information required by the Australian Securities Exchange Limited and not shown elsewhere in this report is as follows:

a) Distribution of Equity Securities

	Quoted Ordinary Shares and CDI's		
	Holders	**No. of Securities**	**% Holding**
1 - 1,000	3	781	-
1,001 - 5,000	10	36,226	.04
5,001 - 10,000	59	558,349	.62
10,001 - 100,000	221	11,244,814	12.42
100,000 +	140	78,696,352	86.92
	433	90,536,522	100.00

	Management Options	
	Holders	**Unquoted Options**
1 - 1,000	-	-
1,001 - 5,000	-	-
5,001 - 10,000	3	30,000
10,001 - 100,000	1	70,000
100,000 +	4	2,340,000
	8	2,440,000

b) Twenty largest holders of common shares and CDI

Holder	Number of Shares	Percentage Holding
CDS & Co	6,737,223	7.44
National Nominees Limited	3,150,000	3.48
Forty Traders Limited	3,000,000	3.31
Star Dreamer Holdings Pty Ltd	2,850,055	3.15
William Douglas Goodfellow	2,500,000	2.76
Alcardo Investments	2,329,250	2.57
Imperial Corporation Limited	2,000,000	2.21
Jeremy James Moore	1,855,589	2.05
Timothy Lee Hoops	1,790,503	1.98
Jane Frances Moore & Jeremy James Moore	1,776,500	1.96
McBain & Co. Investments	1,615,000	1.78
Mr Andrew Haldane & Mrs Yoshiko Haldane	1,500,000	1.66
Super 1136 Pty Ltd	1,400,000	1.55
Imperial Investments Pty Ltd	1,250,000	1.38
Mr Shariff Ousa	1,227,964	1.35
WHI Securities Pty Ltd	1,144,800	1.26
Peter Vial and Amanda Vial	1,075,000	1.19
Merrill Lynch Australia	1,074,000	1.19
Avanteos Investments Limited	1,050,000	1.16
Lucille Janette Lees	1,028,490	1.14
	40,354,374	44.57

c) The number of holders of less than a marketable parcel is 193

Percentage held by 20 largest holders is 44.57%

INTERESTS IN MINING TENEMENTS

Prospect	Holder	Tenement	Interest
Baxter Joint Venture Wyoming USA	Spring River Resources	Township 19 North Range 106 West Section 12: All Section 24: All	15%
		Township 19 North, Range 106 West Section 4: Lots 5-8 Section 6: Lots 8-14 Section 8: All	15%
		Township 19 North, Range 106 West Section 2: Lots 5-8 Section 10: All Section 14: All Section 22: E2	15%
		Township 29 North, Range 106 West Section 18: Lots 5-8 Section 20: All	15%
		Township 29 North , Range 106 West Section 22: All	15%
		Township 29 North , Range 106 West Section 22: W2	15%
West Florence Joint Venture	Spring River Resources	Townships 18 through 20 South Ranges 69 and 70 West Freemont County Colorado	25%