

FALL RIVER RESOURCES LTD

OPERATIONS REPORT FOR THE QUARTER 1 OCTOBER 2009 TO 31 DECEMBER 2009

Activity has been severely restricted over the past year as exploration funds were severely limited.



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.

ACQUISITION OF EARTH HEAT LIMITED

On 12 October 2009, the Company Earth Heat Limited, its shareholders and TJ Mann & Associates Pty Ltd executed a memorandum of understanding outlining a series of transactions that Directors believe would rejuvenate the Company and provide value to both shareholders and stakeholders in the Company.

These transactions, involving the proposed acquisition of all of the issued capital of Earth Heat Limited together with a number of other proposals to satisfy the conditions precedent to the acquisition require the approval of shareholders at a general meeting.

At a general meeting of shareholders held on 8 January 2010 shareholder approval was obtained for the Company's existing share capital of 90,536,522 shares to be consolidated on the basis of 1 share for 3, resulting in the issued number of shares being reduced to 30,178,687 shares.

The consolidation of the share capital was completed on 21 January 2010.

In addition shareholders approved the following transactions contemplated by the Share Sale Agreement executed with Fall River Resources Limited and dated 11 January 2010.

- The issue of 69 million fully paid post-consolidation shares of 1 cent each to convertible noteholders and creditors in lieu of and in satisfaction of their debts.
- The issue of 260 million fully paid post-consolidation shares of 1 cent each in consideration of the transfer to the Company of all of the issued shares in Earth Heat Limited.

- The issue of 5 million fully paid post-consolidation shares to Mr Jack Mulready in part satisfaction of Mr Mulready's claims against the Company for remuneration.
- The placement of up to 200 million fully paid post consolidation shares at a price of not less than 1 cent to professional investors within 3 months of the shareholder approval date. At the date of this report the Company had issued 120 million fully paid post-consolidation shares pursuant to a private placement.
- The issue of 40 million fully paid post-consolidation shares to TJ Mann & Associates or their nominees for the provision of seed capital of not less than \$120,000 to fund the cost of the transaction and other working capital costs of the Company, its services in arranging share placements and for its introduction of the transaction to the Company.

The terms of the Share Sale Agreement were completed on 22 January 2010, following completion of the capital consolidation and the issue of shares proposed pursuant to the Share Sale Agreement the Company's total issued capital is now 524,178,687 fully paid shares. As a further consequence of completion of this agreement, Mr Torey Marshall and Dr Ray Shaw have been appointed to the Board of Directors as Managing Director and Chairman respectively, following the resignations of Mr Bruce McLeod and Mr Jack Mulready.

In this respect, the Company has extinguished its major creditor liabilities and received proceeds from the sale of shares totalling approximately \$1,200,000 AUD since December 31 2009. This new working capital will be used to pay any residual outstanding small creditor debts and to grow the business.

Mr Malcolm Lucas-Smith has been appointed company secretary following the resignation of Mr David Hughes effective January 31 2010.

FUTURE DIRECTION

Settlement of the transactions proposed by the Share Sale Agreement provide the Company with a 100% equity interest in a number of prospective geothermal exploration licences, the elimination of all debt, having negotiated a compromise settlement with convertible noteholders and creditors, and sufficient funding through equity placements to undertake exploration activities and meet working capital requirements.

The future direction of the Company is participation in the New Energy Economy, as a New Energy Company, and the new board intends to follow this strategy to grow shareholder value.

ANNUAL GENERAL MEETING

The Annual General Meeting of Fall River Resources Limited will be held on Friday 26 February 2010 at Level 7, 151 Macquarie Street Sydney at 10.00am.

The record date for determining entitlements to vote at the Annual General Meeting has been restricted to holders of common shares on record at the close of business on 25 January 2010.

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

Appendix 5B

Mining exploration entity quarterly report

Introduced 1/7/96. Origin: Appendix 8. Amended 1/7/97, 1/7/98, 30/9/2001.

Name of entity

Fall River Resources Limited

ABN

86 115 229 984

Quarter ended ("current quarter")

31 December 2009

Consolidated statement of cash flows

Cash flows related to operating activities	Current quarter \$A'000	Year to date (..3.. months) \$A'000
1.1 Receipts from product sales and related debtors		
1.2 Payments for (a) exploration and evaluation	-	-
(b) development	-	-
(c) production	-	-
(d) administration	(47)	(47)
1.3 Dividends received	-	-
1.4 Interest and other items of a similar nature received	-	-
1.5 Interest and other costs of finance paid	-	-
1.6 Income taxes paid	-	-
1.7 Other (provide details if material) USA Tax Refund	-	-
Net Operating Cash Flows	(47)	(47)
Cash flows related to investing activities		
1.8 Payment for purchases of:		
(a)prospects	-	-
(b)equity investments	-	-
(c) other fixed assets	-	-
1.9 Proceeds from sale of:		
(a)prospects	-	-
(b)equity investments	-	-
(c)other fixed assets	-	-
1.10 Loans to other entities	-	-
1.11 Loans repaid by other entities	-	-
1.12 Other (provide details if material)	-	-
Net investing cash flows	-	-
1.13 Total operating and investing cash flows (carried forward)	(47)	(47)

Appendix 5B
Mining exploration entity quarterly report

1.13	Total operating and investing cash flows (brought forward)	(47)	(47)
	Cash flows related to financing activities		
1.14	Proceeds from issues of shares, options, etc.	-	-
1.15	Proceeds from sale of forfeited shares	-	-
1.16	Proceeds from borrowings	-	-
1.17	Repayment of borrowings	-	-
1.18	Dividends paid	-	-
1.19	Other (provide details if material)	-	-
	Return of C/Note cover surplus	-	-
	Net financing cash flows	-	-
	Net increase (decrease) in cash held	(47)	(47)
1.20	Cash at beginning of quarter/year to date	55	55
1.21	Exchange rate adjustments to item 1.20	-	-
1.22	Cash at end of quarter	8	8

Restricted Deposits

Other funds on deposit and earning interest not included in 1.22 above comprise

	30.12.09
- Convertible Note Interest Cover Fund	8
- Convertible Note Capital Sinking Fund	1
- BBX Trade Dollars amount to - \$318,000	318

Payments to directors of the entity and associates of the directors

Payments to related entities of the entity and associates of the related entities

	Current quarter \$A'000
1.23 Aggregate amount of payments to the parties included in item 1.2	Nil
1.24 Aggregate amount of loans to the parties included in item 1.10	Nil

1.25 Explanation necessary for an understanding of the transactions

N/A

Non-cash financing and investing activities

2.1 Details of financing and investing transactions which have had a material effect on consolidated assets and liabilities but did not involve cash flows

Nil

2.2 Details of outlays made by other entities to establish or increase their share in projects in which the reporting entity has an interest

Nil

Financing facilities available

Add notes as necessary for an understanding of the position.

	Amount available \$A'000	Amount used \$A'000
3.1 Loan facilities	Nil	Nil
3.2 Credit standby arrangements	Nil	Nil

Estimated cash outflows for next quarter

	\$A'000
4.1 Exploration and evaluation	Nil
4.2 Development	Nil
	Nil

Reconciliation of cash

Reconciliation of cash at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts is as follows.	Current quarter \$A'000	Previous quarter \$A'000
5.1 Cash on hand and at bank	8	9
5.2 Deposits at call	-	46
5.3 Bank overdraft	-	-
5.4 Other (provide details)	-	-
Total: cash at end of quarter (item 1.22)	8	55

Changes in interests in mining tenements

	Tenement reference	Nature of interest (note (2))	Interest at beginning of quarter	Interest at end of quarter
6.1	Interests in mining tenements relinquished, reduced or lapsed	-	-	-
6.2	Interests in mining tenements acquired or increased	-	-	-

Appendix 5B
Mining exploration entity quarterly report

Issued and quoted securities at end of current quarter

Description includes rate of interest and any redemption or conversion rights together with prices and dates.

	Total number	Number quoted	Issue price per security (see note 3) (cents)	Amount paid up per security (see note 3) (cents)
7.1 Preference +securities <i>(description)</i>	Nil	Nil		
7.2 Changes during quarter				
(a) Increases through issues	Nil	Nil		
(b) Decreases through returns of capital, buy-backs, redemptions	Nil	Nil		
7.3 +Ordinary securities	90,536,522	90,536,522		
7.4 Changes during quarter				
(a) Increases through issues	Nil	Nil		
(b) Decreases through returns of capital, buy-backs	Nil	Nil		
7.5 +Convertible debt securities <i>(description)</i>	1,452,032	Nil	\$1.00	\$0.90
7.6 Changes during quarter				
(a) Increases through issues	Nil	Nil		
(b) Decreases through securities matured, converted	Nil	Nil		
7.7 Options <i>(description and conversion factor)</i>	1,690,000	Nil	<i>Exercise price</i> \$0.18	<i>Expiry date</i> 3 months following cessation of employment
7.8 Issued during quarter	Nil	Nil		
7.9 Exercised during quarter	Nil	Nil		
7.10 Expired during quarter	750,000	Nil	\$0.18	10 November 2009
7.11 Debentures <i>(totals only)</i>	Nil	Nil		
7.12 Unsecured notes <i>(totals only)</i>	Nil	Nil		

Compliance statement

- 1 This statement has been prepared under accounting policies which comply with accounting standards as defined in the Corporations Act or other standards acceptable to ASX (see note 4).
- 2 This statement does /does not* (*delete one*) give a true and fair view of the matters disclosed.



Sign here: Date: 27 January 2010
(Company secretary)

Print name: David Hughes

Notes

- 1 The quarterly report provides a basis for informing the market how the entity's activities have been financed for the past quarter and the effect on its cash position. An entity wanting to disclose additional information is encouraged to do so, in a note or notes attached to this report.
- 2 The "Nature of interest" (items 6.1 and 6.2) includes options in respect of interests in mining tenements acquired, exercised or lapsed during the reporting period. If the entity is involved in a joint venture agreement and there are conditions precedent which will change its percentage interest in a mining tenement, it should disclose the change of percentage interest and conditions precedent in the list required for items 6.1 and 6.2.
- 3 **Issued and quoted securities** The issue price and amount paid up is not required in items 7.1 and 7.3 for fully paid securities.
- 4 The definitions in, and provisions of, *AASB 1022: Accounting for Extractive Industries* and *AASB 1026: Statement of Cash Flows* apply to this report.
- 5 **Accounting Standards** ASX will accept, for example, the use of International Accounting Standards for foreign entities. If the standards used do not address a topic, the Australian standard on that topic (if any) must be complied with.

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