



Fall River Resources Ltd Operations Report for the Third Quarter from 1st April 2010 to 30th June 2010

1. HIGHLIGHTS

- On May 13, the Company announced participation, subject to a series of conditions, in the 30MW Copahue Development Project in Argentina.
- During the quarter, the Company finalised compliance issues with Primary Industries and Resources of South Australia (PIRSA), resulting in approval to conduct field activities at the Mt Grainger Project.
- Suitable New Ventures continue to be screened by the Company that meet investment grade criteria set by the board and management.
- The Company worked on a re-branding initiative which is anticipated to result in a change of company name, and launch of a new website by the end of August 2010.

1.1 Copahue Project, Argentina

Since the announcement on May 13, the Company has been working with its partner, Geothermal One Inc ('G1'), to facilitate the adjudication and award of the project. Significant progress has been made and formal adjudication of the project in favor of G1 was made subsequent to the Quarter. Certain requirements must be met by G1 and the Company to ensure eligibility to sign the concession contract.

Both G1 and the Company are working to meet these criteria, the most important of which is the lodgement of a performance guarantee and anticipate making announcements about formal signing (binding award) of the project during the next quarter.

An extract of the project highlights is reproduced below, and will also be put on the Company's new website, due to be launched in August of 2010.

Geography

The Copahue project area is located in the western part of Neuquén province, approximately 300 km from the provincial capital and just a few km from the Chilean border. The geothermal resource on which the project is based occurs on the North-East flank of the Copahue volcano a young, historically active stratovolcano whose summit is on the international border. It is also situated within a broad caldera that is inferred to have been formed by activity that pre-dates that of the Copahue volcano .



The caldera retains its expression as a valley with steep walls on several sides, breached in several places by gaps formed by erosion, which provide access into the Caviahue-Copahue area from more populated areas of Argentina to the east. The principal activities in the area are tourism (including skiing at Caviahue and general recreation) and low-intensity agriculture. One of the zones of thermal manifestations related to the geothermal resource, Termas de Copahue, has been developed for seasonal use as a therapeutic spa.

Work to date

The project area has been the site of geothermal exploration and development activities since the 1970s. This work has included a number of superficial and shallow exploratory surveys (geology, geochemistry, geophysics and temperature gradient drilling).

Four deep wells, reaching depths of as much as 1,414 m have also been drilled in the area. These wells have demonstrated the presence of a commercially exploitable, vapor-dominated geothermal reservoir within at least a part of the project area.

One of the wells (COP-1) was used to supply a pilot power plant, with a capacity of slightly less than one MW for a period of several years. The most recent well (COP-4) was drilled to supply a district heating system at Termas de Copahue; a pipeline was constructed from the well field for this system which is no longer in use. Aside from the spa at Termas de Copahue, there is no exploitation of the Copahue geothermal resource at present.

Resource Characteristics

The Copahue geothermal system occurs within a volcanic terrane formed by several stages of volcanic activity, the ages of which have been inferred to range from Pliocene time (five million years ago or less) to considerably earlier. It is likely, based on the position of the geothermal field and the temperatures observed in wells, that the heat source for the system is related to the same magmatic/volcanic activity that formed the present-day Copahue volcano. Heat is mostly supplied to the system from magma located beneath or close to the centre of the volcanic edifice.

The geology of the project area has been studied by several investigators and is discussed in detail (along with other aspects of the geothermal project) in a project feasibility report prepared for the Japan International Cooperation Agency (JICA, 1992). The most important aspects of the geologic setting are the following:

- Based on surface mapping and evidence from drillholes, the geothermal system occurs mostly or entirely within a thick sequence of volcanic deposits (lavas, pyroclastic rocks, and sediments – including fine-grained lake sediments – derived from the primary volcanic rocks). Older (Mesozoic to Paleozoic-age) rocks similar or identical to those exposed some tens of km to the east may be present at considerable depth, perhaps several thousand meters, but their presence has not been confirmed.
- The location of the geothermal system coincides, at least to a large extent, with a zone of higher ground within the caldera, which has been inferred to reflect a structurally uplifted zone (a horst block or similar structure).

- Major faults, offsetting the volcanic deposits have been inferred to occur along two prominent trends: WNW-ESE (coinciding with the main topographic trend of the elevated area), and NE-SW (appearing as a secondary topographic trend within the elevated area). These two fault trends are evident in satellite imagery and in the topography visible from the ground. In general, the ESE trend predominates to the south of Termas de Copahue (for example, it is evident in the shape of Lago Agrio), whereas the NE trend predominates in the northern part of the area. Faults have also been inferred to occur along other trends; the evidence suggests that, if present, they are less significant than the faults that follow the ESE and NE trends.
- Outside the elevated area (at least in some zones), significant thicknesses of lake sediments, which are likely to be relatively impermeable, have been inferred to be present within the sequence of volcanic deposits that fills the caldera.

The geothermal reservoir therefore occurs mainly or entirely within fractured volcanic rocks in the uplifted area near the western margin of the caldera and the northeastern flank of the Copahue volcano. Structural deformation (probably mainly in the form of faulting) has likely played a role in creating the rock permeability that has allowed the geothermal system to form. However, the evidence from the wells is still too limited to determine whether zones of elevated permeability (sufficient to supply commercially productive wells) are confined to specific fault zones, or distributed more generally through the overall reservoir.

The location, extent, depth, thermodynamic characteristics (temperature and pressure) and chemical characteristics of the geothermal system have been determined or inferred from geochemical and geophysical surveys, and from the various wells that have been drilled in and around the project area. Many aspects of the geothermal system (including, importantly, its total thickness and extent) have not yet been defined completely.

However, the following aspects of the system are reasonably well known:

- A high-temperature geothermal reservoir is present in and around the area of 1-2 km² where the four deep wells have been drilled. These wells all encountered maximum temperatures of at least 235°C and all demonstrated at least some steam production. The temperature profiles and other characteristics of these wells do not indicate that any of them are at or close to the boundary of the reservoir, so the reservoir almost certainly extends over a larger area than that encompassed by the wells. Only indirect evidence is available to estimate the overall limits of the reservoir.
- Vapor-dominated conditions appear to exist in at least the part of the reservoir that has been tapped by the four wells. This means that the wells produce dry steam rather than the steam-water mixture produced from most geothermal fields, although a fraction of the water within the reservoir may be present as a liquid phase.
- The reservoir pressure is 35-40 bar-g. This is typical of vapor-dominated geothermal systems (a result of thermodynamic constraints).



- Drilling has shown the reservoir to be at least 600 m thick, extending from about 600-900 m depth below the ground surface to at least 1,200 m. The total thickness of the reservoir is likely to be greater and it has been speculated, but not proven, that a deeper water-dominated reservoir may exist at some depth below 1,400 m.

As noted, the total extent of the geothermal reservoir has not been determined by drilling.

However, the following points may be made regarding its possible extent:

- The thermal features of the area (fumaroles and altered ground occurring at the sites known as Termas de Copahue, El Anfiteatro, Las Máquinas and Las Maquinitas) extend over a larger area than that encompassed by the wells (at least 10 km² vs. 2 km² or less), indicating that the reservoir likely extends over a corresponding minimum area.
- The evaluation by JICA (1992) identified a low-resistivity anomaly that extends over a triangular area some 13 km² in extent, including the area of the wells and thermal features. Low-resistivity anomalies of this type are often, although not always, associated with rock alteration at or just above the top of a geothermal reservoir. Therefore, the anomaly provides an indirect indication of the possible extent of the reservoir.
- There is a strong spatial correlation between an identified zone of elevated shallow temperatures (based on measurements made in temperature observation wells drilled for the project), a positive gravity anomaly, the zone of inferred structural uplift, and outlying resistivity anomalies. The coincidence of these features provides some encouragement that the geothermal reservoir might extend over much or all of the area they cover, which is in excess of 30 km². As a preliminary estimate, this may be considered the maximum or “upside” extent of the geothermal reservoir that might prove commercially exploitable.

1.2 South Australian GELs

During the quarter, 3 licences were granted being GEL's 523, 524 & 525.

The Company (through its 100% owned subsidiary Earth Heat Australia Pty Ltd) now holds 100% interest in 11 geothermal exploration licenses - GELs) covering circa 11,450 km² in South Australia, in an area of higher heat flow referred to as the South Australian Heat Flow Anomaly (SAHFA) (Figure 1).

Work performed on the South Australian GELs comprised of two main activities: 1) ensuring receipt of permission for the proposed Mt Grainger program; and 2) the retaining of a suitably qualified professional to undertake the activities.

The first phase of the exploration program to be undertaken will be detailed geological mapping of the Mt. Grainger area, which the Company believes has the potential to host a suitable productive reservoir, and is proximal to both basement and intrusive heat sources. Mapping will enable further refinement of the target areas as a precursor to the second stage geophysical acquisition, and later third stage shallow temperature gradient drilling.

The Company has (subsequent to the end of the quarter) provided notice of intended entry on land to affected parties as part of meeting obligations under the Petroleum and Geothermal Act (2000).

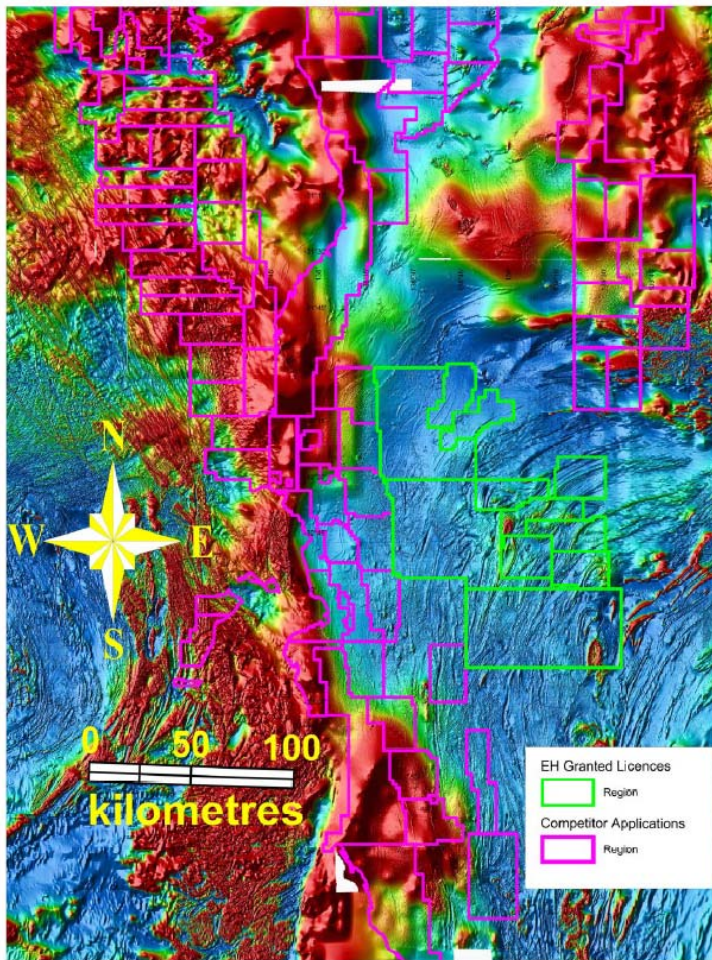


Figure 1- Location of Fall River Resources granted exploration licences (at 30/6/10) shown in Green, and other companies shown in magenta.

1.3 Onshore USA

1.3.1 West Florence Exploration Joint Venture, Colorado (Fall River 25%)

On the 23rd of June the Company announced the sale of its entire interest in the West Florence project to Joint Venture partner Adelaide Energy Ltd for total cash consideration of \$75,000 AUD, payable on or before 21st of July 2010.

Divestment of this non-core asset is consistent with the transformation of the Company from a North American oil and gas business, to a New Energy Company.

1.3.2 Baxter Shale Project, Green River Basin, Wyoming

The company continues to pursue an agreement with its joint venture partner and Operator (Samson Oil & Gas) to convert its interest in the Baxter project to a royalty. At present, the Company is waiting on confirmation of a previous proposal put forth by the Operator. No time frame has been presented for resolution to this issue.

2. FUTURE DIRECTION

The Company is aggressively pursuing its new strategy to become a major part of the New Energy Economy as a New Energy Company. This involves the continued screening of suitable opportunities that will meet advanced project status criteria set by the Company.

The Copahue project is an important milestone for the Company, and additional projects of similar characteristics and quality are anticipated to come under the control of Fall River.

3. CAPITAL

The Company had the following securities on issue at 30 June 2010:

	<u>Number</u>
Ordinary shares	524,178,687
Stock Options	73,333

On the 8 April 2010 490,000 Option expired leaving 73,333 option with an expire date of 4th November 2010.



4. FINANCIAL

4.1 Reconciliation of expenditure

This is the second quarterly report for Fall River Resources Limited for the year ended 30th September 2010. The estimated exploration and evaluation expenditure cash flows included in the previous report amounted to \$40,000, actual expenditure amounted to \$56,000 the additional costs related to the continued progress and evaluation of the Copahue Project, in addition to other New Ventures projects. The Company met its expenditure targets in South Australia.

4.2 Cash at the end of the quarter

Cash at 30 June 2010 was \$422,994.

Substantial progress was made during the quarter on eradicating debts and liabilities accrued prior to recapitalisation in January.

At the date of this report the Company was in receipt of the \$75,000 AUD from the sale of West Florence.

Material receivable item expected during the next quarter include \$150,000-\$250,000 from the Australian Taxation Office in unclaimed Goods & Services Tax (GST).

Attached is the Appendix 5B Consolidated Statement of Cash Flows for the period from 1 April 2010 to 30 June 2020.

Torey Marshall
Managing Director
BSc (Hons), MSc University of South Australia
Chartered Professional Member of AusIMM

The information prepared on operations in this report relating to oil and gas activities has been prepared by Torey Marshall 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". Torey Marshall consents to the inclusion in the report of the matters based on his information in the form and context in which it appears.

Appendix 5B

Mining exploration entity quarterly report

Introduced 1/7/96. Origin: Appendix 8. Amended 1/7/97, 1/7/98, 30/9/2001, 01/06/10.

Name of entity

FALL RIVER RESOURCES LTD

ABN

ABN 86 115 229 984

Quarter ended ("current quarter")

30 JUNE 2010

Consolidated statement of cash flows

Cash flows related to operating activities	Current quarter \$A'000	Year to date (9 months) \$A'000
1.1 Receipts from product sales and related debtors	-	-
1.2 Payments for (a) exploration & evaluation	(56)	(56)
(b) development	-	-
(c) production	-	-
(d) administration	(236)	(543)
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 – PAYG and Superation payments to previous employees and directors	(150)	(150)
Net Operating Cash Flows	(442)	(749)
Cash flows related to investing activities		
1.8 Payment for purchases of:		
(a) prospects	-	-
(b) equity investments	-	-
(c) other fixed assets	(1)	(6)
1.9 Proceeds from sale of:		
(a) prospects	-	-
(b) equity investments	-	-
(c) other fixed assets	-	-
1.10 Loans to other entities	-	(20)
1.11 Loans repaid by other entities	-	-
1.12 Other (provide details if material)	-	-
Net investing cash flows	(1)	(26)
1.13 Total operating and investing cash flows (carried forward)	(443)	(775)

1.13	Total operating and investing cash flows (brought forward)	(443)	(775)
	Cash flows related to financing activities		
1.14	Proceeds from issues of shares, options, etc.	-	1,200
1.15	Proceeds from sale of forfeited shares	-	-
1.16	Proceeds from borrowings	-	-
1.17	Repayment of borrowings	-	(63)
1.18	Dividends paid	-	-
1.19	Other (provide details if material)	-	-
	Net financing cash flows	-	1,137
	Net increase (decrease) in cash held	(443)	362
1.20	Cash at beginning of quarter/year to date	866	55
	Cash on acquisition of subsidiary	-	6
1.21	Exchange rate adjustments to item 1.20	-	-
1.22	Cash at end of quarter	423	423

**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	59
1.24	Aggregate amount of loans to the parties included in item 1.10	-

1.25 Explanation necessary for an understanding of the transactions

Cash payment in respect of directors' gross remuneration and superannuation \$53,548. Cash payment for the reimbursement of expenses \$5,058.
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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

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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

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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	(151)
4.2 Development	-
4.3 Production	-
4.4 Administration ⁽¹⁾	(225)
Total	(376)

⁽¹⁾ Excludes Australian Taxation Office GST refunds relating to prior quarters, as date of receipt not yet confirmed.

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	373	816
5.2 Deposits at call	50	50
5.3 Bank overdraft	-	-
5.4 Other (provide details)	-	-
Total: cash at end of quarter (item 1.22)	423	866

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	West Florence Joint Venture Township 18 through 20 South Ranges 69 and 70 West Fremont County Colorado	Interest held by 100% subsidiary Spring River Resources Ltd	25%	Nil% ⁽¹⁾
6.2 Interests in mining tenements acquired or increased	GELA 523	GEL granted for in quarter	n/a	100%
	GELA 524	GEL granted for in quarter	n/a	100%
	GELA 525	GEL granted for in quarter	n/a	100%

⁽¹⁾ The Company signed a 'Letter of Agreement' with Adelaide Energy Limited on 22 June 2010 to sell its 25% West Florence Joint Venture interest for \$75,000. The funds were received on 21 July 2010.

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 (b) Decreases through returns of capital, buy-backs, redemptions	Nil	Nil		
7.3	+Ordinary securities	524,178,687 Includes 3,901,965 unquote shares held in Canada	520,276,722		
7.4	Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs	Nil	Nil		
7.5	+Convertible debt securities <i>(description)</i>	Nil	Nil		
7.6	Changes during quarter (a) Increases through issues (b) Decreases through securities matured, converted	Nil	Nil		
7.7	Options <i>(description and conversion factor)</i>	73,333	Nil	<i>Exercise price</i> CAD\$0.54	<i>Expiry date</i> 3 months after employment ceases or 4 November 2010
7.8	Issued during quarter	Nil	Nil		
7.9	Exercised during quarter	Nil	Nil		
7.10	Expired during quarter	490,000 expired 8 April 2010	Nil		
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: 22 July 2010
(Company secretary)

Print name: Mr Malcolm Lucas Smith

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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