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EARTH HEAT RESOURCES LTD
AND CONTROLLED ENTITIES
ABN 86 115 229 984

RESTATED
CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED SEPTEMBER 30, 2008

EARTH HEAT RESOURCES LTD
(formerly FALL RIVER RESOURCES LTD.)
AND CONTROLLED ENTITIES
ABN 86 115 229 984

COMPANY INFORMATION

Directors

Dr Raymond Shaw	Chairman, Non-Executive Director
Torey Marshall	Managing Director
Alexander Rose-Innes	Executive Director (resigned 11 May 2011)
Norman Zillman	Non-Executive Director
Stephen Pearce	Non-Executive Director (resigned 11 May 2011)
David Sutton	Non-Executive Director (resigned 11 May 2011)

Secretary

Malcolm Lucas-Smith	Joint Company Secretary
Stephen Pearce	Joint Company Secretary (resigned 11 May 2011)
David Sutton	Joint Company Secretary (appointed February 6, 2008, resigned 11 May 2011)

Registered Office

In Canada	711-675 West Hastings Street, Vancouver, BC, Canada
In Australia	Level 7, 28-30 Grenfell Street, Adelaide, 5000, South Australia Ph: 08 8212 0579 Fax: 08 8212 2230

Auditors

Grant Thornton Audit Pty Ltd	Level 1, 67 Greenhill Road Wayville, South Australia 5034, Australia

Share Registry

In Canada	Computershare Investor Services Inc 3rd Floor,510 Burrard Street, Vancouver, BC, Canada
In Australia	Computershare Investor Services Pty Ltd Yarra Falls 452 Johnston Street Abbotsford VC 3067 Ph: 61 3 9415 5000

Stock Exchange Listing

Australian Securities Exchange (ASX) – Australia – Code EHR (previously FRV)

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Directors' Information

1. Directors'

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

Name	Position	Date appointed	Date Resigned
Dr Raymond Shaw	Chairman –Non-Executive	January 22, 2010	-
Torey Marshall	Managing Director	January 22, 2010	-
Alexander Rose-Innes	Executive Director	August 3, 2010	May 11, 2011
Norman Zillman	Non-Executive Director	February 26, 2010	-
Bruce McLeod	Chairman - Non-Executive	-	January 22, 2010
Jack Mulready	Technical Director – Executive	-	January 22, 2010
David Sutton	Non-Executive Director (formerly Chairman)	October 14, 2007	May 11, 2011
Stephen Pearce	Non-Executive Director	April 26, 2004	May 11, 2011
Rod Hollingsworth	Former Chairman – Non-Executive	-	February 29, 2008
Ian McBain	Former President and Chief Executive Officer	-	February 29, 2008

Unless otherwise stated Directors' held office for the full period.

<u>Information on Directors'</u>

Dr Raymond Shaw – Non-Executive Chairman

Experience and expertise

Dr Raymond Shaw is a geologist and geophysicist with more than 30 years' experience in the resources energy sector including the oil, gas and coal industries. He commenced his professional career as a petroleum explorationist with Shell Development Australia in Perth, prior to working for various consulting groups including the Swiss based international consulting firm Petroconsultants SA, as resident director based in Singapore and responsible for its Far East operations.

He has consulted extensively to industry, government, and international aid agencies on a variety of resource projects throughout Australia and Asia, including the World Bank, Asia Development Bank and Ausaid. He was a part time consultant with the New South Wales Department of Mineral Resources for 7 years providing input for industry initiatives during the late 1990's and early 2000's. Dr Shaw was founding Managing Director of Great Artesian Oil and Gas Limited prior to its listing on the ASX in 2003 until April 2007.

In May 2007 he became Executive Chairman of ASX listed Enterprise Energy Limited. In 2008, Ray Shaw oversaw the merger and backdoor listing of some $250 million of coal assets into Enterprise Energy as part of a restructuring and change in business to form Bandanna Energy Limited, of which until recently he was Managing Director. Bandanna holds extensive thermal coal assets in the Galilee and Bowen basins of Queensland.

Special responsibilities
Chairman of Board of Directors.

Directors' Information (Continued)

Torey Marshall – Managing Director

Experience and expertise
Mr Torey Marshall is a geologist with broad based technical and business development experience in the minerals, petroleum and geothermal sectors. This has resulted in the successful execution of various exploration programs (some resulting in discoveries), in a number of different areas. Having worked extensively as an exploration geoscientist, his skills have been considerably expanded to include senior management experience of various private and public (unlisted) companies. As part of his consulting practice, he has developed strategies for, and acquired projects on behalf of a number of clients.

He has assisted a number of private and public (unlisted) companies build their businesses to enhance shareholder value such as Phoenix Oil and Gas Ltd, Australian Oil Company Ltd, Red Gum Resources Ltd, Great Artesian Oil and Gas Ltd & QGC Ltd (A BG Group Company). He is a director of Red Gum Resources Ltd.

Mr Marshall holds a B.Sc (Hons) and M.Sc from the University of South Australia, and is a Chartered Professional Geologist of the Australasian Institute of Mining and Metallurgy, a member of the Geological Society of Australia and American Association of Petroleum Geologists.

Special responsibilities
Managing Director

Alexander Rose-Innes – Executive Director (resigned May 11, 2011)

Experience and expertise
Mr Alexander Rose-Innes is a portfolio manager for long / short equities and global macro funds who has extensive experience working within the equity capital markets of Australia. With a strategic focus on the resources sectors of the ASX, JSE and FTSE markets, Alexander has a deep knowledge of African politics and business including a wide variety of contacts through his macroeconomic research that guides investment decisions. He was appointed to the Board in July 2010 and will be responsible for Business Development and Finance.

Alexander is currently employed as a Macroeconomic Analyst and Portfolio Manager at Coldstream Investment Holdings where he maintains a balanced portfolio of equities, derivatives, bonds and commodities. Previous experience includes Invicta Holdings Pty Ltd in South Africa and Publishing and Broadcasting Limited. He is fluent in English, Afrikaans and French.

Special responsibilities
Executive of African operations

Directors' Information (Continued)

Norman Zillman– Non-Executive Director

Experience and expertise
Mr Zillman holds a Bachelor of Science degree in Geology and a Bachelor of Science (Hons) degree in Botany from the University of Queensland. Mr Zillman has nearly 40 years experience as a professional geologist. His initial training was as a petroleum geologist with international companies Aquitaine Petroleum in Papua New Guinea and Union Oil Company of California (UNOCAL) in Indonesia.

Mr Zillman has held positions of Exploration Manager and subsequently Deputy General Manager of Crusader Limited, General Manager Exploration and Production with Claremont Petroleum NL and Beach, and Manager of the Petroleum Branch of the Queensland Department of Mines and Energy and State Mining Engineer for Petroleum.

Mr Zillman has also held the position of Regional Manager of Northern Queensland for the Department of Mines and Energy based in Charters Towers where he supervised all aspects of mineral exploration and mining activities in that region including among others, the Ravenswood, Pajingo, Mt Leyshon and Thalanga mines. This broad experience base provided Mr Zillman with an intimate knowledge of the Queensland resource sector.

Consequently he has held a wide variety of public company positions including foundation Managing Director of Queensland Gas Company Limited, foundation Chairman of Great Artesian Oil and Gas Limited, director of Planet Gas Limited and non-executive Chairman of Blue Energy Limited. Mr Zillman is currently Chairman of Chinalco Yunnan Copper Limited, non-executive director of Burleson Energy Ltd, non-executive director of Red Gum Resources Ltd and non-executive Chairman of Hot Rocks Limited. Mr Zillman is a Member of the Australasian Institute of Mining and Metallurgy and the Petroleum Exploration Society of Australia.

Special responsibilities
Member of the audit committee

David Sutton – Independent Non-Executive Director (resigned May 11, 2011)

Experience and expertise
Mr Sutton has many years experience as a director of companies in stockbroking and investment banking. He is a director of Dayton Way Financial Pty Ltd, a licensed securities dealers where he is responsible for corporate finance and stockbroking activities. He is also a director of two listed companies, Sinovus Mining Ltd; and Imperial Corporation Pty Limited; and a former director of Martin Place Securities Pty Limited.

Special responsibilities
Member of the audit committee

Directors' Information (Continued)

Stephen Pearce – Independent Non-Executive Director and Joint Company Secretary (resigned May 11, 2011)

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
Joint Company Secretary

Bruce McLeod - Non-Executive Chairman

Experience and expertise
Mr McLeod is a director of a number of listed mining companies, including Imperial Corporation Pty Limited and Carnegie Corporation Limited. He has extensive experience in the Australian capital markets over the past 15 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
Chairman

Jack Mulready - Executive Director

Experience and expertise
Jack Mulready is a petroleum geologist with over 38 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. Jack 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

Directors' Information (Continued)

Roderic Hollingsworth - Former Non-Executive Chairman

Experience and expertise
Rod Hollingsworth is a geophysicist with extensive experience in oil & gas exploration. He was the Exploration Manager for Delhi Petroleum Pty Ltd during a period of major discoveries in the Cooper Basin, and has consulted to Santo Limited and other oil and gas explorers. He was the Executive Director of Operations of Stuart Petroleum Limited from 1999 to 2003. He is a fellow of the Australian Institute of Energy and a member of the Australian Society of Exploration Geophysicists and the Petroleum Society of Australia. Rod has a Bachelor of Science (with Hons.) from the University of Western Australia. Served as a Director from July 2005 until his resignation on 29 February 2008.

Special responsibilities
Member of the audit committee resigned February 29, 2008.

Ian McBain - Former President and Chief Executive Officer

Experience and expertise
Ian McBain acted for 20 years as principle of a corporate business services chartered accounting practice specialising in mergers, acquisitions, reconstructions, corporate strategy and business development. Ian was instrumental in closing of the TSX Venture Exchange Qualifying Transaction of Fall River and in the establishment of the current corporate strategy. Ian is a Chartered accountant and Fellow of the Institute of company directors.

As president and CEO of the Company, Ian was the equivalent position to a managing director of an Australian company. Served as a Director from November 2002 until his resignation on February 29, 2008.

Special responsibilities
Former President

Joint Company Secretary

David Hughes was appointed as Joint Company Secretary on February 6, 2008 and resigned on January 22, 2010.

Stephen Pearce and David Hughes were Joint Company Secretaries. For information on the experience of Stephen Pearce refer to information on directors. Mr Pearce resigned on May 11, 2011.

Malcolm Lucas-Smith was appointed as Joint Company Secretary on January 22, 2010 and became sole Company Secretary on May 11, 2011 following the resignation of Mr Pearce. Mr Lucas-Smith has over 40 years experience in finance, executive and non executive management, property development, corporate secretarial and administrative services. In September 1987 he formed a corporate service business and has since worked on and consulted to the corporate sector specialising in part time company secretary services and often assisting new start ups and existing operations proposing to list on the Australian Securities Exchange (ASX). He is currently also Company Secretary for Medivac Limited and HealthLinx Limited (all currently listed on the ASX). Mr Lucas-Smith is a member of the Australian Institute of Company Directors (MAICD).

Directors' Information (Continued)

Meetings of Directors

The number of meetings of the Company's Board of Directors and of each board committee held during the year ended September 30, 2008 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	8	8	-	-
J Mulready	8	8	1	1
S Pearce	5	8	1	1
D Sutton	8	8	1	1
I McBain	1	1	-	-
R Hollingsworth	1	1	1	1

Directors' Interests

The relevant interest of each current director in the securities 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
Raymond Shaw[(1)]	68,089,641	Nil
Torey Marshall[(2)]	69,363,925	Nil
Norman Zillman[(3)]	66,408,294	Nil

Notes:
(1) 63,414,641 of Dr Raymond Shaw's shares are held in voluntary escrow until January 22, 2012.
(2) 63,414,641 of Torey Marshall's shares are held in voluntary escrow until January 22, 2012.
(3) 63,414,628 of Norman Zillman's shares are held in voluntary escrow until January 22, 2012.

REMUNERATION REPORT

This report outlines the remuneration agreements in place for directors and executives of Earth heat 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.

Executive Compensation
The following table sets forth all annual and long term compensation for services in all capacities to the Corporation for the two most recently completed fiscal years, in respect of the individual(s) who were, at the end of the most recently completed fiscal year, acting as directors or executive officers.

Name and Position	Year	Salary(1) $	Options and Rights (3) $	Other Annual Compensation & Superannuation $	Total $
Ian F McBain Chairman Non-executive Director	2008 2007	69,009 245,934	- -	6,211 11,974	75,220 257,908
Jack Mulready Executive Director	2008 2007	146,447 213,037	- -	13,180 23,671	159,627 236,708
Rod Hollingsworth Non-Executive Director	2008 2007	9,859 64,052	- -	- -	9,859 64,052
Stephen Pearce Independent non-executive Director and Joint Company Secretary	2008 2007	48,818 51,015	- -	- -	48,818 51,015
Bruce McLeed Executive Director	2008 2007	30,000 -	- -	2,700 -	32,700 -
David Sutton Non-Executive Director	2008 2007	30,000 -	- -	2,700 -	32,700 -
David Hughes Company Secretary	2008 2007	16,000 -	- -	- -	16,000 -
Total	**2008**	**350,133**	**-**	**24,791**	**374,924**
	2007	**574,038**	**-**	**35,645**	**609,683**

Remuneration Report (Continued)

Notes:

(1) Executive salaries have not changed since 2006, any difference results from exchange rate as between CAD$ and Aus$.

(2) Ian McBain resigned effective from 29 February 2008.
Rod Hollingsworth resigned effective from 29 February 2008.

(3) Remuneration is not based on performance criteria.

(4) Remuneration is not currently linked to company performance or share price.

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Form 51-102F1

Management Discussion and Analysis

For the year from October 1, 2007 to September 30, 2008

The following management's discussion and analysis ("MD&A") focuses on significant factors that affected Earth Heat Resources Ltd ("EHR" or the "Company") and its subsidiaries during the relevant reporting period and to the date of this report. It contains a review and analysis of the financial results for the three and twelve months ended September 30, 2008, identifies business risks that the Company faced and comments on the financial resources required for the development of the business.

The MD&A supplements, but does not form part of the audited annual consolidated financial statements of the Company and the notes thereto for the twelve months ended September 30, 2008 (the "September 30 Annual Financial Statements" or 'consolidated financial statements") and consequently should be read in conjunction with the afore-mentioned financial statements and notes thereto. The information in this MD&A is current as of December 30, 2011.

All amounts, unless specifically identified as otherwise, both in the consolidated financial statements and this MD&A are expressed in Australian dollars.

Forward Looking Information

This MD&A contains certain "forward-looking information" which may include, but is not limited to, statements with respect to future events or future performance, management's expectations regarding the Company's growth, results of operations, estimated future revenues, requirements for additional capital, production costs and revenue, future demand for and prices of electricity, business prospects and opportunities. In addition, statements relating to estimates of recoverable geothermal energy "reserves" or "resources" or energy generation are forward-looking information, as they involve implied assessment, based on certain estimates and assumptions, that the geothermal resources and reserves described can be profitably produced in the future. Such forward-looking information reflects management's current beliefs and is based on information currently available to management. Often, but not always, forward-looking statements can be identified by the use of words such as "plans", "expects", "is expected", "budget", "scheduled", "estimates", "forecasts", "predicts", "intends", "targets", "aims", "anticipates" or "believes" or variations (including negative variations) of such words and phrases or may be identified by statements to the effect that certain actions "may", "could", "should", "would", "might" or "will" be taken, occur or be achieved. A number of known and unknown risks, uncertainties and other factors may cause the actual results or performance to materially differ from any future results or performance expressed or implied by the forward-looking information. Such factors include, among others, general business, economic, competitive, political and social uncertainties; the actual results of current geothermal energy production, development and/or exploration activities and the accuracy of probability simulations prepared to predict prospective geothermal resources; changes in project parameters as plans continue to be refined; possible variations of production rates; failure of plant, equipment or processes to operate as anticipated; accidents, labour disputes and other risks of the geothermal industry; political instability or insurrection or war; labour force availability and turnover; delays in obtaining governmental approvals or in the completion of development or construction activities or in the commencement of operations; as well as those factors discussed in the section entitled "Risks and Uncertainties" in this MD&A. These factors should be considered carefully and readers of this MD&A should not place undue reliance on forward-looking information.

Management Discussion and Analysis (Continued)

Although the forward-looking information contained in this MD&A is based upon what management believes to be reasonable assumptions, there can be no assurance that such forward-looking information will prove to be accurate, as actual results and future events could differ materially from those anticipated in such information. Accordingly, readers should not place undue reliance on forward-looking information. Such forward-looking information is made as of the date of this MD&A and, other than as required by applicable securities laws, Earth Heat Resources Ltd assumes no obligation to update or revise such forward-looking information to reflect new events or circumstances.

Use of Non-GAAP Measures

In this document, we refer to terms that do not have any standardized meaning prescribed by International Financial Reporting Standards ("IFRS"). Our usage of these terms may vary from the usage adapted by other companies. In this document and in the Company's financial statements, unless otherwise noted, all financial data is prepared in accordance with IFRS as issued by the International Accounting Standards Board.

Business Overview and Strategy

The Company was previously known as Fall River Resources Ltd. ("Fall River"), a Company that traded on the TSX-V and Australian Securities Exchange ("ASX") and was engaged in the exploration and development of oil and gas interests. Fall River was de-listed from the TSX-V on September 30, 2007 and continued to trade on the ASX. In July 2010 Fall River changed its name to Earth Heat Resources Limited ("EHR"), and at the current time is going through the application process of becoming re-listed on the TSX-V. There can be no certainty at this time with respect to the timing of the Company's re-enlistment on the TSX-V.

In January 2010 when under the previous name, Fall River, the Company successfully entered the geothermal market becoming a "new energy company" through the acquisition of Earth Heat Australia Pty Ltd and held a strategic position with several geothermal exploration licences in South Australia.

Looking to expand on this asset base, EHR continued with due diligence on a number of new energy opportunities, in particular focusing on geographical regions which demonstrated the highest potential for near term geothermal power production.

EHR is currently engaged in the operation, development, exploration and acquisition of geothermal energy projects in Argentina, Africa and Australia. The Company also has a residual interest in an oil and gas interest in the United States. EHR's mission is to become a leading global renewable power project developer and supplier of clean and reliable geothermal power.

Operational Overview

The Company's operational overview includes operational, exploration and development activities for the period October 11, 2007 to the date of the release of this report, December 30, 2011.

Copahue, Argentina

The Copahue Geothermal Project has the potential for 30 Megawatt ('MW") of development. EHR has entered into a Joint Venture Agreement ("the Agreement") with a Canadian Controlled Private Corporation called "Geothermal One", in July 2010. The Agreement provides the Company with the opportunity to earn up to 87.5% of the project. A key element of the Copahue Project is that it has previously had a small scale geothermal pilot plant installed and operating, supplying a small nearby town in the 1990's. As a result, significant infrastructure is already in place at the site.

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.

A full pre-feasibility study completed by the Japanese International Cooperation Agency in 1992 indicated that an area covering approximately 4 km^2 around the pilot power plant had the potential to support an initial 30MW power station, with individual wells capable of producing more than 7 Megawatt electric ("MWe").

Management Discussion and Analysis (Continued)

Fiale, Djibouti

In Djibouti, the Company announced in October 2010 that it had entered into a Joint Venture ("JV") with the Djibouti Ministry of Energy and Natural Resources and Electricitie' de Djibouti in relation to the Fiale Geothermal Development Project ("Fiale Project"), a major geothermal resource in the Rift Valley in Africa. The Project involves the staged development of a 150MW capacity project over several years.

Under the terms of the JV, EHR has the right to drill, extract, analyse, undertake all necessary works, and obtain all necessary rights to land access, permits and approvals covering the Fiale Project. The Fiale Project has had six wells drilled to date and has shown highly promising results, particularly in terms of productivity. Temperatures have been recorded up to 359 degrees Celsius at 2000m (commonly >250C at 1000m).

The Fiale Project is located in the Lake Assal region of Djibouti and is considered to be one of the most strategic geothermal opportunities within the Africa Rift Valley. Lake Assal is an area of recent volcanic activity, known from drilling in the 1980s and has recently come under intense focus of international geothermal power players.

EHR was appointed by the Djibouti Ministry of Energy and Natural Resources as the operator of the Fiale Project in October of 2010, and subject to completion of all documentation, will enter into a binding power purchase agreement ('PPA') in support of its investment.

EHR's work program to establish a 150MW Geothermal Development is currently broken up into three tranches:

1. To define, develop and install a 50 MW plant as soon as feasible;
2. To define and expand on the resource to 100MW capacity; and
3. To define and expand to 150MW total capacity.

Stage 1 of EHR's exploitation program will involve a full geological and geophysical review, permitting and approvals for drilling program, engineering studies, identification of accessible and appropriate drilling locations, the tendering and permitting of drilling rig and the mobilisation of construction and other services to site.

Australian Geothermal Exploration Assets, South Australia

In April 2010 the Company announced that in addition to its existing eight Geothermal Exploration Licences (GEL) that it had been offered for grant three further licences bringing the Company's total South Australian portfolio of GELs to 11, covering an area of over 13,000km². These licences were subsequently granted in May 2010.

Due to market deterioration for geothermal companies as a whole, these South Australian tenements were suspended in their entirety for 12 months to July 2011.

Despite this, the Company made the decision to consolidate and rationalise its existing GELs portfolio in South Australia, with Primary Industries and Resources of South Australia (PIRSA). This resulted in GEL 505 and Gel 506 being surrendered on November 17, 2011, and the balance of the GELs consolidated into 3 (subject to final approval from the state regulator).

Management Discussion and Analysis (Continued)

West Florence Exploration Joint Venture, Colorado, USA

During the period October 1, 2007 to September 30, 2008 the Company experienced a decline in production from the Slanovich well 32-23, despite the recent work-over that opened up an additional section in the well. In June 2008 the oil pump related to the well was pulled and was damaged. A new pump was installed, and the lower section of the overlying Niobrara Foundation opened up to the well bore.

The Pierre formation is to still to be evaluated, but this will require an additional well to be drilled. In the meantime the Company is planning to acquire a 3D seismic testing over part of licence area in the new year, and is in the process of attempting to renew an option covering an additional 13,000 acres.

As of the period ended September 30, 2008 the Company determined that the decline in production at the Slanovich well was significant enough to deem the Company's investment in the West Florence Exploration Joint Venture as no longer commercially viable. This resulted in an impairment of $573,495.

During June of 2010, the Company announced the divestment of its stake in the West Florence project in the USA. This was deemed to be non-core after strategic review and sold to Adelaide Energy Ltd, a joint venture partner in the project for $75,000.

Baxter Shale Project Green River Basin, Wyoming, USA

During the period October 1, 2007 to September 30, 2008 the Company was in dispute with the Operator (Samson Oil & Gas) regarding the Company's status in the joint venture, following the late payment of a cash call. However, for the periods subsequent to September 30, 2008 the company has decided to pursue an agreement with 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.

As of the period ended September 30, 2008 the Company decided to write-down the Baxter project by $495,322, resulting in a revised carrying value of $nil.

Sprowl Gas Field, Oklahoma, USA

In August 2008 an agreement was reached with R&M PLC, an existing joint venture partner at Sprowl, to sell the Company's 20% working interest for $510,000. Approximately $204,000 of this sum was used to retire debt of $204,000. The sale resulted in a loss of $105,299. After the disposal the Company, wrote-down the remaining value of the Sprowl Gas Field by $106,240.

Lake David, Alberta, Canada

During the period October 1, 2007 to September 30, 2008, the Company decided to relinquish its share of the section containing Lake David-1 well. This resulted in a total write-down on the property of $352,323.

Sunken Lake, Alberta, Canada

During the period October 1, 2007 to September 30, 2008 the Company relinquished the section containing the Sunken Lake-1 well, and the company is awaiting advice regarding abandonment of the well. This resulted in a write-down of the property of $313,144.

Management Discussion and Analysis (Continued)

Financial Overview

Results of operations

For the year ended September 30, 2008, the Company incurred a net income after tax of $3,639,211, compared to a net loss of $3,282,861 during the year ended September 30, 2007.

The significant differences between the two years include:

- A $318,714 decrease in restricted cash, which was the result of the Company writing down $318,714 being the amount previously recognized for a payment related to bartering services. The Company never utilized the services, which resulted in a write-down.
- Decrease in asset retirement obligation of $143,523 is the result of Non-IFRS adjustment as the Canadian Oil and Gas properties are no longer held.
- Increase in the Company's interest-bearing facilities of $779,969. This increase is the result of additional principal and interest incurred.
- Increase in the Company's convertible debenture of $254,564. This increase is the result of accretion expense for the period of $227,354 (CDN$223,446) and foreign exchange loss on the conversion of the convertible debenture or $27,210 (CDN$26,742)
- Increase in property investigation costs of $291,558. This was the result of an increase in the Company's corporate development activities, related to property acquisitions.
- Decrease in salaries and benefits of ($483,433), is the result of a decrease in the amount of salaries paid to directors of the Company because of the decrease in production of the Company's operating wells.

Summary of Results

The following table sets forth selected financial information for each of the most recent eight quarters and two previous years prepared in accordance with International Financial reporting Standards ("IFRS") and interpretations issued by the International Accounting Standards Board ("IASB").

The functional currency of the Company and each subsidiary is Australian dollars, except for Spring River Resources Inc whose functional currency is U.S. dollars.

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Management Discussion and Analysis (Continued)

Summary of Financial Results for the Eight Recent Quarters

Quarter Ending	Revenue	Net Profit/ (Loss)	Net Profit/ (Loss) per Share
	AUD $	AUD $	AUD $
September 30, 2008[1]	69,853	(1,136,879)	(0.0126)
June 30, 2008[1]	35,247	(609,792)	(0.0067)
March 31, 2008[1]	26,719	(1,293,241)	(0.0143)
December 31, 2007[1]	54,083	(599,299)	(0.0066)
September 30, 2007[1]	7,490	(2,048,512)	(0.0240)
June 30, 2007[1]	55,496	(261,679)	(0.0036)
March 31, 2007[1]	58,244	(337,972)	(0.0055)
December 31, 2006[1]	78,073	(634,698)	(0.0102)

[1]Previously released in Canadian dollars

Summary of Financial Results for the Two Recent Years

Year Ending	Revenue	Net Profit/(Loss)	Net Profit/(Loss) per Share	Total Assets	Total Liabilities
	AUD$	AUD$	AUD$	AUD$	AUD$
September 30, 2008	185,902	(3,639,211)	(0.0402)	1,269,999	4,440,354
September 30, 2007	199,303	(3,282,861)	(0.0448)	3,983,620	3,436,245

Liquidity and Capital Resources

The Company has financed its operations mainly through the sale of its common shares or securities convertible into common shares to investors.

The Company had a working capital deficiency of ($3,170,355) at September 30, 2008 compared to a surplus of $547,375 at September 30, 2007. Since the year end the Company has raised over $3,000,000 in equity and has secured a $5,000,000 investment through a Share Purchase Agreement with Socius CG II, of which $3,000,000 remains available at December 30, 2011.

In addition, the consolidated entity announced it has mandated the Inter-American Development Bank's ('IDB' or 'the Bank') Structured and Corporate Finance Department ('SCF'), to raise up to USD$134,000,000 in project finance for the development of the 30MWe Copahue Project in Argentina.

Management Discussion and Analysis (Continued)

Share Capital and Financing

During the period from October 1, 2007 to September 30, 2008 the Company issued no ordinary shares:

	September 30, 2008	
	Number No.	Consideration AUD$
Balance, beginning of year	**90,536,522**	**$11,011,753**
Balance, end of year	**90,536,522**	**$11,011,753**

During the period from October 1, 2007 to September 30, 2008 the Company issued no stock options, however during the year 150,000 options expired.

The following table summarises information about the stock options outstanding and exercisable at the date of this report.

	Exercise Price September 30, 2011	No, of Options September 30, 2011
February 14, 2011 [(1)]	$0.079	12,658,228
February 25, 2011 [(2)]	$0.030	2,000,000
December 12, 2011[(3)]	$0.060	10,000,000
End of the period	$0.064	24,658,228

Notes

[(1)] On February 14, 2011, 25,316,456 ordinary shares and 12,658,228 unquoted options were issued Socius CG II for $2,000,000 as the first tranche in pursuant to a Share Subscription Agreement dated February 14, 2011 Under the Agreement the total investment of up to $5,000,000 over the next six months, in two tranches of $2,000,000 and one $1,000,000 at issue prices for the shares equivalents to the closing bid price of the Company's CDI/ORD shares the day before closing, plus unquoted five year options to 50% in number of the share issue at an exercise price equivalent to the related share issue price. The 12,658,228 unquoted options issued have an exercise price of $0.079 and expire on February 14, 2016.

[(2)] On October 31, 2011 10,000,000 options were exercised at $0.02 leaving 2,000,000 vested options at the date of this report.

[(3)] On December 12, 2011 $600,000 was raised for the issue of 20,000,000 ordinary shares at $0.03, in addition one free attaching options was issued for every two shares purchased, exercisable at 6c, anytime up to December 12 2012.

The Company had the following securities on issue at December 30, 2011:

	Number
Ordinary shares quoted on the ASX	596,218,676
Ordinary shares not quoted on the ASX	3,313,967
Total ordinary shares	599,532,643
Stock options issued	24,658,228

Management Discussion and Analysis (Continued)

Related Party Transactions

I) Related Party Transactions

During the year the Company entered into employment contracts and loan agreements with directors and consultants that are considered to be related parties. The purpose of the transactions entered into with related parties was to facilitate the Company's strategic, operating and financing activities.

The Related party transactions mentioned above 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.

Related party	Debtor/(Creditor) Balance September 30, 2007 $	(Charge)/Credit to Consolidated Restated Income Statement $	Cash Paid/(received) during the period $	Debtor/(Creditor) Balance September 30, 2008 $
Remuneration Payable to Directors				
B McLeod including superannuation	-	(34,050)	-	(34,050)
J Mulready including superannuation and annual leave provisions	(331,713)	(198,299)	213,536	(316,476)
S Pearce	(73,377)	(48,818)	-	(122,195)
D Sutton including superannuation	-	(34,050)	-	(34,050)
	(405,090)	(315,217)	213,536	(506,771)
Interest Bearing Liabilities[4]				
Imperial Corporation Pty Ltd[1]	-	(9,919)	(42,936)	(52,855)
Martin Place Securities Pty Ltd[2]	-	(25,600)	(400,000)	(425,600)
Optex Exchange Pty Ltd[2]	-	(18,717)	(300,000)	(318,717)
	-	(54,236)	(742,936)	(797,172)
Other Creditors				
Office expenses provided by Imperial Corporation Pty Ltd[1]	-	(60,600)	37,600	(23,000)
Non-interest bearing loans from Martin Place Securities Pty Ltd[2]	(282,056)	-	-	(282,056)
	(282,056)	(60,600)	37,600	(305,056)
Convertible Debentures				
Optex Exchange Pty Ltd[2]	(11,333)	(1,324)	1,111	(11,546)
Loan Receivable in subsidiary				
North American Oil & Gas[3]	159,441	-	(101,988)	57,453

Notes:

(1) Mr Bruce McLeod is a director and shareholder of Imperial Corporation Pty Limited. Mr David Sutton is also a director of Imperial Corporation Pty Limited.

(2) Mr David Sutton was a director of Martin Place Securities Pty Ltd and is a director of North American Oil & Gas and Optex Exchange Pty Ltd.

(3) Joint Venture contributions were paid on behalf of North American Oil & Gas of which one of its Directors, Mr David Sutton is also a Director of the Company. The loan is interest free and unsecured.

(4) The Notes Payable are unsecured and accrue interest at 8% pa.

Management Discussion and Analysis (Continued)

Total Interest paid or accrued on loans and convertible debentures owing to the related parties amounted to $55,560 (2007: $10,974).

Office accommodation $24,600 and administration fees of $36,000 (2007: $Nil) were paid to Imperial Corporation Pty Ltd a Company of which Mr Bruce McLeod and Mr David Sutton are also Directors. The amount owing to the related party amounted to $23,000 (2007: $nil).

The following loans and other liabilities were repaid as part of the 69 million share issue (pursuant to a share sale agreement dated January 11, 2010 between the Company and Earth Heat Australia Pty Ltd):

Related party	**Amount paid in shares $**	**Credit to the Statement of Comprehensive Income $**
Imperial Corporation Pty Ltd[1]	545,068	-
Martin Place Securities Pty Ltd[2]	671,178	-
North American Oil & Gas[2]	50,000	39,858
Optex Exchange Pty Ltd Convertible Debentures[2]	15,378	-
Optex Exchange Pty Ltd[2]	431,460	-
	2,080,693	39,858

Notes:
(1) Mr Bruce McLeod is a director and shareholder of Imperial Corporation Pty Limited (Mr David Sutton was no longer a Directors at the date of the above agreement).
(2) Mr David Sutton was a director of Martin Place Securities Pty Ltd and is a director of North American Oil & Gas and Optex Exchange Pty Ltd.

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 (resigned January 22, 2010)
J Mulready (resigned January 12, 2010)
S Pearce (resigned May 11, 2011)
D Sutton (resigned May 11, 2011)
R Hollingsworth (resigned February 29, 2008)
I McBain (resigned February 29, 2008)

D L Hughes was a Joint Company Secretary (resigned January 22, 2010)
S Pearce was a Joint Company Secretary (resigned May 11, 2011)

Management Discussion and Analysis (Continued)

III) Remuneration of key management personnel

There were no shares or option over unissued shares in the Company held during the financial year by any key management personnel of the Company including their related parties.

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.

The remuneration (including superannuation and annual leave provision) unpaid as at September 30, 2008 amounted to $506,771, some of which is included the following key personnel's unpaid remuneration and superannuation that were paid in shares (pursuant to the share sale agreement dated January 11, 2010 between the Company and Earth Heat Australia Pty Ltd:

Name	**Wages and superannuation $**	**Shares issued No.**	**Fair value @ $0.01 $**	**Credit to Income Statement $**
Bruce McLeod(1)	85,838	1,741,083	17,411	68,427
David Sutton	85,838	1,741,083	17,411	68,427
Jack Mulready(1) (2)	498,503	5,000,000	50,000	448,503
Stephen Pearce	178,418	3,618,967	36,190	142,228
Roderick Hollingsworth(1)	34,609	701,988	7,020	27,589
Total	883,206	12,803,121	128,032	755,174

(1) Previous key management personnel.
(2) Jack Mulready's liabilities exclude the annual leave provision of $92,866. During the period $40,000 was paid in cash, pursuant to the share sale agreement in settlement of this liability.

Management Discussion and Analysis (Continued)

IV) Directors' Interests

Shares or options over unissued shares in the Company held by any director of the Company including their related parties as at September 30, 2008 are as follows:

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 @ CAD$0.18
Stephen Pearce	374,300	20,000 @ CAD$0.18
David Sutton	2,250,250	4,000,000 @ CAD$0.18
Bruce McLeod	2,250,000	4,500,000 @ CAD$0.18

Shares or options over unissued shares in the Company held by any director of the Company including their related parties as at the date of this report are as follows:

Director	Number of shares owned or over which control is exercised	Number of options owned or over which control is exercised - including exercise price
Raymond Shaw	67,839,641	Nil
Torey Marshall	69,191,307	Nil
Norman Zillman	64,576,294	Nil

Subsequent Events

November 28, 2008: (maturity date) the Company had outstanding convertible notes, the principal amounts of which totalled $2,073,247. The Noteholders received payment of $622,299 representing their proportionate entitlement to funds held in the Capital Sinking Fund Account being an amount equal to 30% of the outstanding notes at the maturity date. All interest payments on the outstanding convertible notes had been made up to November 28, 2008.

Management Discussion and Analysis (Continued)

October 15, 2009: the Company announced the signing of a Memorandum of Understanding ("MOU") between Fall River Resources Limited (Fall River) and Earth Heat Australia Limited ("Earth Heat Australia") which provides for the acquisition by Fall River of all of the issued shares in Earth Heat Australia. Consideration for the acquisition is $2,600,000 to be satisfied by the allotment and issue of 260,000,000 new Fall River shares at $0.01. Earth Heat Australia 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 69,000,000 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 5,000,000 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 40,000,000 new Fall River shares to T J Mann & Associates Pty Ltd. This fee is inclusive of the costs associated with the $2,000,000 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 was subject to the satisfactory completion of due diligence and the satisfactory completion of the relevant purchase and sale agreement.

The transaction obtained the approval of Fall River shareholders at a special meeting of members held on January 8, 2010.

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 Australia is fair and reasonable to non-associated shareholders of Fall River Resources Limited.

November 10, 2009: 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.

Management Discussion and Analysis (Continued)

January 22, 2010: the Company completed the acquisition of Earth Heat Australia Pty Ltd.

The fair value assets and liabilities of Earth Heat as at January, 22 2010 were:

	Fair Value 22 January 2010 $
Assets	
Current Assets: Total Cash On Hand	6,375
Non-Current Assets: Capitalised Tenement Costs (Note 11)	2,652,548
Total Assets	2,658,923
Liabilities	
Current Liabilities	
Trade Creditors and other liabilities	3,488
Related Party Loan -Director's Loan -R Shaw	27,874
Related Party Loan –Vibrante Solutions Pty Ltd	34,524
Total Liabilities	65,886
Net (Liabilities)/Assets	**2,600,000**
Consideration	**2,600,000**
Goodwill	**-**

As a result of the share sale agreement dated January 11, 2010 between the Company and Earth Heat Australia Pty Ltd $2,710,000 was credited to the Income Statement for the year ended September 30, 2010, primarily are a result of the following:

- the convertible notes balance of $1,452,032 and all accrued interest of $175,208 were converted into 29,452,256 and 3,553,833 shares respectively, pursuant to a share sale agreement dated January 11, 2010 between the Company and Earth Heat Australia Pty Ltd. This resulted in a credit to the Income Statement $139,670 for interest and increase in the fair value of shares issued $1,157,492 for notes.

- the notes payable balance of $819,260 including interest of $121,324 were converted into 15,340,420 shares, pursuant to a share sale agreement dated January 11, 2010 between the Company and Earth Heat Australia Pty Ltd. The convertible notes were converted at $0.2028 per $1 of liability; this resulted and increase in the fair value of shares issued of $653,085.

May 2010: the Company announced that it had come to agreement with Geothermal One Inc to participate in the Copahue geothermal power project in Argentina, a true milestone for the transformation of its core business.

Management Discussion and Analysis (Continued)

June 2010: the Company announced the divestment of its stake in the West Florence project in the USA. This was deemed to be non-core after strategic review and sold to Adelaide Energy Ltd, a joint venture partner in the project.

July 29, 2010: the Company announced that the rebranding of the consolidated entity had been completed including the change of name from Fall River Resources Ltd to Earth Heat Resources Ltd.

July 2010: the Company and its partner, Geothermal One Inc were awarded via adjudication, the Copahue Project in Argentina. Certain conditions must be met by Geothermal One Inc and the Company to ensure eligibility to sign the concession contract.

October 10, 2010: a Joint Venture Agreement ("JV") was signed between the Djibouti Ministry of Energy and Natural Resources and Electricitie' de Djibouti in relation to the Fiale Geothermal Development Project ("Fiale Project"). Since the year end, the Company engaged in discussions on the absolute structure of a Joint Venture with Electricitie' De Djibouti, and a suitable Power Purchase Agreement and as of the date of this report management discussion and analysis the structure of the joint venture agreement has not been finalized.

October 26, 2010: 20,037,500 shares were issued as follow:

- 9,125,000 as consideration for the acquisition Fiale Project;
- 912,500 in settlement of a commercial agreement in respect to the Fiale Project; and
- 10,000,000 at $0.025 to sophisticated investors.

February 14, 2011: 25,316,456 ordinary shares at 7.9 cents and 12,658,228 unquoted options were issued pursuant to a Share Subscription Agreement between the Company and Socius CG II, Ltd dated February 14, 2011. The Agreement was for a total investment of up to $5,000,000 over the next two years in two tranches of $2,000,000 each and one tranche of $1,000,000 at issue prices for the shares equivalent to the closing bid price of the Company's CDI/ORD shares the day before each close, plus unquoted 5 year options to 50% in number of the shares issued at an exercise price equivalent to the related share issue price. The investor shall have a right during the term of the options (after expiry of 10 days) to surrender the options for a number of shares the aggregate value of which is to be determined by a Black Scholes calculation as detailed in the Share Subscription Agreement. At the date of this report $3,000,000 of the Socius investment is available.

February 23, 2011: the following resolutions were passed at the AGM:

- Number of directors for ensuing year at six;
- Raymond Shaw, Torey Marshall, David Sutton, Normal Zillman and Stephen Pearce to be re-elected as directors of the Company;
- Alexander Rose-Innes election as a director of the Company was ratified;
- KS Black & Co be appointed as auditors and directors to fix auditors remuneration;
- Issue of Options to Alexander Rose-Innes pursuant to employment agreement;
- Share issue for transfer of rights to acquire the Fiale project in Djibouti; and
- Approval of Employee Share Option Scheme.

February 25, 2011: 42,000,000 unquoted options were issued with exercise price ranging from $0.02 to $0.08 and expiry dates ranging from August 3, 2011 to August 3, 2013.

On March 2, 2011: 587,998 Canadian issued common stock was transferred to ASX listed ordinary shares.

March 8, 2011: the Company announced the engagement of the services of specialist consulting group Sinclair Knight Merz (SKM).

Management Discussion and Analysis (Continued)

May 11, 2011: the Company announced a simplification of the board structure and the resignation of three directors, David Sutton, Alexander Rose-Innes and Stephen Pearce. As a result, Alexander Rose-Innes 20,000,000 unquoted options lapsed.

May 18, 2011: the Company announced significant resource upgrade at Copahue.

May 20, 2011: the Company announced significant concept study for accelerated 15MW plant at Copahue.

July 28, 2011: the Company announced a positive completion of Copahue concept study by Sinclair Knight Merz.

October 5, 2011: the Company announced the signing of a Letter of Intention & Heads of Agreement for a power purchase off take in Argentina with Loma Negra CIASA.October 12, 2011: the Company held an Extraordinary General Meeting and the shareholders' passed the following resolutions:

- The Shareholders approve and authorise the prior issue of 25,316,456 ordinary shares and 12,658,228 unquoted options to Socius Capital Group LLC in accordance with the Share Subscription Agreement.
- The Shareholders approve and authorise the future issues of ordinary shares and unquoted options to Socius Capital Group LLC in the three month period following October 12, 2011, subject to the terms of the Share Subscription Agreement.
- The Shareholders approve and authorise the future issue of 136,000,000 ordinary shares at an issue price of at least 80% of the volume weighted average market price calculated over the last 5 days on which the security were recorded.
- The Shareholders approve and authorise the future issue of 20,000,000 unquoted options at no cost to the recipient (who shall not be a related party), as required for corporate purposes.

October 18, 2011: the Company announced the signing of a Letter of Intention & Heads of Agreement for a power purchase off take in Argentina with Electrometalurgica Andina SAIC.

October 31, 2011: 10,000,000 options were exercised.

November 17, 2011: the consolidated entity surrendered Gel 505 and GEL 506.

November 24, 2011: the consolidated entity announced it has mandated the Inter-American Development Bank's ('IDB' or 'the Bank') Structured and Corporate Finance Department ('SCF'), to raise up to USD$134,000,000 in project finance for the development of the 30MWe Copahue Project in Argentina.

December 12, 2011: $600,000 was raised for the issue of 20,000,000 ordinary shares at $0.03, in addition one free attaching options was issued for every two shares purchased.

Except for the matters referred to above, there is no other matter or circumstance that has arisen since 30 September 2008 that has significantly affected or may significantly affect:

a) the operations, in financial years subsequent to 30 September 2008, of the consolidated group;
b) the results of those operations; or
c) the state of affairs, in financial years subsequent to 30 September 2008 of the consolidated group.

Management Discussion and Analysis (Continued)

Critical Accounting Policies and Estimates

Determining Fair Values

A number of the consolidated entity's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and / or disclosure purposes based upon the following methods. Where applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

Property, plant and equipment
The fair value of property, plant and equipment recognised as a result of a business combination is based on market values. The market value of items of plant, equipment, fixtures and fittings is based upon the quoted market prices of similar items.

Trade and other receivables
The fair value of trade and other receivables is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date.

Geothermal, Oil and Gas Interests

Exploration, evaluation and development expenditure incurred is accumulated in respect of each current identifiable area of interest. These costs are only carried forward to the extent that they are expected to be recouped through the successful development of the area or where activities in the area have not yet reached a stage that permits reasonable assessment of the existence of economically recoverable reserves. Accumulated costs in relation to an abandoned area are written off in full against profit in the year in which the decision to abandon the area is made.

When production commences, the accumulated costs for the relevant area of interest are amortised over the life of the area according to the rate of depletion of the economically recoverable reserves.

A regular review is undertaken of each area of interest to determine the appropriateness of continuing to carry forward costs in relation to that area of interest.

Exploration and evaluation assets are assessed for impairment when fact and circumstances suggest that the carrying amount of an exploration and evaluation asset may exceed its recoverable amount. The recoverable amount of the exploration and evaluation asset is estimated to determine the extent of the impairment loss (if any). Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but only to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in previous years.

The consolidated entity follows the full cost method of accounting for natural gas and petroleum property interests and geothermal interests whereby all costs of acquisitions, exploring for and developing geothermal, natural gas and petroleum reserves are initially capitalised 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.

Management Discussion and Analysis (Continued)

Changes in Accounting Policy

<u>Accounting standards and interpretations issued but not yet effective:</u>

Accounting – Standards issued by the IASB	Effective date
IFRS 10 Consolidated Financial Statements, IFRS 11 Joint Arrangements and IFRS 12 Disclosures of Interests in Other Entities and amendments to IAS 27 Separate Financial Statements and IAS 28 Investments in Associates and Joint Ventures IFRS 10 *Consolidated Financial Statements* defines the principle of control and establishes control as the basis for determining which entities are consolidated in consolidated financial statements. IFRS 10 supersedes the requirements relating to consolidated financial statements in IAS 27 *Consolidated and Separate Financial Statements (as amended in 2008)* and SIC-12 *Consolidation — Special Purpose Entities*. IFRS 11 *Joint Arrangements* establishes principles that are applicable to the accounting for all joint arrangements. IFRS 11 supersedes the requirements in IAS 31 *Interests in Joint Ventures* and SIC-13 *Jointly Controlled Entities — Non-Monetary Contributions by Venturers*. IFRS 12 *Disclosure of Interests in Other Entities* provides enhanced disclosures about an entity's interest in subsidiaries, joint arrangements, associates and unconsolidated structured entities. IFRS 12 requires an entity to disclose information that enables users of financial statements to evaluate the judgments and assumptions made by a reporting entity when deciding how to classify its involvement with another entity; the nature of, and risks associated with, its interests in other entities; and the effects of those interests on its financial position, financial performance and cash flows. IAS 27 *Separate Financial Statements* was amended as a result of issuing IFRS 10. Requirements relating to consolidated financial statements have been removed. Requirements from IAS 28 *Investments in Associates (as revised in 2003)* and IAS 31have been relocated to IAS 27 to create one standard that deals with separate financial statements. The amended standard supersedes IAS 27 (as amended in 2008) and the requirements related to separate financial statements in IAS 28 (as revised in 2033) and replaces/eliminates IAS 31. IAS 28 *Investments in Associates and Joint Ventures* was amended to incorporate the accounting for joint ventures because the equity method is now applicable to both joint ventures and associates. The disclosure requirements from IAS 28 (as revised in 2003) have been included in IFRS 12. The amended standard supersedes IAS 28 (as revised in 2003).	Annual periods beginning on or after January 1, 2013. Earlier application of IFRS 10, IFRS 11, IAS 27 (as amended in 2011) and IAS 28 (as amended in 2011) are permitted if IFRS 10, IFRS 11, IFRS 12, IAS 27 (as amended in 2011) and IAS 28 (as amended in 2011) are applied at the same time. An entity is encouraged to provide information required by IFRS 12 earlier than annual periods beginning on or after January 1, 2013.

Management Discussion and Analysis (Continued)

Accounting – Standards issued by the IASB	Effective date
IFRS 9 Financial instruments IFRS 9 *Financial Instruments* is the first of a multi-phase project to replace IAS 39 *Financial Instruments: Recognition and Measurement*. It addresses the classification, measurement and derecognition of financial assets and financial liabilities. IFRS 9 divides all financial assets that are currently in the scope of IAS 39 into two classifications – those measured at amortised cost and those measured at fair value. Classification is made at the time the financial asset is initially recognised when the entity becomes a party to the contractual provisions of the instrument. The transition guidance is complex and mainly requires retrospective application. Most of the requirements in IAS 39 for the classification and measurement of financial liabilities have been carried forward unchanged to IFRS 9. Where an entity chooses to measure its own debt at fair value, IFRS 9 now requires the amount of the change in fair value due to changes in the issuing entity's own credit risk to be presented in other comprehensive income. An exception to the new approach is made where the effects of changes in the liability's credit risk would create or enlarge an accounting mismatch in profit or loss, in which case all gains or losses on that liability are to be presented in profit or loss. The requirements in IAS 39 related to derecognition of financial assets and financial liabilities have been incorporated unchanged into the new version of IFRS 9.	Fiscal years beginning on or after January 1, 2013. Early adoption is permitted
IAS 1 Presentation of Financial Statements IAS 1 *Presentation of Financial Statements* was amended to improve the consistency and clarity of the presentation of items of other comprehensive income. A requirement has been added to present items in other comprehensive income grouped on the basis of whether they may be reclassified subsequently to profit or loss. This amendment makes clearer the effects items of other comprehensive income may have on profit or loss in the future. Consistent with this requirement, income tax on items presented in other comprehensive income is required to be allocated between items that will not be reclassified subsequently to profit or loss and those that might be reclassified, if the items in other comprehensive income are presented before tax.	Annual periods beginning on or after July 1, 2012. Earlier application is permitted.

Management Discussion and Analysis (Continued)

Accounting – Standards issued by the IASB	Effective date
IAS 12 Deferred Tax: Recovery of Underlying Assets (Amendments to IAS 12) The IASB has published some limited scope amendments to IAS 12 *Income Taxes*, which are relevant only when an entity elects to use the fair value model for measurement in IAS 40 *Investment Property*. Under IAS 12, the measurement of deferred tax liabilities and deferred tax assets depends on whether an entity expects to recover an asset by using it or by selling it. To provide a practical approach in such cases, the amendment introduces a presumption that an investment property is recovered entirely through sale. SIC-21 *Income Taxes – Recovery of Revalued Non-Depreciable Assets* addresses similar issues involving non-depreciable assets measured using the revaluation model in IAS 16 *Property, Plant and Equipment*. This guidance has been incorporated into IAS 12 as part of the amendments.	Fiscal years beginning on or after January 1, 2012. Early adoption is permitted.
IFRS 1 Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters (Amendments to IFRS 1) The IASB has published two limited amendments to IFRS 1 *First-time Adoption of International Financial Reporting Standards*. The first amendment replaces references to a fixed date of '1 January 2004' that were in IFRS 1 with references to 'the date of transition to IFRS. The second amendment provides guidance on how an entity should resume presenting financial statements in accordance with IFRS after a period when the entity was unable to comply with IFRS because its functional currency was subject to severe hyperinflation. The amendment is available to entities that are emerging from a period of severe hyperinflation, whether or not they had applied IFRS prior to the severe hyperinflationary period.	Fiscal years beginning on or after July 1, 2011. Early adoption is permitted.
IFRS 7 Financial Instruments: Disclosures The IASB amended IFRS 7 *Financial Instruments: Disclosures* for Disclosures – Transfers of Financial Assets. The amendments are designed to provide information that allows users to (i) understand the relationship between transferred financial assets that are not derecognised in their entirety and the associated liabilities; and (ii) evaluate the nature of, and risk associated with, any continuing involvement of the reporting entity in financial assets that are derecognised in their entirety.	Fiscal years beginning on or after July 1, 2011. Early adoption is permitted.

Financial Instruments and Other Instruments

The Company has not entered into any specialized financial agreements to minimize its investment risk, currency risk or commodity risk. As of the date hereof, the Company's investment in geothermal, oil and gas properties has full exposure to commodity risk, both upside and downside. As the commodity price moves so too does the underlying value of the Company's projects.

The Company's property interests overseas make it subject to foreign currency fluctuations which may adversely affect the Company's financial position and results.

Control Matters

Disclosure Controls and Procedures

Management is responsible for establishing and maintaining adequate disclosure controls and internal controls over financial reporting as defined under National Instrument 52-109 of the Canadian Securities Administrators. Due to their inherent limitations, disclosure controls and internal controls over financial reporting may not prevent or detect material disclosures or material adjustments or disclosures to the financial statements on a timely basis. Also projections of any evaluation of the effectiveness of controls to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate. Accordingly, controls while expected to provide reasonable assurance, are not expected to prevent and detect all misstatements due to error or fraud. The Company's Management, under the supervision of, and with the participation of EHR's Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO"), has designed and evaluated the effectiveness and operation of its disclosure controls and procedures.

Disclosure controls and procedures are designed to provide reasonable assurance that information required to be disclosed in reports filed with Canadian securities regulatory authorities is recorded, processed, summarized and reported in a timely fashion. The disclosure controls and procedures are designed to ensure that information required to be disclosed by the Company in such reports is then accumulated and communicated to the Company's Management, including the CEO and the CFO, as appropriate, to allow timely decisions regarding required disclosure.

Based on the evaluation of disclosure controls and procedures, the CEO and CFO have concluded that EHR's disclosure controls and procedures and internal controls over financial reporting are effective as at the reporting date.

Management Discussion and Analysis (Continued)

Internal Controls over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting of the Company. Internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS.

The Company's internal control over financial reporting includes those policies and procedures that

(i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company;
(ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with IFRS, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and
(iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the financial statements.

As the result of the change in officers of the Company and the acquisition of Earth Heat Australia Pty Ltd that happened early in the reporting year, the Company has undergone a number of significant changes in its structure, business plans, management and board of directors. Given these changes, the Company is currently in the process of realigning and, in some cases, establishing an improved internal control framework. The design and improvement of this framework is a continuous process.

Risks and Uncertainties

The risks and uncertainties described in this section are considered by management to be the most important in the context of the Company’s business. The risk and uncertainties below are not inclusive of all the risks and uncertainties the Company may be subject to and other risks may apply.

<u>Risk Relating to EHR’s Business and Industry</u>

Geothermal exploration and development programs are highly speculative, are characterized by significant inherent risk and costs and may not be successful

EHR’s future performance depends on its ability to discover and establish economically recoverable and sustainable geothermal resources on EHR’s properties through its exploration and development programs. Geothermal exploration and development involves a high degree of risk and few properties that are explored are ultimately developed into generating power plants. There is no assurance that EHR’s exploration programs will be successful. Despite historical exploration work, EHR’s properties are without a known geothermal resource. Substantial exploration and development work is required in order to determine if any economically recoverable and sustainable geothermal resources are located on these exploration properties. Successfully discovering geothermal resources is dependent on a number of factors, including the technical skill of exploration personnel involved. Even in the event commercial quantities of geothermal resources are discovered, it may not be commercially feasible to bring power generation facilities into a state of commercial production from such geothermal resources. The commercial viability of a geothermal resource once discovered is dependent on a number of factors, some of which are particular attributes of the resource, such as heat content (the relevant composition of temperature and flow rate/pressure), useful life, operational factors relating to the extraction of fluids from the geothermal resource, proximity to infrastructure, capital costs to construct a power plant and related infrastructure and energy prices. Many of these factors are beyond EHR’s control.

Management Discussion and Analysis (Continued)

Geothermal exploration and development costs are high and are not fixed. A geothermal resource cannot be relied upon until substantial development, including drilling and testing, has taken place. The costs of development drilling are subject to numerous variables such as unforeseen geologic conditions underground that could result in substantial cost overruns. Drilling at EHR's properties may involve unprofitable efforts, not only from dry wells, but from wells that are productive but do not produce sufficient net revenues to return a profit after drilling, operating and other costs.

EHR's drilling operations may be curtailed, delayed or cancelled as a result of numerous factors, many of which are beyond EHR's control, including economic conditions, mechanical problems, title problems, weather conditions, compliance with governmental requirements and shortages or delays of equipment and services.

If EHR's drilling activities are not successful, it could materially adversely affect its business, financial condition, future results and cashflow.

EHR's has a limited operating history

EHR's has a very limited history of operations and will be subject to many of the risks common to start up enterprises, including under-capitalization, cash shortages, limitations with respect to personnel, financial, and other resources and lack of revenues. There is no assurance that EHR's will be successful in achieving a return on shareholders' investment and the likelihood of success must be considered in light of its early stage of operations.

As a result of EHR's planned exploration and plant expansion projects, over the near term EHR does not expect that its operating revenues will be sufficient to cover its expenses. EHR's ability to generate greater revenues and become profitable will depend on a number of factors, including its ability to:

- successfully complete its planned expansion programs for its Copahue and Djibouti projects;
- advance planned and future development programs on EHR's properties to commercial operation;
- verify geothermal resources on EHR's properties that are sufficient to generate a favourable economic return from electricity sales;
- acquire electrical transmission and interconnection rights for EHR's geothermal power plant development projects;
- enter into PPAs for the sale of electricity from EHR's geothermal power plant development projects at prices that support its operating and financing costs;
- finance and complete the development and construction of geothermal power plants on EHR's properties;
- operate producing geothermal power plants on a profitable basis;
- secure adequate capital to support EHR's expansion, exploration and development programs and finance its acquisitions;
- attract and retain qualified personnel; and
- arrange project financing on reasonable terms.

EHR's financial performance depends on its successful operation of geothermal power plants, which is subject to various operational risks

EHR's financial performance depends on its successful operation of geothermal power plants. The cost of operation and maintenance and the operating performance of a geothermal power plant may be adversely affected by a variety of factors, including some that are discussed elsewhere in these risk factors and the following:

- regular and unexpected maintenance and replacement expenditures;
- shutdowns due to the breakdown or failure of the plant's equipment or the equipment of the transmission serving utility;
- labour disputes;
- catastrophic events such as fires, explosions, earthquakes, landslides, floods, releases of hazardous materials, severe storms or similar occurrences affecting a power plant, any of the power purchasers from a power plant or third parties providing services to a power plant; and
- the aging of power plants, which may reduce their operating performance and increase the cost of their maintenance.

Any of these events could significantly increase the expenses incurred by a power plant or reduce the overall generating capacity of a power plant and could significantly reduce or entirely eliminate the revenues generated by a power plant, which in turn would reduce EHR's net income and could materially and adversely affect its business, financial condition, future results and cashflow.

EHR's geothermal resources may decline over time and may not remain adequate to support the life of its power plants

The operation of geothermal power plants depends on the continued availability of adequate geothermal resources. Although EHR believes its geothermal resources will be fully renewable if managed properly, it cannot be certain that any geothermal resource will remain adequate for the life of a geothermal power plant. Any geothermal resource may suffer an unexpected decline in capacity to generate electricity. A number of events could cause such a decline or shorten the operational duration of a geothermal resource.

These events include:
- failure to recycle all of the geothermal fluids used in connection with the applicable geothermal resource; and
- failure to properly maintain the hydrological balance of the applicable geothermal resource.

If the geothermal resources available to a power plant developed by EHR's become inadequate, EHR's may be unable to perform under the PPA for the affected power plant, which in turn could reduce its revenues and materially and adversely affect its business, financial condition, future results and cash flow. If EHR's suffers a decline in its geothermal resources, it may have an adverse impact on the covenants in the related projected financing documents and may impair its ability to repay its debt and provide for the anticipated tax benefits.

Management Discussion and Analysis (Continued)

Uncertainty in the calculation of geothermal resources and probabilistic estimates of gross MW capacity

There is a degree of uncertainty attributable to the calculation of geothermal resources and probabilistic estimates of gross MW capacity. Until a geothermal resource is actually accessed and tested by production and injection wells, the temperature and composition of underground fluids must be considered estimates only. In addition, estimates as to the percentage of the heat that can be expected to be recovered at the surface is subject to a number of assumptions including, but not limited to, resource base temperature, areal extent of the geothermal reservoir, thickness of the geothermal reservoir, percentage of resource recovery and the expected lifetime of the geothermal reservoir. If any of these assumptions prove to be materially incorrect, it may affect the gross MW capacity of a property.

Geological occurrences beyond EHR's control may compromise its operations and their capacity to generate power

In addition to the substantial risk that production wells that are drilled will not be productive or may decline in productivity after commencement of production, hazards such as unusual or unexpected geologic formations, downhole conditions, mechanical failures, blowouts, cratering, localized ground subsidence, localized ground inflation, explosions, uncontrollable releases or flows of well fluids, pollution and other physical and environmental risks are inherent in geothermal exploration and production. These hazards could result in substantial losses to the Company due to injury and loss of life, severe damage to and destruction of property and equipment, pollution and other environmental damage, failure to find a proper injection zone and suspension of operations.
Additionally, active geothermal areas, such as the areas in which EHR's operations and properties are located, are subject to frequent low-level seismic disturbances. Serious seismic disturbances are possible and could result in damage to its projects or equipment or degrade the quality of its geothermal resources to such an extent that EHR's could not perform under the PPA for the affected project, which in turn could reduce its net income and materially and adversely affect EHR's business, financial condition, future results and cash flow. If EHR's suffers a serious seismic disturbance, its business interruption and property damage insurance may not be adequate to cover all losses sustained as a result thereof. In addition, insurance coverage may not continue to be available in the future in amounts adequate to insure against such seismic disturbances.

Management Discussion and Analysis (Continued)

EHR's may be unable to obtain the financing it needs to pursue its growth strategy

When EHR's identifies a geothermal property that it may seek to acquire or to develop, a substantial capital investment often will be required. EHR's continued access to capital, through project financing or through credit facilities or other arrangements with acceptable terms is necessary for the success of its growth strategy. EHR's attempts to secure the necessary capital may not be on favourable terms, or successful at all. Market conditions and other factors may not permit future project and acquisition financings on terms favourable to EHR's. EHR's ability to arrange for financing on favourable terms, and the costs of such financing, are dependent on numerous factors, including general economic and capital market conditions, investor confidence, the continued success of current projects, the credit quality of the project being financed, the political situation in the jurisdiction in which the project is located and the continued existence of tax laws which are conducive to raising capital. If EHR's is unable to secure capital through credit facilities or other arrangements, it may have to finance its projects using equity financing which will have a dilutive effect on the common shares of EHR's. Also, in the absence of favourable financing or other capital raising options, EHR's may decide not to build new plants or acquire properties from third parties. Any of these alternatives could have a material adverse effect on EHR's growth prospects and financial condition.

It is very costly to place geothermal resources into commercial production

Before the sale of any power can occur, it will be necessary to construct a gathering and disposal system, a power plant, and a transmission line, and considerable administrative costs will be incurred, together with the drilling of production and injection wells. Future development and expansion of power production at EHR's properties may result in significantly increased capital costs related to increased production and injection well drilling and higher costs for labour and materials. To fund expenditures of this magnitude, EHR's may have to seek additional financing and sources of capital. There can be no assurance that additional capital can be found and, if found, it may result in EHR's having to substantially reduce its interest in the project.

EHR's may continue to incur negative operating cash flow for the foreseeable future

EHR's currently has a negative operating cash flow and may continue to do so for the foreseeable future. EHR's failure to achieve profitability and positive operating cash flows could have a material adverse effect on its financial condition and results of operations.

Energy prices are subject to dramatic and unpredictable fluctuations

The market price of energy is volatile and cannot be controlled. If the price of electricity should drop significantly, the economic prospects of the properties that EHR's has an interest in, the power from which is not contracted for, could be significantly reduced or rendered uneconomic. There is no assurance that, even if commercial quantities of geothermal resources are discovered, a profitable market may exist for the sale of geothermal energy. Factors beyond EHR's control may affect the marketability of any geothermal resources discovered. Prices have fluctuated widely, particularly in recent years. The marketability of geothermal energy is also affected by numerous other factors beyond EHR's control, including government regulations relating to royalties, allowable production and exporting of energy sources, the effect of which cannot be accurately predicted.

Dramatic and unpredictable fluctuations in the market price for energy may affect the ability of EHR's to enter into new PPAs on favourable terms to it, or at all, which would have a negative impact on the revenues of EHR's and its decisions regarding development of additional properties.

Industry competition may impede EHR's ability to access suitable geothermal resources

Significant and increasing competition exists for the limited number of quality geothermal opportunities available. As a result of this competition, some of which is with large established companies with substantial capabilities and greater financial and technical resources than EHR's, it may be unable to acquire additional geothermal operations or properties on terms it considers acceptable. There can be no assurance that EHR's acquisition programs will yield new geothermal operations or properties.

EHR's may be unable to enter into PPAs on terms favourable to EHR's, or at all

The electrical power generation industry, of which geothermal power is a sub-component, is highly competitive and EHR's may not be able to compete successfully or grow its business. The industry is complex as it is composed of public utility districts, cooperatives and investor-owned power companies. Many of the participants produce and distribute electricity. Their willingness to purchase electricity from an independent producer may be based on a number of factors and not solely on pricing and surety of supply. If EHR's cannot enter into PPAs on favourable terms to it, or at all, it would negatively impact EHR's revenue and its decisions regarding development of additional properties.

The power generation industry is characterized by intense competition from electric utilities, other power producers and power marketers. In recent years, there has been increasing competition in the sale of electricity, in part due to an emphasis on short-term or "spot" markets, and competition has contributed to a reduction in electricity prices. For the most part, EHR's expects that power purchasers interested in long-term arrangements will engage in "competitive bid" solicitations to satisfy new capacity demands.

This competition could adversely affect EHR's ability to obtain PPAs and the price paid for electricity by the relevant power purchasers. There is also increasing competition between electric utilities. This competition has put pressure on electric utilities to lower their costs, including the cost of purchased electricity, and increasing competition in the future will put further pressure on power purchasers to reduce the prices at which they purchase electricity from EHR's.

Environmental and other regulatory requirements may add costs and uncertainty

EHR's current and future operations, including exploration and development activities and electricity generation from power plants, require licenses and permits from various governmental authorities and such operations are and will be subject to laws and regulations governing exploration and development, geothermal resources, production, exports, taxes, labour standards, occupational health, waste disposal, toxic substances, land use, environmental protection, project safety and other matters. Companies can experience increased costs, and delays in production and other schedules as a result of the need to comply with applicable laws, regulations, licenses and permits. There is no assurance that all approvals or required licenses and permits will be obtained. Additional permits, licenses and studies, which may include environmental impact studies conducted before licences and permits can be obtained, may be necessary prior to the exploration or development of properties, or the operation of power plants, in which EHR's has an interest, and there can be no assurance that EHR's will be able to obtain or maintain all necessary licenses or permits that may be required on terms that enable operations to be conducted at economically justifiable costs. Failure to comply with applicable laws, regulations, licensing or permitting requirements may result in enforcement actions there under, including orders issued by regulatory or judicial authorities causing operations to cease or be curtailed, and may include corrective measures requiring capital expenditures, installation of additional equipment, or remedial actions. EHR's may be required to compensate those suffering loss or damage by reason of its activities, and may have civil or criminal fines or penalties imposed upon it for violations of applicable laws or regulations. Applicable laws and regulations, including environmental requirements and licensing and permitting processes, may require public disclosure and consultation. It is possible that a legal protest could be triggered through one of these requirements or processes that could delay, or require the suspension of, an exploration or development program or the operation of a power plant and increase EHR's costs. Because of these requirements, EHR's could incur liability to governments or third parties for any unlawful discharge of pollutants into the air, soil or water, including responsibility for remediation costs.

EHR's could potentially discharge such materials into the environment: from a well or drilling equipment at a drill site; leakage of fluids or airborne pollutants from gathering systems, pipelines, power plants or storage tanks; damage to geothermal wells resulting from accidents during normal operations; and blowouts, cratering and explosions.

Management Discussion and Analysis (Continued)

No assurance can be given that new laws and regulations will not be enacted or that existing laws and regulations will not be applied in a manner that could limit or curtail EHR's exploration and development programs or its operation of power plants. Amendments to current laws, regulations, licenses and permits governing operations and activities of geothermal companies, or more stringent implementation thereof, could have a material adverse impact on EHR's and cause increases in capital expenditures or production costs, or reduction in levels of production or abandonment, or delays in development of the business.

EHR's insurance policies may be insufficient to cover losses

As protection against operating hazards, EHR's intends to maintain insurance coverage against some, but not all, potential losses. EHR's may not fully insure against all risks associated with its business either because such insurance is not available or because the cost of such coverage is considered prohibitive. The occurrence of an event that is not covered, or not fully covered, by insurance could have a material adverse effect on EHR's financial condition and results of operations.

Current global financial conditions have been subject to increased volatility

Current global financial conditions have been subject to increased volatility and numerous financial institutions have either gone into bankruptcy or have had to be rescued by governmental authorities. Access to public financing has been negatively impacted by both sub-prime mortgages and the liquidity crisis affecting the asset-backed commercial paper market. These factors may impact EHR's ability to obtain equity or debt financing in the future and, if obtained, on terms favourable to it. If these increased levels of volatility and market turmoil continue, EHR's operations could be adversely impacted and the trading price of the common shares of EHR's could be adversely affected.

Further information

For further information refer to www.earthheat.com.au and our announcements lodged on the ASX (www.asx.com.au) and on SEDAR (www.sedar.com).

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INDEPENDENT AUDITOR'S REPORT
TO THE SHAREHOLDERS OF EARTH HEAT RESOURCES LIMITED

We have audited the accompanying consolidated financial statements of Earth Heat Resources Limited, which comprise the consolidated balance sheet as at September 30, 2008, and the consolidated income statement , consolidated statements of changes in equity and consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, 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 consolidated financial statements 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 management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Other matters

The financial statements as at and for the year ended September 30, 2007 and as at October 1, 2006 were audited by another firm of chartered accountants.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated balance sheet of Earth Heat Resources Limited as at September 30, 2008, and its financial performance and its cash flows for the years ended September 30, 2008 in accordance with International Financial Reporting Standards.

Grant Thornton

GRANT THORNTON AUDIT PTY LTD
Chartered Accountants

Adelaide, Australia, 30 December 2011

EARTH HEAT RESOURCES LTD
(formerly FALL RIVER RESOURCES LTD.)
AND CONTROLLED ENTITIES
ABN 86 115 229 984

FINANCIAL REPORT

EARTH HEAT RESOURCES LTD
(formerly FALL RIVER RESOURCES LTD.)
AND CONTROLLED ENTITIES
ABN 86 115 229 984

CONSOLIDATED RESTATED BALANCE SHEET
AS AT 30 SEPTEMBER 2008

	Restated (Note 1c) September 30 2008 $	Restated (Note 1c) September 30 2007 $	Restated (Note 1c) October 1 2006 $
ASSETS			
Current			
Cash and cash equivalents	**131,484**	288,157	-
Restricted cash – prepaid debenture interest	**268,088**	256,957	257,873
Accounts receivable	**414,399**	51,523	99,077
Loan receivable (Note 4)	**57,453**	159,441	146,690
	871,424	756,078	503,640
Restricted Cash (Note 7)	**1**	318,852	319,173
Property and Equipment (Note 5)	**3,027**	576,322	2,063,426
Oil and Gas Properties(Note 6)	**-**	1,905,675	1,450,036
Debenture Sinking Fund	**395,547**	426,693	211,242
TOTAL ASSETS	**1,269,999**	3,983,620	4,547,517
LIABILITIES			
Current			
Accounts payable and accrued liabilities	**1,525,877**	1,525,166	1,371,440
Interest bearing liabilities (Note 9)	**879,981**	100,012	50,705
	2,405,858	1,625,178	1,422,145
Asset Retirement Obligation	**-**	31,135	-
Convertible Debentures (Note 8)	**2,034,496**	1,779,932	1,610,251
Total Liabilities	**4,440,354**	3,436,245	3,032,396
(Deficiency In)/Net Assets	**(3,170,355)**	547,375	1,515,121
SHAREHOLDERS' EQUITY			
Share Capital (Note 10)	**11,011,753**	11,011,753	8,837,125
Other Components of Shareholder's Equity	**1,406,355**	1,406,355	1,265,868
Foreign Currency Reserve	**(78,519)**	-	-
Accumulated Deficit	**(15,509,944)**	(11,870,733)	(8,587,872)
(DEFICIENCY IN) /SHAREHOLDERS' EQUITY	**(3,170,355)**	547,375	1,515,121

Contingent Liabilities (Note 11)
Commitments (Note 12)
Subsequent Events (Note 15)

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

EARTH HEAT RESOURCES LTD
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CONSOLIDATED RESTATED INCOME STATEMENT
FOR THE YEAR ENDED 30 SEPTEMBER 2008

	Restated (Note 1c) For the Years Ended September 30	
	2008	2007
	$	$
Revenues		
Natural gas and petroleum	**185,902**	199,303
Expenses		
Consulting	**-**	174,369
Directors fees	**108,818**	-
Debenture interest, discount amortization and accretion	**554,923**	538,321
Equipment amortization	**3,078**	2,616
Foreign exchange loss/(gain)	**122,296**	(25,856)
Interest on loans	**107,009**	-
Management fees	**41,000**	20,406
Office	**49,198**	93,081
Professional fees	**204,386**	275,512
Miscellaneous	**4,718**	-
Shareholder costs	**42,718**	-
Doubtful debts	**55,564**	-
Property investigation	**291,558**	-
Regulatory and filing fees	**42,820**	80,944
Salaries and benefits	**252,029**	735,462
Travel and promotion	**3,068**	103,840
Total Expenses	**1,883,183**	1,998,695
Loss Before Other Items	**(1,697,281)**	(1,799,392)
Other Items		
Natural gas and petroleum properties impairment (Note 5)	**(539,082)**	(1,250,425)
Natural gas and petroleum properties written off (Note 6)	**(1,267,030)**	(262,758)
Asset retirement obligations written off	**143,523**	-
Current asset impairment expense	**(318,714)**	-
Interest income	**37,163**	29,714
Other revenue	**2,210**	-
Loss Before Income Tax Expense	**(3,639,211)**	(3,282,861)
Income Tax Expense	**-**	-
Net Loss For The Year	**(3,639,211)**	(3,282,861)
Loss Per Share, Basic and diluted in cents	**(4.02)**	(4.48)
Weighted Average Number Of Common Shares Outstanding, Basic and diluted	**90,536,522**	73,326,210

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

EARTH HEAT RESOURCES LTD
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CONSOLIDATED RESTATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 SEPTEMBER 2008

Consolidated Group Restated (Note 1c)	**Share Capital** $	**Other Components Equity** $	**Foreign Currency Reserve** $	**Accumulated Losses** $	**Total** $
Restated (Note 1c)					
Balance October 1, 2006	8,837,125	1,265,868	-	(8,587,872)	1,515,121
Share issues	2,539,221	-	-	-	2,539,221
Share issue transaction costs	(364,593)	-	-	-	(364,593)
Effect of transition to IFRS	-	140,487	-	-	140,487
Net loss for period	-	-	-	(3,282,861)	(3,282,861)
Restated (Note 1c)					
Balance September 30, 2007	11,011,753	1,406,355	-	(11,870,733)	547,375
Foreign exchange loss on translation of overseas subsidiaries			(78,519)		(78,519)
Net loss for period	-	-		(3,639,211)	(3,639,211)
Restated Balance September 30, 2008	**11,011,753**	**1,406,355**	**(78,519)**	**(15,509,944)**	**(3,170,355)**

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

EARTH HEAT RESOURCES LTD
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CONSOLIDATED RESTATED CASHFLOW STATEMENT
FOR THE YEAR ENDED 30 SEPTEMBER 2008

	Restated (Note 1c) For the Years Ended September 30	
	2008	2007
	$	$
Cash Flows Provided By (Used In)		
Operating Activities		
Net loss	**(3,639,211)**	(3,282,861)
Adjustment for items not requiring an outlay of cash:		
Debenture discount amortization and accretion	**554,923**	279,146
Equipment amortization (Note 5)	**3,078**	2,616
Unrealized foreign exchange loss	**122,296**	(122,899)
Impairment of current assets	**318,714**	-
Asset retirement obligations written off	**(143,523)**	-
Natural gas and petroleum properties impairment (Note 5)	**539,082**	1,250,425
Natural gas and petroleum properties written off (Note 6)	**1,267,030**	262,758
	(977,611)	(1,610,815)
Changes in non-cash working capital		
Accounts receivable	**(362,876)**	42,179
Restricted cash	**(11,131)**	(16,997)
Debenture financing costs and sinking funds	**112,597**	(239,990)
Accounts payable and accrued liabilities	**313,157**	535,388
Net cash provided by / (used in) operating activities	**(925,864)**	(1,290,235)
Investing Activities		
Property and Equipment - purchases (Note 5)	**-**	(123,246)
Oil and Gas Properties - purchases (Note 6)	**(76,594)**	(520,573)
- disposals (Note 6)	**615,299**	-
Loan receivable	**101,988**	(20,710)
Net cash provided by / (used in) investing activities	**640,693**	(664,529)
Financing Activities		
Ordinary shares issued	**-**	2,190,425
Due to related parties	**49,979**	100,449
Net cash provided by / (used in) financing activities	**49,979**	2,290,874
Foreign Exchange Gain From Holding Cash	**78,519**	-
Increase / (Decrease) In Cash and Cash Equivalents	**(156,673)**	336,110
Cash and cash equivalents, Beginning Of Year	**288,157**	(47,953)
Cash and cash equivalents, End Of Year	**131,484**	288,157

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED SEPTEMBER 30, 2008

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") and interpretations issued by the International Accounting Standards Board ("IASB"). These standards also comply with Canadian Generally Accepted Accounting Principles applicable to publicly accountable enterprises adopted by the Canadian Accounting Standards Board. For the purposes of the Financial Statements references to International Financial Reporting Standards means the equivalent of IFRS and Canadian Generally Accepted Accounting Principles applicable to publically accountable enterprises.

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.

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) International Financial Reporting Standards

Introduction

Earth Heat Resources Ltd. ("the Company", "EHR") became a reporting issuer in Australia on April 19, 2006 concurrent with its official registration on the Australian Stock Exchange ("ASX"). The Company continued to file its financial statements using Canadian Generally Accepted Accounting Principles ("GAAP") until September 30, 2007. In 2008 the Company's management assessed the impact of adoption to International Financial Reporting Standards ("IFRS") and concluded that the Company will early adopt IFRS and will commence reporting under these standards for the period beginning October 1, 2007 with an October 1, 2006 date of transition (the "Transition Date").

The Company's IFRS conversion plan addressed changes in accounting policies, restatement of prior periods and internal controls. The management of the Company has reviewed its internal controls and concluded that no significant modification was required as a result of the conversion to IFRS.

First-time Adoption of International Accounting Standards

IFRS-1 "*First-time Adoption of International Accounting Standards"* sets forth the guidance of initial adoption of IFRS. Under IFRS-1, the standards are applied retroactively at the Transition Date with all adjustments to assets and liabilities taken to retained earnings unless certain exemptions are applied. The Company will be applying the following exemptions to its opening balance sheet dated October 1, 2006 (the "Transition Date"):

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(i) *IFRS-2 Share-based payment transactions*
IFRS-2 "*Share-based payment transactions*"has not been applied to equity instruments that were granted on or before November 7, 2002 nor has it been applied to equity investments granted after November 7, 2002 that vested before October 1, 2006.

(ii) *IFRS-3 Business Combinations*
IFRS-1 indicates that a first-time adopter may elect not to apply IFRS-3 "*Business Combinations*"retrospectively to business combinations that occurred before the date of transition to IFRS. The Company takes advantage of this election and IFRS-3 to business combinations that occurred on or after October 1, 2006. There is no adjustment required to the October 1, 2006 balance sheet on the Transition Date.

(ii) *IFRS-116 Property, Plant and Equipment*
IFRS-116 "*Property, Plant and Equipment*" allows for property, plant and equipment to continue to be carried at cost less depreciation, same as GAAP. The Company has applied this election to the valuation of their property, plant and equipment that is in production as of the date of transition and there is no adjustment required to the October 1, 2006 balance sheet on the Transition Date

(iv) *IFRS-137 Provisions, Contingent Liabilities and Contingent Assets*
D21-IFRIC 1 *Changes in Existing Decommissioning, Restoration and Similar Liabilities* requires specified changes in a decommissioning, restoration or similar liability to be added to or deducted from the cost of the asset to which it relates; the adjusted depreciable amount of the asset is then depreciated prospectively over its remaining useful life. If a first-time adopter uses this exemption, it shall: (a) measure the liability as at the date of transition to IFRSs in accordance with IFRS137, (b) to the extent that the liability is within the scope of IFRIC-1, estimate the amount that would have been included in the cost of the related asset when the liability first arose, by discounting the liability to that date using its best estimate of the historical risk-adjusted discount rate that would have applied for that liability over the intervening period; and (c) calculate the accumulated depreciation on that amount, as at the date of transition to IFRSs, on the basis of the current estimate of the useful life of the asset, using the depreciation policy adopted by the entity in accordance with IFRSs. The Company has applied this election to the valuation of their asset retirement obligation as at September 30, 2007 and resulted in a decrease to the asset retirement obligation of $11,503 and an increase to property, plant and equipment of $11,503, refer to Note 1b table E.

Impact on Previously Disclosed Financial Information disclosed under GAAP

To explain how the Company's reported balance sheet, income statements, statement of shareholders' equity and cashflow statement are affected by the conversion, information previously reported under GAAP is restated under IFRS in the tables below:

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED SEPTEMBER 30, 2008

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Table A – Reconciliation of total equity as presented under GAAP to that under IFRS-1 as at October 1, 2006 (Transition Date):

	GAAP CDN$ October 1, 2006	Effect of transition to IFRS CDN$	**IFRS CDN$ October 1, 2006**	**IFRS AUD$[1] October 1, 2006**
ASSETS				
Current				
Cash and cash equivalents	-	-	**-**	**-**
Restricted cash	215,127	-	**215,127**	**257,873**
Accounts receivable	82,654	-	**82,654**	**99,077**
Loan Receivable	122,374	-	**122,374**	**146,690**
	420,155	-	**420,155**	**503,640**
Restricted Cash	266,266	-	**266,266**	**319,173**
Property and Equipment	7,693	1,713,693	**1,721,386**	**2,063,426**
Oil and Gas Properties	2,923,367	(1,713,693)	**1,209,674**	**1,450,036**
Debenture Sinking Fund	176,226	-	**176,226**	**211,242**
Debenture Discount and Finance Costs	254,487	(254,487)	**-**	**-**
TOTAL ASSETS	4,048,194	(254,487)	**3,793,707**	**4,547,517**
LIABILITIES				
Current				
Accounts payable and accrued liabilities	858,763	-	**858,763**	**1,371,440**
Interest bearing facilities	42,300	-	**42,300**	**50,705**
	901,063	-	**901,063**	**1,422,145**
Asset Retirement Obligation	-	-	**-**	**-**
Convertible Debentures	1,720,853	(377,522)	**1,343,331**	**1,610,251**
TOTAL LIABILITIES	2,621,916	(377,522)	**2,244,394**	**3,032,396**
(Deficiency In)/Net Assets	1,426,278	123,035	**1,549,313**	**1,515,121**
SHAREHOLDERS' EQUITY				
Share Capital	8,940,260	-	**8,940,260**	**8,837,125**
Other Components of Shareholders' Equity	-	1,056,034	**1,056,034**	**1,265,868**
Warrants issued on Convertible Debenture Financing	105,000	(105,000)	**-**	**-**
Equity Portion of Convertible Debenture	51,090	(51,090)	**-**	**-**
Contributed Surplus	691,992	(691,992)	**-**	**-**
Accumulated Deficit	(8,362,064)	(84,917)	**(8,446,981)**	**(8,587,872)**
(DEFICIENCY IN)/ SHAREHOLDERS' EQUITY	1,426,278	123,035	**1,549,313**	**1,515,121**

[1] Exchange rate 1.1987

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Table B – Reconciliation of profit after-tax presented under GAAP to that of IFRS for the year then ended September 30, 2006:

	GAAP CDN$ October 1, 2006	Effect of transition to IFRS CDN$	**IFRS CDN$ October 1, 2006**	**IFRS AUD$[(1)] October 1, 2006**
Revenues				
Natural gas and petroleum	111,184	-	**111,184**	**130,283**
Expenses				
Consulting	210,185	-	**210,185**	**246,290**
Director fees	-	-	**-**	**-**
Debenture interest, discount amortization and accretion	322,979	111,666	**434,645**	**509,308**
Equipment amortization	1,358	-	**1,358**	**1,591**
Foreign exchange (gain) loss	(58,459)	(26,749)	**(85,208)**	**(99,845)**
Management fees	18,000	-	**18,000**	**21,092**
Office	81,267	-	**81,267**	**95,227**
Professional fees	21,184	-	**21,184**	**24,823**
Property investigation	3,520	-	**3,520**	**4,125**
Regulatory and filing fees	63,512	-	**63,512**	**74,422**
Salaries and benefits	440,756		**440,756**	**516,469**
Stock based compensation	93,600	-	**93,600**	**109,679**
Travel and promotion	276,934	-	**276,934**	**324,506**
Total Expenses	1,474,836	84,917	**1,559,753**	**1,827,687**
Loss Before Other Items	(1,363,652)	(84,917)	**(1,448,569)**	**(1,697,404)**
Other Items				
Natural oil and gas properties written down	(2,475,200)	-	**(2,475,200)**	**(2,900,390)**
Natural oil and gas properties written off	(382,724)	-	**(382,724)**	**(448,468)**
Interest income	59,876	-	**59,876**	**70,161**
Loss Before Income Tax Expense	(4,161,700)	(84,917)	**(4,246,617)**	**(4,976,101)**
Income Tax Expense	16,400	-	**16,400**	**19,217**
Net Loss For The Year	(4,145,300)	(84,917)	**(4,230,217)**	**(4,956,884)**

[(1)] Exchange rate 1.17178

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED SEPTEMBER 30, 2008

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Table C– Reconciliation of total equity per the statement of shareholders; equity as presented under GAAP to that under IFRS-1 as at October 1, 2006 (Transition Date):

	GAAP CDN$ September 30, 2006	Effect of transition to IFRS CDN$	**IFRS CDN$ September 30, 2006**	**IFRS AUD$ September 30, 2006**
Share Capital	8,940,260	-	**8,940,260**	**8,837,125**
Other components of shareholders' equity	-	1,056,034	**1,056,034**	**1,265,868**
Warrants issued on convertible debenture financing	105,000	(105,000)	**-**	**-**
Equity Portion of Convertible Debenture	51,090	(51,090)	**-**	**-**
Stock-based compensation for the year	-	-	**-**	**-**
Contributed Surplus	691,992	(691,992)	**-**	**-**
Accumulated Deficit	(8,362,064)	(84,917)	**(8,446,981)**	**(8,587,872)**
Balance at September 30, 2006 and October 1, 2006	**1,426,278**	**123,035**	**1,549,313**	**1,515,120**

Table D – Reconciliation of cash-flow statement as presented under GAAP to that under IFRS-1 as at September 30, 2006 (Transition Date):

	CGAAP CDN$ September 30, 2006	Effect of transition to IFRS CDN$	**IFRS CDN$ September 30, 2006**	**IFRS AUD$[(1)] September 30, 2006**
NET INFLOW (OUTFLOW) OF CASH RELATED TO THE FOLLOWING ACTIVITIES				
Operating Activities				
Net loss	(4,145,300)	(84,917)	**(4,230,217)**	**(4,956,884)**
Adjustment for items not requiring an outlay of cash:				
Debenture discount amortization and accretion	94,969	111,666	**206,635**	**242,131**
Equipment amortization	1,358	-	**1,358**	**1,591**
Unrealized foreign exchange loss	264,131	(26,749)	**237,382**	**278,159**
Future income tax recovery	(16,400)	-	**(16,400)**	**(19,217)**
Stock based compensation	93,600	-	**93,600**	**109,679**
Natural gas and petroleum properties written down	2,475,200	-	**2,475,200**	**2,900,390**
Natural gas and petroleum properties written off	382,724	-	**382,724**	**448,468**
	(849,718)	-	**(849,718)**	**(995,683)**

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED SEPTEMBER 30, 2008

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

	CGAAP CDN$ September 30, 2006	Effect of transition to IFRS CDN$	**IFRS CDN$ September 30, 2006**	**IFRS AUD$[1] September 30 2006**
Changes in non-cash working capital:				
Accounts receivable	(80,488)	-	**(80,488)**	**(94,314)**
Prepaid expenses	5,000	-	**5,000**	**5,859**
Restricted cash	(266,266)	-	**(266,266)**	**(312,005)**
Debenture financing costs and sinking funds	(299,606)	299,606	**-**	**-**
Accounts payable and accrued liabilities	111,376	-	**111,376**	**130,508**
Net cash provided by/ (used in) operating activities	(1,379,702)	299,606	**(1,080,096)**	**(1,265,635)**
Investing Activities				
Property and equipment - purchases	(4,764,124)	-	**(4,764,124)**	**(5,582,505)**
Loan receivable	(122,374)	-	**(122,374)**	**(143,396)**
Net cash provided by/ (used in) investing activities	(4,886,498)	-	**(4,886,498)**	**(5,725,901)**
Financing Activities				
Ordinary shares issued	4,632,767	-	**4,632,767**	**5,428,584**
Convertible Debenture	726,297	(299,606)	**426,691**	**499,988**
Due to related parties	(26,942)	-	**(26,942)**	**(31,570)**
Net cash provided by/ (used in) financing activities	5,332,122	(299,606)	**5,032,516**	**5,897,002**
Foreign Exchange Gain From Holding Cash	17,334	-	**17,334**	**61,528**
Increase / (Decrease) in Cash and Cash Equivalents	(916,744)	-	**(916,744)**	**(1,033,006)**
Cash and Cash Equivalents, Beginning of Year	874,444	-	**874,444**	**982,301**
Cash and Cash Equivalents, End of Year	(42,300)	-	**(42,300)**	**(50,705)**

[1] Exchange rate 1.17178

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED SEPTEMBER 30, 2008

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Table E – Reconciliation of total equity as presented under GAAP to that of IFRS for the year then ended September 30, 2007:

	CGAAP CND$ September 30, 2007	Effect of transition to IFRS CND$	**IFRS CND$ September 30, 2007**	**IFRS AUD$[1] September 30, 2007**
ASSETS				
Current				
Cash and cash equivalents	254,183	-	**254,183**	**288,157**
Restricted cash	226,662	-	**226,662**	**256,957**
Accounts receivable	45,448	-	**45,448**	**51,523**
Loan Receivable	140,643	-	**140,643**	**159,441**
	666,936	-	**666,936**	**756,078**
Restricted Cash	281,259	-	**281,259**	**318,852**
Property and Equipment	2,200,852	(1,692,483)	**508,369**	**576,322**
Oil and Gas Properties	-	1,680,980	**1,680,980**	**1,905,678**
Debenture Sinking Fund	376,386	-	**376,386**	**426,690**
Debenture Discount And Financing Costs	141,783	(141,783)	**-**	**-**
TOTAL ASSETS	3,667,216	(153,286)	**3,513,930**	**3,983,620**
LIABILITIES				
Current				
Accounts payable and accrued liabilities	1,344,138	-	**1,344,138**	**1,525,166**
Interest bearing facilities	88,220	-	**88,220**	**100,012**
	1,432,358	-	**1,432,358**	**1,625,178**
Asset Retirement Obligation	38,967	(11,503)	**27,464**	**31,135**
Convertible Debentures	1,820,104	(250,041)	**1,570,063**	**1,779,932**
TOTAL LIABILITIES	3,291,429	(261,544)	**3,029,885**	**3,436,245**
(Deficiency In)/Net Assets	375,787	108,258	**484,045**	**547,375**
SHAREHOLDERS' EQUITY				
Share Capital	10,675,211	-	**10,675,211**	**11,011,753**
Other Components of Shareholders' Equity	-	1,240,534	**1,240,534**	**1,406,355**
Warrants Issued on Convertible Debenture Financing	105,000	(105,000)	**-**	**-**
Equity Portion of Convertible Debenture	51,090	(51,090)	**-**	**-**
Contributed Surplus	876,492	(876,492)	**-**	**-**
Accumulated Deficit[2]	(11,332,006)	(99,694)	**(11,431,700)**	**(11,870,733)**
(DEFICIENCY IN) / SHAREHOLDERS' EQUITY	375,787	108,258	**484,045**	**547,375**

[1] Exchange rate 1.13366
[2] The IFRS adjustment includes a prior year IFRS adjustment of CAD$(84,917), refer to Note 1b Table A for further details.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED SEPTEMBER 30, 2008

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Table F – Reconciliation of profit after-tax presented under GAAP to that of IFRS for the year then ended September 30, 2007:

	CGAAP CDN$ September 30, 2007	Effect of transition to IFRS CDN$	**IFRS CDN$ September 30, 2007**	**IFRS AUD$[(1)] September 30, 2007**
Revenues				
Natural gas and petroleum	175,805	-	**175,805**	**199,303**
Expenses				
Consulting	153,811	-	**153,811**	**174,369**
Debenture interest, discount amortization and accretion	356,854	117,998	**474,852**	**538,321**
Equipment amortization	2,308	-	**2,308**	**2,616**
Foreign exchange loss	169,321	(192,131)	**(22,810)**	**(25,857)**
Management fees	18,000	-	**18,000**	**20,406**
Office	82,107	-	**82,107**	**93,081**
Professional fees	243,029	-	**243,029**	**275,512**
Regulatory and filing fees	71,401	-	**71,401**	**80,944**
Salaries and benefits	648,751		**648,751**	**735,463**
Travel and promotion	91,597	-	**91,597**	**103,840**
Total Expenses	1,837,179	(74,133)	**1,763,046**	**1,998,695**
Loss Before Other Items	(1,661,374)	74,133	**(1,587,241)**	**(1,799,392)**
OTHER ITEMS				
Natural gas and petroleum properties impairment	(1,103,000)	-	**(1,103,000)**	**(1,250,425)**
Natural gas and petroleum properties written off	(231,779)	-	**(231,779)**	**(262,758)**
Interest income	26,211	-	**26,211**	**29,714**
Loss Before Income Tax Expense	(2,969,942)	74,133	**(2,895,809)**	**(3,282,861)**
Income Tax Expense	-	-	**-**	**-**
Net Loss For The Year	(2,969,942)	74,133	**(2,895,809)**	**(3,282,861)**

[(1)] Exchange rate 1.13366

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Table G – Reconciliation of total equity per the statement of shareholders' equity as presented under GAAP to that under IFRS-1 as at September 30, 2007:

	CGAAP CDN$ September 30, 2007	Effect of transition to IFRS CDN$	**IFRS CDN$ September 30, 2007**	**IFRS AUD$ September 30, 2007**
Share Capital	10,675,211	-	**10,675,211**	**11,011,753**
Other components of shareholders' equity	-	1,240,534	**1,240,534**	**1,406,355**
Warrants issued on convertible debenture financing	105,000	(105,000)	**-**	**-**
Equity Portion of Convertible Debenture	51,090	(51,090)	**-**	**-**
Contributed Surplus	876,492	(876,492)	**-**	**-**
Accumulated Deficit	(11,332,006)	(99,694)	**(11,431,700)**	**(11,870,733)**
Balance at September 30, 2006 and October 1, 2006	**375,787**	**108,258**	**484,045**	**547,375**

Table H – Reconciliation of cash-flow statement as presented under GAAP to that under IFRS-1 as at September 30, 2007:

	CGAAP CDN$ September 30, 2007	Effect of transition to IFRS CDN$	**IFRS CDN$ September 30, 2007**	**IFRS AUD$[(1)] September 30, 2007**
NET INFLOW/ (OUTFLOW) OF CASH RELATED TO THE FOLLOWING ACTIVITIES				
Operating activities				
Net loss	(2,969,942)	74,133	**(2,895,809)**	**(3,282,861)**
Adjustment for items not requiring an outlay of cash:				
Debenture discount amortization and accretion	128,236	117,998	**246,234**	**279,146**
Equipment amortization	2,308	-	**2,308**	**2,616**
Unrealized foreign exchange loss	83,719	(192,131)	**(108,412)**	**(122,899)**
Natural gas and petroleum properties written down	1,103,000	-	**1,103,000**	**1,250,425**
Natural gas and petroleum properties written off	231,779	-	**231,779**	**262,758**
	(1,420,900)	-	**(1,420,900)**	**(1,610,815)**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED SEPTEMBER 30, 2008

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

	CGAAP CDN$ September 30, 2007	Effect of transition to IFRS CDN$	**IFRS CDN$ September 30, 2007**	**IFRS AUD$(1) September 30, 2007**
Changes in non-cash working capital:				
Accounts receivable	37,206	-	**37,206**	**42,179**
Restricted cash	(14,993)	-	**(14,993)**	**(16,997)**
Debenture financing costs and sinking funds	(211,695)	-	**(211,695)**	**(239,990)**
Accounts payable and accrued liabilities	472,266	-	**472,266**	**535,388**
Net cash provided by / (used in) operating activities	(1,138,116)	**-**	**(1,138,116)**	**(1,290,235)**
Investing activities				
Property and Equipment - purchases	(108,715)	-	**(108,715)**	**(123,246)**
Oil and Gas Properties - purchases	(459,197)	-	**(459,197)**	**(520,573)**
Loan receivable	(18,269)	-	**(18,269)**	**(20,710)**
Net cash provided / (used in) investing activities	(586,181)	-	**(586,181)**	**(664,529)**
Financing activities				
Ordinary shares issued	1,932,174	-	**1,932,174**	**2,190,425**
Due to related parties	88,606	-	**88,606**	**100,449**
Net cash provided by / (used in) financing activities	2,020,780	**-**	**2,020,780**	**2,290,874**
Foreign Exchange Gain From Holding Cash	-	-	**-**	**-**
Increase / (Decrease) In Cash and Cash Equivalents	296,483	-	**296,483**	**336,110**
Cash and cash Equivalents, Beginning Of Year	(42,300)	-	**(42,300)**	**(47,953)**
Cash and cash equivalents, End Of Year	254,183	-	**254,183**	**288,157**

(1) Exchange rate 1.13366

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Table I – Reconciliation of total equity as presented under GAAP to that of IFRS for the year then ended September 30, 2008:

	September 30, 2008		
	Original	**Effect of transition to IFRS**	**IFRS**
	AUD$	**AUD $**	**AUD $**
ASSETS			
Current			
Cash and cash equivalents	131,484	-	**131,484**
Restricted cash – prepaid debenture interest	268,088	-	**268,088**
Accounts receivable	414,399	-	**414,399**
Loan receivable	57,453	-	**57,453**
	871,424	-	**871,424**
Restricted Cash	318,715	-	**318,715**
Property and Equipment	899,316	(391,752)	**507,564**
Oil and Gas Properties	-	386,102	**386,102**
Debenture Sinking Fund	445,490	-	**445,490**
Debenture Discount And Financing Costs	29,339	(29,339)	**-**
TOTAL ASSETS	2,564,284	(34,989)	**2,529,295**
LIABILITIES			
Current			
Accounts payable and accrued liabilities	1,213,997	-	**1,213,997**
Due to related parties	311,880	-	**311,880**
Interest bearing liabilities	879,981	-	**879,981**
	2,405,858	-	**2,405,858**
Asset Retirement Obligation	156,543	(13,020)	**143,523**
Convertible Debentures	2,073,247	(38,751)	**2,034,496**
TOTAL LIABILITIES	4,635,648	(51,771)	**4,583,877**
(Deficiency in)/Net Assets	(2,071,364)	16,782	**(2,054,582)**
SHAREHOLDERS' EQUITY			
Share Capital	12,100,668	(1,088,915)	**11,011,753**
Other Components of Shareholder's Equity	-	1,406,355	**1,406,355**
Warrants Issed on Convertible Debenture Financing	119,034	(119,034)	**-**
Foreign Exchange Reserve	(78,519)	-	**(78,519)**
Equity Portion Of Convertible Debenture	57,919	(57,919)	**-**
Accumulated Deficit	(14,270,466)	(123,705)	**(14,394,171)**
(DEFICIENCY IN) /SHAREHOLDERS' EQUITY	(2,071,364)	16,782	**(2,054,582)**

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Table J – Reconciliation of profit after-tax presented under GAAP to that of IFRS for the year then ended September 30, 2008:

	September 30, 2008		
	Original	**Effect of transition to IFRS**	**IFRS**
	AUD$	**AUD $**	**AUD $**
Revenues			
Natural gas and petroleum	185,902	-	**185,902**
Expenses			
Directors fees	108,818	-	**108,818**
Debenture interest, discount amortization and accretion	420,951	133,972	**554,923**
Equipment amortization	3,078	-	**3,078**
Foreign exchange loss/(gain)	58,589	(20,848)	**37,741**
Interest on loans	107,009	-	**107,009**
Management fees	41,000	-	**41,000**
Office	49,198	-	**49,198**
Professional fees	204,386	-	**204,386**
Miscellaneous	4,718	-	**4,718**
Shareholder costs	42,718	-	**42,718**
Doubtful debts	55,564	-	**55,564**
Property investigation	291,558	-	**291,558**
Regulatory and filing fees	42,820	-	**42,820**
Salaries and benefits	252,029	-	**252,029**
Travel and promotion	3,068	-	**3,068**
	1,685,504	113,124	**1,798,628**
(Loss) / Profit Before Other Items	(1,499,602)	(113,124)	**(1,612,726)**
Other Items			
Natural oil and gas properties impairment	(781,161)	-	**(781,161)**
Natural oil and gas properties written off	(176,095)	-	**(176,095)**
Interest income	37,163	-	**37,163**
Other revenue	2,210	-	**2,210**
(Loss) / Profit Before Income Tax Expense	(2,417,485)	(113,124)	**(2,530,609)**
Income Tax Expense	-	-	**-**
Net (Loss) / Profit For The Year	(2,417,485)	(113,124)	**(2,530,609)**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED SEPTEMBER 30, 2008

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Table K – Reconciliation of total equity per the statement of shareholders' equity as presented under GAAP to that under IFRS-1 as at September 30, 2008:

Consolidated Group	Share Capital AUD$	Warrants AUD$	Other Components Equity AUD$	Foreign Current Translation AUD$	Convertible Debentures AUD$	Accumulated Losses AUD$	Total AUD$
Original balance September 30, 2008	12,100,668	119,034	-	(78,519)	57,919	(14,270,466)	(2,071,364)
Effect of transition to IFRS	(1,088,915)	(119,034)	1,406,355	-	(57,919)	(123,705)	16,782
IFRS balance September 30, 2008	**11,011,753**	**-**	**1,406,355**	**(78,519)**	**-**	**(14,394,171)**	**(2,054,582)**

Table L – Reconciliation of cashflow statement as presented under GAAP to that under IFRS-1 as at September 30, 2008:

	September 30, 2008 Original AUD$	Effect of transition to IFRS AUD$	IFRS AUD$
Cash Flows Provided By / (Used In) Operating Activities			
Net loss	(2,417,485)	(113,124)	**(2,530,609)**
Adjustment for items not requiring an outlay of cash:			
Debenture discount amortization and accretion	420,951	133,972	**554,923**
Equipment amortization	3,078	-	**3,078**
Unrealized foreign exchange loss	58,589	(20,848)	**37,741**
Natural oil and gas properties impairment	781,161	-	**781,161**
Natural oil and gas properties written off	176,095	-	**176,095**
	(977,611)	-	**(977,611)**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED SEPTEMBER 30, 2008

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

	September 30, 2008		
	Original AUD$	Effect of transition to IFRS AUD$	IFRS AUD$
Changes in non-cash working capital			
Accounts receivable	(362,876)	-	**(362,876)**
Restricted cash	(11,131)	-	**(11,131)**
Debenture financing costs and sinking funds	112,597	-	**112,597**
Accounts payable and accrued liabilities	313,157	-	**313,157**
Total changes in non-cash working capital	51,747		**51,747**
Net cash provided by / (used in) operating activities	(925,864)	-	**(925,864)**
Investing Activities			
Property and equipment - purchases	(76,594)	-	**(76,594)**
- disposals	615,299	-	**615,299**
Loan receivable	101,988	-	**101,988**
Net cash provided by / (used in) investing activities	640,693	-	**640,693**
Financing Activities			
Ordinary shares issued	-	-	**-**
Due to related parties	49,979	-	**49,979**
Net cash provided by / (used in) financing activities	49,979	-	**49,979**
Foreign Exchange Gain From Holding Cash	78,519	-	**78,519**
Increase / (Decrease) In Cash and Cash Equivalents	(156,673)	-	**(156,673)**
Cash and cash equivalents, Beginning Of Year	288,157	-	**288,157**
Cash and cash equivalents, End Of Year	131,484	-	**131,484**

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

IFRS adjustments

(i) *Financial Instruments Recognition and Measurement*

IFRS-139 deals with the measurement of financial assets and financial liabilities. Equity instruments are instruments that evidence a residual interest in the assets of an entity after deducting all of its liabilities. Therefore, when the initial carrying amount of a compound financial instrument is allocated to its equity and liability components, the equity component is assigned to the residual amount after deducting from the fair value of the instrument as a whole the amount separately determined for the liability component.

CICA 3863 does not specifically deal with measurement of financial assets, financial liabilities and equity instruments and therefore does not prescribe any particular method for assigning a carrying amount to liability and equity elements contained in a single instrument. Approaches that might be followed are: (a) assigning to the less easily measurable component (often an equity instrument) the residual amount after deducting from the instrument as a whole the amount separately determined for the component that is more easily measurable and (b) measuring the liability and equity components separately and, to the extent necessary, adjusting these amounts on a pro-rata basis so that the sum of the components equals the amount of the instrument as a whole.

As of the transition date the impact of the differences in accounting for the convertible debenture under IFRS and GAAP on the balance sheet was as follows:

Balance sheet

- Decrease in debenture discount and financing costs of CDN$254,487
- Decrease in convertible debenture of CDN$377,522
- Increase in equity portion of the convertible debenture of CDN$207,952
- Increase in opening accumulated deficit of CDN$84,917

As of the year-end September 30, 2007 the impact of the differences in accounting for the convertible debenture under IFRS and GAAP on the balance sheet was as follows:

Balance sheet

- Decrease in debenture discount and financing costs of CDN$141,783
- Decrease in convertible debenture of CDN$250,041
- Increase in equity portion of the convertible debenture of CDN$207,952
- Increase in closing accumulated deficit of CDN$99,694

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

As of the year ended September 30, 2008 the impact of the differences in accounting for the convertible debentures under IFRS and GAAAP on the Balance sheet were as follows:

Balance sheet

- Decrease in debenture discount and financing costs of CDN$25,920
- Decrease in convertible debenture of CDN$34,236
- Increase in equity portion of the convertible debenture of CDN$207,952
- Increase in closing accumulated deficit of CDN$199,636

(ii) *Reserves in Equity*

IFRS requires an entity to present for each component of equity, reconciliation between the carrying amount at the beginning and end of each period, separately disclosing each change. The Company examined its various reserves in equity and concluded that as of the transition date and the year end date the various reserves in equity included:

- Equity Portion of Convertible Debenture
- Stock-based compensation for the year
- Warrants issued on convertible debenture financing (September 30, 2006)
- Warrants from private placement (September 30, 2007)

As of the transition date the following amounts were allocated from the various reserve accounts into a separate account called “Other components of shareholders’ equity”. The reconciliation between the carrying amount at the beginning and end of each period is presented on the statement of shareholders’ equity:

- Warrants Issued on convertible debenture financing CDN$105,000
- Equity portion of convertible debenture CDN$207,952
- Premium on share issue for the year CDN$691,992

As of the year-end date September 30, 2007 the following amounts were allocated from the various reserve accounts into a separate account called “Other components of shareholders’ equity”. The reconciliation between the carrying amount at the beginning and end of each period is presented on the statement of shareholders’ equity:

- Warrants Issued on convertible debenture financing CDN$105,000
- Equity portion of convertible debenture CDN$207,952

As of the year-end date September 30, 2008 the following amounts were allocated from the various reserve accounts into a separate account called “Other components of shareholders’ equity”. The reconciliation between the carrying amount at the beginning and end of each period is presented on the statement of shareholders’ equity:

- Warrants Issued on convertible debenture financing AUS$119,034
- Equity portion of convertible debenture AUS$57,919

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(i) *Exploration for and Evaluation of Oil Gas Properties*

GAAP and IFRS both allow for the capitalization of costs associated with the exploration for and evaluation of mineral resources.

As of the transition date and the year-end September 30, 2007 the Company has decided to apply AIASB-6. AIASB-6 distinguishes between exploration and evaluation costs that are tangible and intangible and re-allocates costs from exploration and evaluation costs to property, plant and equipment at the time that technical and commercial viability of the property is proven.

As of the transition date the Company re-allocated CDN$1,713,693 to property, plant and equipment related to the Company's Sprowl property in Oklahoma.

As of the year-end date September 30, 2007 the Company re-allocated CDN$1,680,980 from property, plant and equipment to Oil and Gas Properties related to the Company's Baxter Shale project, Lake David and Sunken Lake gas field projects in the USA and Canada.

As of the year ended September 30, 2008 the Company reallocated $391,752 from property, plant and equipment to oil and gas properties relating the Company's Baxter Shale project in the USA.

Summary of Impact of IFRS

As of the transition date the impact on total equity is an overall increase of CDN$123,035 related to the difference in accounting for the Company's convertible debenture under IFRS and GAAP.

As of the year end date September 30, 2007 the impact on total equity is an overall increase of CDN$108,258 related to the difference in accounting for the Company's convertible debenture under IFRS and GAAP.

As of the year end date September 30, 2008 the impact on total equity is an overall increase of $16,782 related to the difference in accounting for the Company's convertible debenture under IFRS and GAAP.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED SEPTEMBER 30, 2008

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

c) Reconciliation of the Restated Financial Statements (in Australian Dollars)

Reconciliation of restated consolidated balance sheet presented after IFRS and Non-IFRS adjustments for the year then ended September 30, 2006:

	September 30, 2006			
		Adjustments		
	Original	IFRS (refer Note 1b Table A)	Non- IFRS	Restated
	$	$	$	$
ASSETS				
Current				
Cash and cash equivalents	-	-	-	-
Restricted cash – prepaid debenture interest	257,873	-	-	**257,873**
Accounts receivable	99,077	-	-	**99,077**
Loan receivable	146,690	-	-	**146,690**
	503,640	-	-	**503,640**
Restricted Cash	319,173	-	-	**319,173**
Property and Equipment	9,222	2,054,204	-	**2,063,426**
Oil and Gas Properties	3,504,240	(2,054,204)	-	**1,450,036**
Debenture Sinking Fund	211,242	-	-	**211,242**
Debenture Discount And Financing Costs	305,054	(305,054)	-	**-**
TOTAL ASSETS	4,852,571	(305,054)	-	**4,547,517**
LIABILITIES				
Current				
Accounts payable and accrued liabilities	1,371,440	-	-	**1,371,440**
Interest bearing liabilities	50,705	-	-	**50,705**
	1,422,145	-	-	**1,422,145**
Asset Retirement Obligation	-	-	-	**-**
Convertible Debentures	2,062,787	(452,536)	-	**1,610,251**
TOTAL LIABILITIES	3,484,932	(452,536)	-	**3,032,396**
(Deficiency in)/Net Assets	1,367,639	147,482	-	**1,515,121**
SHAREHOLDERS' EQUITY				
Share Capital	8,837,125	-	-	**8,837,125**
Warrants Issued on Convertible Debenture Financing	125,864	(125,864)	-	**-**
Equity Portion of Convertible Debentures	61,242	(61,242)		**-**
Foreign Exchange Reserve	-	-	-	**-**
Other Components of Shareholder's Equity	-	1,265,868	-	**1,265,868**
Contributed Surplus	828,537	(828,537)	-	**-**
Accumulated Losses	(8,485,129)	(102,743)	-	**(8,587,872)**
(DEFICIENCY IN) /SHAREHOLDERS' EQUITY	1,367,639	147,482	-	**1,515,121**

EARTH HEAT RESOURCES LTD
(formerly FALL RIVER RESOURCES LTD.)
AND CONTROLLED ENTITIES
ABN 86 115 229 984

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2008

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Reconciliation of restated consolidated profit after-tax presented after IFRS and non-IFRS adjustments for the year then ended September 30, 2006:

	September 30, 2006			
		Adjustments		
	Original	IFRS (refer Note 1b Table B)	Non- IFRS	Restated
	$	$	$	$
Revenues				
Natural gas and petroleum	130,283	-	-	**130,283**
Expenses				
Consulting	246,290	-	-	**246,290**
Directors fees	-	-	-	**-**
Debenture interest, discount amortization and accretion	378,460	130,848	-	**509,308**
Equipment amortization	1,591	-	-	**1,591**
Foreign exchange loss/(gain)	(68,501)	(31,344)	-	**(99,845)**
Management fees	21,092	-	-	**21,092**
Office	95,227	-	-	**95,227**
Professional fees	24,823	-	-	**24,823**
Property Investigation	4,125	-	-	**4,125**
Regulatory and filing fees	74,422	-	-	**74,422**
Salaries and benefits	516,469	-	-	**516,469**
Stock based compensation	109,679	-	-	**109,679**
Travel and promotion	324,505	-	-	**324,505**
Total Expenses	1,728,182	99,505	-	**1,827,687**
Loss Before Other Items	(1,597,899)	(99,505)	-	**(1,697,404)**
Other Items				
Natural oil and gas properties impairment	(2,900,390)	-	-	**(2,900,390)**
Natural oil and gas properties written off	(448,468)	-	-	**(448,468)**
Interest income	70,161	-	-	**70,161**
Loss Before Income Tax Expense	(4,876,596)	(99,505)	-	**(4,976,101)**
Income Tax Expense	19,217	-	-	**19,217**
Net Loss For The Year	(4,857,379)	(99,505)	-	**(4,956,884)**

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Reconciliation of restated consolidated total equity per the statement of shareholders' equity after AFIRS and Non-IFRS adjustments as at September 30, 2006:

Consolidated Group	Share Capital	Other Compone-nts Equity	Warrants	Convertible Debentures	Contributed Surplus	Accumul-ated Losses	Total
Original balance September 30, 2006	8,837,125	-	125,864	61,242	828,537	(8,485,129)	1,367,639
IFRS adjustments (refer Note 1b Table C)	-	1,265,868	(125,864)	(61,242)	(828,537)	(102,743)	147,482
Non-IFRS adjustments	-	-	-	-	-	-	-
Restated balance September 30, 2006	**8,837,125**	**1,265,868**	**-**	**-**	**-**	**(8,587,872)**	**1,515,121**

Reconciliation of restated consolidated cash-flow statement as presented after AFIRS and Non-IFRS adjustments as at September 30, 2006:

	September 30, 2006			
		Adjustments		
	Original	IFRS (refer Note 1b Table D)	Non-IFRS	Restated
	$	$	$	$
Cash Flows Provided By (Used In) Operating Activities				
Net loss	(4,857,379)	(99,505)	-	**(4,956,884)**
Adjustment for items not requiring an outlay of cash:				
Debenture discount amortization and accretion	110,330	131,801	-	**242,131**
Equipment amortization	1,591	-	-	**1,591**
Unrealized foreign exchange loss	310,456	(32,297)	-	**278,159**
Others	90,461	1	-	**90,462**
Natural oil and gas properties written down	2,900,390	-	-	**2,900,390**
Natural oil and gas properties written off	448,468	-	-	**448,468**
	(995,683)	-	-	**(995,683)**
Changes in non-cash working capital				
Accounts receivable	(94,314)	-	-	**(94,314)**
Prepaid expenses	5,859			**5,859**
Restricted cash	(312,005)	-	-	**(312,005)**
Debenture financing costs and sinking funds	(351,072)	351,072	-	**-**
Accounts payable and accrued liabilities	130,508	-	-	**130,508**
Net cash provided by / (used in) operating activities	(1,616,707)	351,072	-	**(1,265,635)**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED SEPTEMBER 30, 2008

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

	September 30, 2006			
		Adjustments		
	Original	IFRS (refer Note 1b Table D)	Non-IFRS	Restated
	$	$	$	$
Investing Activities				
Geothermal, oil and Gas Properties - purchases	(5,582,505)	-	-	**(5,582,505)**
Loan receivable	(143,396)	-	-	**(143,396)**
Net cash provided by / (used in) investing activities	(5,725,901)	-	-	**(5,725,901)**
Financing Activities				
Ordinary shares issued	5,428,584	-	-	**5,428,584**
Convertible debentures	851,060	(351,072)	-	**499,988**
Due to related parties	(31,570)	-	-	**(31,570)**
Net cash provided by / (used in) financing activities	6,248,074	(351,072)	-	**5,897,002**
Foreign Exchange Gain From Holding Cash	61,528	-	-	**61,528**
Increase / (Decrease) In Cash and cash equivalents	(1,033,006)	-	-	**(1,033,006)**
Cash and cash equivalents, Beginning Of Year	982,301	-	-	**982,301**
Cash and cash equivalents, End Of Year	(50,705)	-	-	**(50,705)**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED SEPTEMBER 30, 2008

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (Continued

Reconciliation of restated consolidated balance sheet presented after IFRS and Non-IFRS adjustments for the year then ended September 30, 2007:

	September 30, 2007			
		Adjustments		
	Original	IFRS (refer Note 1b Table E)	Non- IFRS	Restated
	$	$	$	$
ASSETS				
Current				
Cash and cash equivalents	288,157	-	-	**288,157**
Restricted cash – prepaid debenture interest	256,957	-	-	**256,957**
Accounts receivable	51,523	-	-	**51,523**
Loan receivable	159,441	-	-	**159,441**
	756,078	-	-	**756,078**
Restricted Cash	318,852	-	-	**318,852**
Property and Equipment	2,495,014	(1,918,692)	-	**576,322**
Oil and Gas Properties	-	1,905,675	-	**1,905,675**
Debenture Sinking Fund	426,693	-	-	**426,693**
Debenture Discount And Financing Costs	160,733	(160,733)	-	**-**
TOTAL ASSETS	4,157,370	(173,750)	-	**3,983,620**
LIABILITIES				
Current				
Accounts payable and accrued liabilities	1,525,167	-	-	**1,525,167**
Interest bearing liabilities	100,012	-	-	**100,012**
	1,625,179	-	-	**1,625,178**
Asset Retirement Obligation	44,175	(13,040)	-	**31,135**
Convertible Debentures	2,063,376	(283,444)	-	**1,779,932**
TOTAL LIABILITIES	3,732,729	(296,484)	-	**3,436,245**
(Deficiency in)/Net Assets	424,640	122,735	-	**547,375**
SHAREHOLDERS' EQUITY				
Share Capital	12,100,668	(1,088,915)	-	**11,011,753**
Warrants Issued on Convertible Debenture Financing	119,034	(119,034)	-	**-**
Equity Portion of Convertible Debentures	57,919	(57,919)	-	**-**
Other Components of Shareholder's Equity	-	1,406,355	-	**1,406,355**
Accumulated Losses	(11,852,981)	(17,752)	-	**(11,870,733)**
(DEFICIENCY IN) /SHAREHOLDERS' EQUITY	424,640	122,735	-	**547,375**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED SEPTEMBER 30, 2008

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Reconciliation of restated consolidated profit after-tax presented after IFRS and non-IFRS adjustments for the year then ended September 30, 2007:

	September 30, 2007			
		Adjustments		
	Original	IFRS (refer Note 1b Table F)	Non- IFRS	Restated
	$	$	$	$
Revenues				
Natural gas and petroleum	199,303	-	-	**199,303**
Expenses				
Consulting	174,369	-	-	**174,369**
Directors fees	-	-	-	**-**
Debenture interest, discount amortization and accretion	404,551	133,770	-	**538,321**
Equipment amortization	2,616	-	-	**2,616**
Foreign exchange loss/(gain)	191,952	(217,808)	-	**(25,856)**
Management fees	20,406	-	-	**20,406**
Office	93,081	-	-	**93,081**
Professional fees	275,512	-	-	**275,512**
Regulatory and filing fees	80,944	-	-	**80,944**
Salaries and benefits	735,462	-	-	**735,462**
Travel and promotion	103,840	-	-	**103,840**
Total Expenses	2,082,733	(84,038)	-	**1,998,695**
(Loss) / Profit Before Other Items	(1,883,430)	84,038	-	**(1,799,392)**
Other Items				
Natural oil and gas properties impairment	(1,250,425)	-	-	**(1,250,425)**
Natural oil and gas properties written off	(262,758)	-	-	**(262,758)**
Interest income	29,714	-	-	**29,714**
(Loss) / Profit Before Income Tax Expense	(3,366,899)	84,038	-	**(3,282,861)**
Income Tax Expense	-	-	-	**-**
(Loss) / Profit For The Year	(3,366,899)	84,038	-	**(3,282,861)**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED SEPTEMBER 30, 2008

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Reconciliation of restated consolidated total equity per the statement of shareholders' equity after AFIRS and Non-IFRS adjustments as at September 30, 2007:

Consolidated Group	Share Capital	Warrants Issued on Convertible Notes	Other Components Equity	Equity Portion of Convertible Debentures	Accumulated Losses	Total
Original balance September 30, 2007	12,100,668	119,034	-	57,919	(11,852,981)	424,640
IFRS adjustments (refer Note 1b Table G)	(1,088,915)	(119,034)	1,406,355	(57,919)	(17,752)	122,735
Non-IFRS adjustments	-	-	-	-	-	-
Restated balance September 30, 2007	**11,011,753**	**-**	**1,406,355**	**-**	**(11,870,733)**	**547,375**

Reconciliation of restated consolidated cash-flow statement as presented after AFIRS and Non-IFRS adjustments as at September 30, 2007:

	September 30, 2007			
		Adjustments		
	Original	IFRS (refer Note 1b Table H)	Non-IFRS	Restated
	$	$	$	$
Cash Flows Provided By (Used In) Operating Activities				
Net loss	(3,366,899)	84,038	-	**(3,282,861)**
Adjustment for items not requiring an outlay of cash:				
Debenture discount amortization and accretion	145,376	133,770	-	**279,146**
Equipment amortization	2,616	-	-	**2,616**
Unrealized foreign exchange loss	94,909	(217,808)	-	**(122,899)**
Natural oil and gas properties written down	1,250,425	-	-	**1,250,425**
Natural oil and gas properties written off	262,758	-	-	**262,758**
	(1,610,815)	-	-	**(1,610,815)**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED SEPTEMBER 30, 2008

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

	September 30, 2007			
		Adjustments		
	Original	IFRS (refer Note 1b Table H)	Non-IFRS	Restated
	$	$	$	$
Changes in non-cash working capital				
Accounts receivable	42,179	-	-	**42,179**
Restricted cash	(16,997)	-	-	**(16,997)**
Debenture financing costs and sinking funds	(239,990)	-	-	**(239,990)**
Accounts payable and accrued liabilities	535,388	-	-	**535,388**
Net cash provided by / (used in) operating activities	(1,290,235)	-	-	**(1,290,235)**
Investing Activities				
Propery and Equipment - purchases	(123,246)	-	-	**(123,246)**
Oil and Gas Properties - purchases	(520,573)	-	-	**(520,573)**
Loan receivable	(20,710)	-	-	**(20,710)**
Net cash provided by / (used in) investing activities	(664,529)	-	-	**(664,529)**
Financing Activities				
Ordinary shares issued	2,190,425	-	-	**2,190,425**
Due to related parties	100,449	-	-	**100,449**
Net cash provided by / (used in) financing activities	2,290,874	-	-	**2,290,874**
Foreign Exchange Gain From Holding Cash	-	-	-	**-**
Increase / (Decrease) In Cash and cash equivalents	336,110	-	-	**336,110**
Cash and cash equivalents, Beginning Of Year	(47,953)	-	-	**(47,953)**
Cash and cash equivalents, End Of Year	288,157	-	-	**288,157**

EARTH HEAT RESOURCES LTD
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ABN 86 115 229 984

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2008

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Reconciliation of restated consolidated balance sheet presented after IFRS and non-IFRS adjustments for the year then ended September 30, 2008:

	September 30, 2008			
		Adjustments		
	Original	IFRS (refer Note 1b Table I)	Non-IFRS	Restated
	$	$	$	$
ASSETS				
Current				
Cash and cash equivalents	131,484	-	-	**131,484**
Restricted cash – prepaid debenture interest	268,088	-	-	**268,088**
Accounts receivable	414,399	-	-	**414,399**
Loan receivable	57,453	-	-	**57,453**
	871,424	-	-	**871,424**
Restricted Cash	318,715	-	(318,714)	**1**
Property and Equipment	899,316	(391,752)	(504,537)	**3,027**
Oil and Gas Properties	-	386,102	(386,102)	**-**
Debenture Sinking Fund	445,490	-	(49,943)	**395,547**
Debenture Discount And Financing Costs	29,339	(29,339)	-	**-**
TOTAL ASSETS	2,564,284	(34,989)	(1,259,296)	**1,269,999**
LIABILITIES				
Current				
Accounts payable and accrued liabilities	1,525,877	-	-	**1,525,877**
Interest bearing liabilities	879,981	-	-	**879,981**
	2,405,858	-	-	**2,405,858**
Asset Retirement Obligation	156,543	(13,020)	(143,523)	**-**
Convertible Debentures	2,073,247	(38,751)	-	**2,034,496**
TOTAL LIABILITIES	4,635,648	(51,771)	(143,523)	**4,440,354**
(Deficiency in)/Net Assets	(2,071,364)	16,782	(1,115,773)	**(3,170,355)**
SHAREHOLDERS' EQUITY				
Share Capital	12,100,668	(1,088,915)	-	**11,011,753**
Other Components of Shareholder's Equity	-	1,406,355	-	**1,406,355**
Warrants	119,034	(119,034)	-	**-**
Foreign Exchange Reserve	(78,519)	-	-	**(78,519)**
Equity Portion Of Convertible Debenture	57,919	(57,919)	-	**-**
Accumulated Losses	(14,270,466)	(123,705)	(1,115,773)	**(15,509,944)**
(DEFICIENCY IN) /SHAREHOLDERS' EQUITY	(2,071,364)	16,782	(1,115,773)	**(3,170,355)**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED SEPTEMBER 30, 2008

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Reconciliation of restated consolidated profit after-tax presented after IFRS and non-IFRS adjustments for the year then ended September 30, 2008:

	September 30, 2008			
		Adjustments		
	Original	IFRS (refer Note 1b Table J)	Non-IFRS	Restated
	$	$	$	$
Revenues				
Natural gas and petroleum	185,902	-	-	**185,902**
Expenses				
Directors fees	108,818	-	-	**108,818**
Debenture interest, discount amortization and accretion	420,951	133,972	-	**554,923**
Equipment amortization	3,078	-	-	**3,078**
Foreign exchange loss/(gain)	58,589	(20,848)	84,555	**122,296**
Interest on loans	107,009	-	-	**107,009**
Management fees	41,000	-	-	**41,000**
Office	49,198	-	-	**49,198**
Professional fees	204,386	-	-	**204,386**
Miscellaneous	4,718	-	-	**4,718**
Shareholder costs	42,718	-	-	**42,718**
Doubtful debts	55,564	-	-	**55,564**
Property investigation	291,558	-	-	**291,558**
Regulatory and filing fees	42,820	-	-	**42,820**
Salaries and benefits	252,029	-	-	**252,029**
Travel and promotion	3,068	-	-	**3,068**
Total Expenses	1,685,504	113,124	84,555	**1,883,183**
(Loss) / Profit Before Other Items	(1,499,602)	(113,124)	(84,555)	**(1,697,281)**
Other Items				
Natural oil and gas properties impairment	(781,161)	-	242,079	**(539,082)**
Natural oil and gas properties written off	(176,095)	-	(1,090,935)	**(1,267,030)**
Asset retirement impairment written off	-	-	143,523	**143,523**
Current asset impairment expense	-	-	(318,714)	**(318,714)**
Interest income	37,163	-	-	**37,163**
Other revenue	2,210	-	-	**2,210**
Total Other Items	(917,883)	-	(1,024,047)	**(1,941,930)**
(Loss) / Profit Before Income Tax Expense	(2,417,485)	(113,124)	(1,108,602)	**(3,639,211)**
Income Tax Expense	-	-	-	**-**
Net (Loss) / Profit For The Year	(2,417,485)	(113,124)	(1,108,602)	**(3,639,211)**

EARTH HEAT RESOURCES LTD
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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2008

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Reconciliation of restated consolidated total equity per the statement of shareholders' equity after IFRS and non-IFRS adjustments as at September 30, 2008:

Consolidated Group	Share Capital $	Other Components Equity $	Warrants $	Foreign Current Translation $	Convertible Debentures $	Accumulated Losses $	Total $
Original balance September 30, 2008	12,100,668	-	119,034	(78,519)	57,919	(14,270,466)	(2,071,364)
Effect of transition to IFRS (refer to Note 1b Table K)	(1,088,915)	1,406,355	(119,034)	-	(57,919)	(123,705)	16,782
Non-IFRS adjustments	-	-	-	-	-	(1,115,773)	(1,115,773)
Restated balance September 30, 2008	**11,011,753**	**1,406,355**	**-**	**(78,519)**	**-**	**(15,509,944)**	**(3,170,355)**

Reconciliation of restated consolidated cashflow statement as presented after IFRS and non-IFRS adjustments as at September 30, 2008:

	September 30, 2008			
		Adjustments		
	Original	IFRS (Refer to Note 1b Table L)	Non-IFRS	Restated
	$	$	$	$
Cash Flows Provided By / (Used In) Operating Activities				
Net loss	(2,417,485)	(113,124)	(1,108,602)	**(3,639,211)**
Adjustment for items not requiring an outlay of cash:				
Debenture discount amortization and accretion	420,951	133,972	-	**554,923**
Equipment amortization	3,078	-	-	**3,078**
Unrealized foreign exchange loss	58,589	(20,848)	84,555	**122,296**
Impairment of current asset	-	-	318,714	**318,714**
Asset retirement obligations written off	-	-	(143,523)	**(143,523)**
Natural oil and gas properties impairment	781,161	-	(242,079)	**539,082**
Natural oil and gas properties written off	176,095	-	1,090,935	**1,267,030**
	(977,611)	-	-	**(977,611)**

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2008

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

	September 30, 2008			
		Adjustments		
	Original	IFRS (Refer to Note 1b Table L)	Non-IFRS	Restated
	$	$	$	$
Changes in non-cash working capital				
Accounts receivable	(362,876)	-	-	**(362,876)**
Restricted cash	(11,131)	-	-	**(11,131)**
Debenture financing costs and sinking funds	112,597	-	-	**112,597**
Accounts payable and accrued liabilities	313,157	-	-	**313,157**
Net cash provided by / (used in) operating activities	(925,864)	-	-	**(925,864)**
Investing Activities				
Property and equipment - purchases	(76,594)	-	-	**(76,594)**
- disposals	615,299	-	-	**615,299**
Loan receivable	101,988	-	-	**101,988**
Net cash provided by / (used in) investing activities	640,693	-	-	**640,693**
Financing Activities				
Ordinary shares issued	-	-	-	**-**
Due to related parties	49,979	-	-	**49,979**
Net cash provided by / (used in) financing activities	49,979	-	-	**49,979**
Foreign Exchange Gain From Holding Cash	78,519	-	-	**78,519**
Increase / (Decrease) In Cash and cash equivalents	(156,673)	-	-	**(156,673)**
Cash and cash equivalents, Beginning Of Year	288,157	-	-	**288,157**
Cash and cash equivalents, End Of Year	131,484	-	-	**131,484**

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Summary of Non-IFRS adjustments

Current asset impairment expense

On March 23, 2006, the Company purchased $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, 2008, $318,715 of the trade dollars remains. None of these funds have been used and as a result an amount of $318,714 has been provided against this asset at September 30, 2008.

Property Plant and Equipment and Oil and Gas Interests

Previously, at September 30, 2008 the company had $899,316 of property plant and equipment. As a result of the Company's transition to IFRS the Company allocated $386,102 of these costs to Oil and Gas Properties. Subsequent to the year-end the Company concluded that its West Florence property was non-commercial and that there was enough evidence to conclude that its Oil and Gas properties should be written down to a fair market value of $nil. This resulted in a Non-IFRS write-up of $207,666 to the existing impairment of ($781,161) for a total impairment of $573,495 on the Property, Plant and Equipment and an additional write-down of ($1,090,935) to the existing write-down of ($176,095) for a total write-off on the Oil and Gas Properties of ($1,267,030). In addition, as the Canadian properties were no longer held, the asset retirement obligation of $143,523 was written off to $nil.

Debenture Sinking Fund

Previously, at September 30, 2008 the company had $445,490 of Debenture Sinking Fund. In accordance with the term of the debentures the sinking fund balance must amount to 30% (refer to Note 8 for further details, this resulted in a Non-IFRS write-up of $49,943 leaving a Debenture Sinking Fund balance of $395,547.

d) Foreign Currency Translation

The Company's primary 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 statement of comprehensive income.

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

e) Property and Equipment

I) Geothermal, Oil and Gas Interests

Exploration, evaluation and development expenditure incurred is accumulated in respect of each current identifiable area of interest. These costs are only carried forward to the extent that they are expected to be recouped through the successful development of the area or where activities in the area have not yet reached a stage that permits reasonable assessment of the existence of economically recoverable reserves. Accumulated costs in relation to an abandoned area are written off in full against profit in the year in which the decision to abandon the area is made.

When production commences, the accumulated costs for the relevant area of interest are amortised over the life of the area according to the rate of depletion of the economically recoverable reserves.

A regular review is undertaken of each area of interest to determine the appropriateness of continuing to carry forward costs in relation to that area of interest.

Exploration and evaluation assets are assessed for impairment when fact and circumstances suggest that the carrying amount of an exploration and evaluation asset may exceed its recoverable amount. The recoverable amount of the exploration and evaluation asset is estimated to determine the extent of the impairment loss (if any). Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but only to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in previous years.

All costs of acquisitions, exploring for and developing geothermal, natural gas and petroleum reserves are initially capitalised 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.

II) Provision for restoration and rehabilitation

Costs of site restoration are provided over the life of the facility from when exploration commences and are included in the costs of that stage. Site restoration costs include the dismantling and removal of mining plant, equipment and building structures, waste removal, and rehabilitation of the site in accordance with clauses of the mining permits. Such costs have been determined using estimates of future costs, current legal requirements and technology on discounted basis. Any changes in the estimates for the costs are accounted on a prospective basis. In determining the costs of site restoration, there is uncertainty regarding the nature and extent of the restoration due to community expectations and future legislation. Accordingly the costs have been determined on the basis that the restoration will be completed within one year of abandoning the site.

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

III) Joint Interests

Substantially all of the Company's exploration, development and production activities related to oil and gas are conducted jointly with others and, accordingly, the accounts reflect only the Company's proportionate interest in such activities.

IV) Office Equipment

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

f) Financing Fees

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

g) Revenue Recognition

Revenue from the sale of natural gas, natural gas liquids and crude oil is recognised 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 recognised in the same period in which the related revenue is earned.

h) Earnings Per Share

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

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

i) Income Taxes

The consolidated entity 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 utilised. 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 recognised is limited to the amount of the benefit that has a probability of recovery.

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

j) 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.

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 consolidated entity's intention to hold these investments to maturity. They are subsequently measured at amortised cost using the effective interest rate method.

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

k) Leased assets

Leases in terms of which the consolidated entity assumes substantially all the risks and benefits of ownership are classified as finance leases.

Other leases are operating leases and the leases are not recognised on the consolidated entity's balance sheet. For operating leases lease expenses are charged on a straight line basis over the lease term irrespective of the period in which the payment occur.

l) Impairment

(i) Financial assets
A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flow of that asset.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the original effective interest rate. An impairment loss in respect of an available-for-sale financial asset is calculated by reference to its current fair value.
Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

All impairment losses are recognised in the statement of comprehensive income. Any cumulative losses in respect of an available-for-sale financial asset recognised previously in equity is transferred to the statement of comprehensive income. An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised. For financial assets measured at amortised cost, the reversal is recognised in the statement of comprehensive income. For available-for-sale financial asset that are equity securities, the reversal is recognised directly in equity.

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

ii) Non-financial assets

The carrying amounts of the consolidated entity's assets, other than deferred tax assets (see accounting policy i), are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated (see accounting policy l(i)).

An impairment loss is recognised whenever the carrying amount of an asset or its cash generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash flows that largely are independent from other assets or groups. Impairment losses are recognised in the statement of comprehensive income. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (group of units) and then, to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indication that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation and amortisation, if no impairment loss had been recognised.

m) Employee benefits

(i) Defined contribution plans

Obligations for contributions to defined contribution pension plans are recognised as an expense in the Income Statementwhen they are due.

(ii) Long-term service benefits

The consolidated entity's net obligation in respect of long-term service benefits, other than pension plans, is the amount of future benefit that employees have earned in return for their service in the current and prior periods. The obligation is calculated using expected future increases in wage and salary rates including related on-costs and expected settlement dates, and is discounted using the rates attached to the Commonwealth Government bonds at the balance sheet date which have maturity dates approximating to the terms of the consolidated entity's obligations.

(iii) Wages, salaries, annual leave, sick leave and non-monetary benefits

Liabilities for employee benefits for wages, salaries, annual leave and sick leave, that are expected to be settled within 12 months of the reporting date, represent present obligations resulting from employees' services provided to reporting date, calculated at undiscounted amounts based on remuneration wage and salary rates that the consolidated entity expects to pay as at reporting date including related on-costs, such as workers compensation insurance and payroll tax.

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(iv) Share-based payment transactions

The employee and officer share scheme allows Company employees to acquire shares of the Company. The fair value of options granted is recognised as an employee expense with a corresponding increase in equity. The fair value is measured at grant date and spread over the period during which the employees become unconditionally entitled to the options. The fair value of the options granted is measured using a Black-Scholes option pricing model, taking into account the terms and conditions upon which the options were granted. The amount recognised as an expense is adjusted to reflect the actual number of share options that vest except where forfeiture is only due to share prices not achieving the threshold for vesting.

n) Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits

o) Goods and Services Tax

Revenue, expenses and assets are recognised net of the amount of goods and services tax (GST), except where the amount of GST incurred is not recoverable from the taxation authority. In these circumstances, the GST is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated with the amount of GST included. The net amount of GST recoverable from, or payable to, the ATO is included as a current asset or liability in the balance sheet.

Cash flows are included in the cashflow statement on a gross basis. The GST components of cash flows arising from investing and financing activities which are recoverable from, or payable to, the ATO are classified as operating cash flows.

p) Payables

Liabilities are recognised for amounts to be paid in the future for goods or services received. Trade accounts payable are normally settled within 60 days.

q) Comparatives

Where applicable, prior year amounts have been adjusted to place a comparable basis with current year amounts.

r) 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 recognized 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.

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, on November 14, 2002 to Fall River Resources Ltd and in July 2010 to Earth Heat Resources Ltd. The Company registered as a foreign company in Australia on August 29, 2005. The principal business activities includes the evaluation, acquisition, exploration and development of natural gas and petroleum properties.

b) At September 30, 2008, the Company had a deficiency in shareholders' equity of $3,170,355 (restated), and loss for the year then ended of $3,639,211 (restated). Subsequent to September 30,2010 the Group has been settled significant outstanding liabilities as part of the acquisition of Earth heat Australian Pty Ltd.

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 on-going evaluation, acquisition, and 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. At September 30, 2011 the Company had audited shareholders' equity of $3,454,671, refer to subsequent events for further details.

Subsequent to September 30, 2011 a further $600,000 has been raised through the issue of shares.

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.

3. FINANCIAL INSTRUMENTS (Continued)

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	
	2008	**2007**
	$	**$**
Accounts receivable	**414,399**	51,523
Loan receivable	**57,453**	159,441

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

	Consolidated	
	2008	**2007**
	$	**$**
Australia	**18,261**	6,055
Unite States / Canada	**453,681**	204,909

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED SEPTEMBER 30, 2008

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 $
2008						
Financial Assets						
Cash and cash equivalents	3%	131,484	-	-	-	131,484
Debenture interest	4%	268,088	-	-	-	268,088
Accounts receivable		-	-	-	414,399	414,399
Loan receivable		-	-	-	57,453	57,453
Restricted cash		-	-	-	1	1
Debenture sinking fund	12%	395,547	-	-	-	395,547
		795,119	-	-	471,853	1,266,972
Financial Liabilities						
Accounts payable and accrued liabilities		-	-	-	1,525,877	1,525,877
Interest bearing liabilities	8%	-	879,981	-	-	879,981
Convertible Debentures	12%	-	2,034,496	-	-	2,034,496
		-	2,914,477	-	1,525,877	4,440,354
2007						
Financial Assets						
Cash and cash equivalents	3%	288,157	-	-	-	288,157
Debenture interest	4%	256,957	-	-	-	256,957
Accounts receivable		-	-	-	51,523	51,523
Loan receivable		-	-	-	159,441	159,441
Restricted cash		-	-	-	318,852	318,852
Debenture Sinking Fund	12%	426,693	-	-	-	426,693
		971,807	-	-	529,816	1,501,623
Financial Liabilities						
Accounts payable and accrued liabilities		-	-	-	1,525,166	1,525,166
Interest bearing liabilities	8%	-	100,012	-	-	100,012
Convertible Debentures	12%	-	1,779,932	-	-	1,779,932
		-	1,879,944	-	1,525,167	3,405,110

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED SEPTEMBER 30, 2008

3. FINANCIAL INSTRUMENTS (Continued)

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. The carrying amount is representative of fair value.

Consolidated – 2008	Carrying Amount AUD $	+ 1.0% of AUD interest rate $	-1.0% of AUD interest rate $
Financial assets	795,119	7,951	(7,951)
Tax charge 30%	-	(2,385)	2,385
	795,119	5,566	(5,566)

The above analysis assumes all other variables remain constant.

Consolidated – 2007	Carrying Amount AUD $	+ 1.0% of AUD interest rate $	-1.0% of AUD interest rate $
Financial assets	971,807	9,718	(9,718)
Tax charge 30%	-	(2,915)	2,915
	971,807	6,803	(6,803)

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. The carrying amount is representative of fair value.

Maturity Analysis	Carrying Amount $	Contractual Cash flows $	< 6 months $	6-12 months $	1-3 years $
Consolidated 2008					
Accounts payable	1,525,877	1,525,877	1,525,877	-	-
Interest bearing liabilities	879,981	879,981	879,981	-	-
Convertible debentures	2,034,496	2,034,496	2,034,496	-	-
Consolidated 2007					
Accounts payable	1,525,166	1,525,166	-	-	-
Interest bearing liabilities	100,012	100,012	-	-	100,012
Convertible debentures	1,779,932	1,779,932	-	-	1,779,932

EARTH HEAT RESOURCES LTD
(formerly FALL RIVER RESOURCES LTD.)
AND CONTROLLED ENTITIES
ABN 86 115 229 984

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2008

4. LOAN RECEIVABLE

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

5. PROPERTY AND EQUIPMENT

	2008			2007
	COST **$**	**ACCUMULATED DEPLETION AND AMORTIZATION** **$**	**NET BOOK VALUE** **$**	NET BOOK VALUE $
Revenue producing properties	-	-	**-**	539,082
Asset retirement obligation	-	-	**-**	31,135
Office equipment	6,105	(3,078)	**3,027**	6,105
	6,105	(3,078)	**3,027**	576,322

	2008 **$**	**2007** **$**
Revenue producing properties		
Carrying value at being	**539,082**	1,666,261
Additions	**-**	123,246
Disposals	**-**	-
Impairment	**(539,082)**	(1,250,425)
Balance, end of year	**-**	539,082
Asset Retirement Obligations		-
Carrying value at beginning	**31,135**	44,175
Additions	**-**	-
Amount written-off	**(31,135)**	(13,040)
Balance, end of year	**-**	31,135
Office equipment		
Carrying value at being	**6,105**	8,721
Additions	**-**	-
Disposals	**-**	-
Depreciation expense	**(3,078)**	(2,616)
Balance, end of year	**3,027**	6,105
Total	**3,027**	576,322

6. OIL AND GAS PROPERTIES

	2008 NET BOOK VALUE $	2007 NET BOOK VALUE $
Undeveloped oil and gas interests	-	1,905,678
	-	1,905,678

Movements in carrying amounts

Movements in carrying amounts for each interest class during the current financial year.

	2008 $	2007 $
Undeveloped oil and gas interest	**1,905,678**	1,647,863
Foreign exchange adjustment	**(182,684)**	-
Other adjustment	**82,741**	-
Additions	**76,594**	520,573
Disposals	**(615,299)**	-
Amortization	**-**	-
Amount written off	**(1,267,030)**	(262,758)
	-	1,905,678
Total	**-**	1,905,678

6. OIL AND GAS PROPERTIES (Continued)

INTERESTS IN OIL AND GAS TENEMENTS AS OF SEPTEMBER 30, 2008

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(1)	Spring River Resources	Townships 18 through 20 South Ranges 69 and 70 West Freemont County Colorado	25%
Provost Region, South Alberta Canada	Spring River Resources	Lake David-1 Well(2) Sunken Lake-1 Well(3)	See Note (2) and Note (3)
East Queensdale Project Saskatchewan	Spring River Resources	Queensdale East permit(4)	See Note (4)

Notes:
1. West Florence joint venture was sold for $75,000 in July 2010.
2. Lake David-1 Well: the company was paying 15% working interest and subsequent to the year end relinquished their share of the section containing Lake David-1 well.
3. Sunken Lake-1 Well: the company was paying 50% to earn 25% payout. During the year the joint venture has relinquished their share of the section containing Sunken Lake-1 well.
4. East Queensdale Project Saskatchewan well was abandoned last December. The company has decided to relinquished their share of the section containing Queensdale East permit.

7. RESTRICTED CASH

On March 23, 2006, the Company purchased $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, 2008, $318,852 of the trade dollars remains. An amount of $318,714 has been provided against this asset at September 30, 2008.

8. CONVERTIBLE DEBENTURES

	2008 **$**	2007 $
Fair Value of Convertible Debenture fair value in Canadian Dollars, net of transaction costs	**1,112,251**	1,112,251
Accretion charged to date in Canadian Dollars	**685,166**	457,812
Foreign exchange (gain) loss	**237,079**	209,869
	2,034,496	1,779,932

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 mature 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 mature 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 IFRS, the convertible notes have been split between their liability and equity components. The combined fair values of the debt and equity components of the convertible debentures upon transition to IFRS were CDN$1,112,251 and CDN$259,042 respectively.

8. CONVERTIBLE DEBENTURES (Continued)

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, 2008 was $268,088 (2007: $256,957).

In addition, the Company is 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 totaling $622,299 representing their proportionate entitlement to these funds being an amount equal to 30% of the principal amount of the outstanding debentures at maturity.

On January 25, 2010 the convertible notes balance of $1,645,430 and all accrued interest of $175,208 were converted into 29,452,256 and 3,553,833 shares respectively, pursuant to a share sale agreement dated January 11, 2010 between the Company and Earth Heat Australia Pty Ltd (refer to Note 15 for further details).

9. NOTES PAYABLE AND ACCRUED INTEREST

MATURITY DATE	**2008** **$**	2007 $
March 31, 2009	**879,981**	100,012

Accrued interest to date in the amount of $54,981 is included in the balance.

On January 25, 2010 the notes payable balance of $819,260 including interest of $121,324 were converted into 15,340,420 shares, pursuant to a share sale agreement dated January 11, 2010 between the Company and Earth Heat Australia Pty Ltd (refer to Note 15 for further details).

10. SHARE CAPITAL

a) Shares Issued and Outstanding

	2008 Number	2007 Number	**2008 $**	2007 $
Issued for cash, private placements and prospectus financing	**-**	26,871,469	**-**	2,190,425
Issued for agents' commissions	**-**	1,682,003	**-**	139,637
Oil and gas property interest	**-**	-	**-**	-
Tax benefits on flow-through shares	**-**	-	**-**	-
Share issue costs	**-**	-	**-**	(363,220)
Foreign exchange adjustment	**-**	-	**-**	207,786
	-	28,553,472	**-**	2,174,628
Balance, beginning of year	**90,536,522**	61,983,050	**11,011,753**	8,837,125
Balance, end of year	**90,536,522**	90,536,522	**11,011,753**	11,011,753

There were no shares issued by the Company during the year ended September 30, 2008.

The shares on issue have no par value.

During the year ended September 30, 2007, the Company issued the following shares on a private placement basis:

I) 8,150,000 ordinary shares for gross proceeds of $815,000. In conjunction with this private placement, the Company issued 16,300,000 warrants, each of which entitles the holder to purchase an ordinary share at $0.10 per share on or before May 9, 2009. An additional 2,000,000 warrants were issued with the same terms as other warrants to agents. The Company incurred agents' commissions of $57,050 and this was settled through the issuance of 570,500 common shares of the Company and the issuance of 1,141,000 warrants with the same terms as other warrants.

II) 15,878,612 ordinary shares for gross proceeds of $1,111,447. In conjunction with this private placement, the Company issued 15,878,612 warrants, each of which entitles the holder to purchase an ordinary share at $0.10 per share on or before May 9, 2009. An additional 2,500,000 warrants were issued with the same terms as other warrants to agents. The Company incurred agents' commissions of $77,805 and this was settled through the issuance of 1,111,503 common shares of the Company and the issuance of 1,111,503 warrants with the same terms as the other warrants.

III) 2,842,857 ordinary shares for gross proceeds of $199,000. In conjunction with this private placement, the Company issued 2,842,857 warrants, each of which entitles the holder to purchase an ordinary share at $0.10 per share on or before May 9, 2009. $13,930 was paid as agents' commission.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED SEPTEMBER 30, 2008

10. SHARE CAPITAL (Continued)

b) Warrants

	2008 Number	2007 Number	**2008 $**	2007 $
Expired	**(18,049,210)**	(2,842,670)	**$ -**	$ -
Issued in debenture financing	**-**	-	**-**	-
Issued for property acquisition	**-**	-	**-**	-
Issued in private placement	**-**	41,773,972	**-**	-
IFRS adjustment (Note1b)	**-**	-	**-**	(119,034)
	(18,049,210)	38,931,302	**-**	(119,034)
Balance, beginning of year	**59,823,182**	20,891,880	**-**	119,034
Balance, end of year	**41,773,972**	59,823,182	**$ -**	$ -

As at September 30, 2008, the Company has the following share purchase warrants outstanding:

EXPIRY DATE	**NUMBER**	**EXERCISE PRICE**
May 9, 2009	41,773,972	$ 0.10
Total	41,773,972	

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.

10. SHARE CAPITAL (Continued)

The Company has the following history of stock options outstanding:

	NUMBER OF OPTIONS	WEIGHTED AVERAGE EXERCISE PRICE
Balance, September 30, 2007	2,840,000	$ 0.18
Granted	-	$ 0.18
Expired	(150,000)	$ 0.18
Balance, September 30, 2008	2,690,000	$ 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, 2008:

EXPIRY DATE[1]	EXERCISE PRICE	NUMBER OF OPTIONS OUTSTANDING	NUMBER OF OPTIONS EXERCISABLE
January 10, 2009	$ 0.18	250,000	250,000
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	2,690,000	2,690,000

[1] Options expire at the earlier of the date listed above or three months after cessation of employment.

Subsequent to the end of the financial year the remaining 2,690,000 options exercisable at CAD$0.18 on various dates prior to November 4, 2010 remained unexercised at their expiry date and have lapsed.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED SEPTEMBER 30, 2008

11. 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 July 21, 008 in the amount of $130,306.

   The Company has initiated a counter claim against the director. Pursuant to consent orders filed in the Supreme Court of New South Wales on October 30, 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. There are no amounts provided in the Company's financial statements for any of the above mentioned items.

   Subsequent to the year end no amounts have been paid in respect of the above claim.

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. Subsequent to the year end no amounts have been paid in respect of the above claim.

12. COMMITMENTS

The Company has an employment agreement with one employee who is also a director. The remuneration payable is $240,000 per annum. This agreement is in effect until October 31, 2010. The director resigned on January 12, 2010.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED SEPTEMBER 30, 2008

13. RELATED PARTY TRANSACTIONS

I) Related Party Transactions

During the year the Company entered into employment contracts and loan agreements with directors and consultants that are considered to be related parties. The purpose of the transactions entered into with related parties was to facilitate the Company's strategic, operating and financing activities.

The Related party transactions mentioned above 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.

Related party	**Debtor/(Creditor) Balance September 30, 2007 $**	**(Charge)/Credit to Consolidated Restated Income Statement $**	**Cash Paid/(received) during the period $**	**Debtor/(Creditor) Balance September 30, 2008 $**
Remuneration Payable to Directors				
B McLeod including superannuation	-	(34,050)	-	(34,050)
J Mulready including superannuation and annual leave provisions	(331,713)	(198,299)	213,536	(316,476)
S Pearce	(73,377)	(48,818)	-	(122,195)
D Sutton including superannuation	-	(34,050)	-	(34,050)
	(405,090)	(315,217)	213,536	(506,771)
Interest Bearing Liabilities[4]				
Imperial Corporation Pty Ltd[1]	-	(9,919)	(42,936)	(52,855)
Martin Place Securities Pty Ltd[2]	-	(25,600)	(400,000)	(425,600)
Optex Exchange Pty Ltd[2]	-	(18,717)	(300,000)	(318,717)
	-	(54,236)	(742,936)	(797,172)
Other Creditors				
Office expenses provided by Imperial Corporation Pty Ltd[1]	-	(60,600)	37,600	(23,000)
Non-interest bearing loans from Martin Place Securities Pty Ltd[2]	(282,056)	-	-	(282,056)
	(282,056)	(60,600)	37,600	(305,056)
Convertible Debentures				
Optex Exchange Pty Ltd[2]	(11,333)	(1,324)	1,111	(11,546)
Loan Receivable in subsidiary				
North American Oil & Gas[3]	159,441	-	(101,988)	57,453

13. RELATED PARTY TRANSACTIONS (Continued)

Notes:
(1) Mr Bruce McLeod is a director and shareholder of Imperial Corporation Pty Limited. Mr David Sutton is also a director of Imperial Corporation Pty Limited.
(2) Mr David Sutton was a director of Martin Place Securities Pty Ltd and is a director of North American Oil & Gas and Optex Exchange Pty Ltd.
(3) Joint Venture contributions were paid on behalf of North American Oil &Gas of which one of its Directors, Mr David Sutton is also a Director of the Company. The loan is interest free and unsecured.
(4) The Notes Payable are unsecured and accrue interest at 8% pa.

Total Interest paid or accrued on loans and convertible debentures owing to the related parties amounted to $55,560 (2007: $10,974).

Office accommodation $24,600 and administration fees of $36,000 (2007: $Nil) were paid to Imperial Corporation Pty Ltd a Company of which Mr Bruce McLeod and Mr David Sutton are also Directors. The amount owing to the related party amounted to $23,000 (2007: $nil).

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 (resigned January 22, 2010)
J Mulready (resigned January 12, 2010)
S Pearce (resigned May 11, 2011)
D Sutton (resigned May 11, 2011)
R Hollingsworth (resigned February 29, 2008)
I McBain (resigned February 29, 2008)

D L Hughes was a Joint Company Secretary (appointed February 6, 2008; resigned January 22, 2010)
S Pearce was a Joint Company Secretary (resigned May 11, 2011)

III) Remuneration of key management personnel

There were no shares or option over unissued shares in the Company held during the financial year by any key management personnel of the Company including their related parties.

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.

13. RELATED PARTY TRANSACTIONS (Continued)

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.

The remuneration (including superannuation and annual leave provision) unpaid as at September 30, 2008 amounted to $506,771, some of which is included the following key personnel's unpaid remuneration and superannuation that were paid in shares (pursuant to the share sale agreement dated January 11, 2010 between the Company and Earth Heat Australia Pty Ltd:

Name	**Wages and superannuation $**	**Shares issued No.**
Bruce McLeod[(1)]	85,838	1,741,083
David Sutton	85,838	1,741,083
Jack Mulready[(1) (2)]	498,503	5,000,000
Stephen Pearce	178,418	3,618,967
Roderick Hollingsworth[(1)]	34,609	701,988
Total	883,206	12,803,121

Notes
(1) Previous key management personnel.
(2) Jack Mulready's liabilities exclude the annual leave provision of $92,866. During the period $40,000 was paid in cash, pursuant to the share sale agreement (refer to Note 15 for further details).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED SEPTEMBER 30, 2008

14. 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:

		2008		2007
Pima facie income tax expense	**$**	**(725,246)**	$	(1,148,396)
Temporary differences		**-**		529,418
Unrecognized tax losses		**725,246**		618,978
	$	**-**	$	-

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

		2008		2007
Non-capital losses carried forward	**$**	**3,018,637**	$	2,293,391
Resource deductions		**1,903,412**		1,903,412
Share issue costs carried forward		**219,930**		219,930
Valuation allowance for future income tax assets		**(5,141,979)**		(4,416,733)
	$	**-**	$	-

The Company has available tax losses of approximately CAD$5,928,000 that may be offset against future Canadian taxable income and expire as follows:

	CAD$
2008	62,000
2009	40,000
2010	1,833,000
2014	378,000
2015	995,000
2026	1,019,000
2027	1,601,000
	5,928,000

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.

15. SUBSEQUENT EVENTS

November 28, 2008: (maturity date) the Company had outstanding convertible notes, the principal amounts of which totaled $2,073,247.The Noteholders received payment of $622,299 representing their proportionate entitlement to funds held in the Capital Sinking Fund Account being an amount equal to 30% of the outstanding notes at the maturity date. All interest payments on the outstanding convertible notes had been made up to November 28, 2008.

October 15, 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 $2,600,000 to be satisfied by the allotment and issue of 260,000,000 new Fall River shares at $0.01. Earth Heat holds 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 69,000,000 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 5,000,000 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 40,000,000 new Fall River shares to T J Mann & Associates Pty Ltd. This fee is inclusive of the costs associated with the $2,000,000 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.

The transaction obtained the approval of Fall River shareholders at a special meeting of members held on January 8, 2010.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED SEPTEMBER 30, 2008

15. SUBSEQUENT EVENTS (Continued)

November 10, 2009: the Company had on issue 750,000 options exercisable at $0.18 prior to November 10, 2009. None of these options were exercised prior to their expiry date and as a consequence have lapsed.

January 22, 2010: the Company completed the acquisition of Earth Heat Australia Pty Ltd.

The fair value assets and liabilities of Earth Heat as at January 22, 2010 were:

	Fair Value January 22, 2010 $
Assets	
Current Assets: Total Cash On Hand	6,375
Non-Current Assets: Capitalised Tenement Costs	2,652,548
Total Assets	2,658,923
Liabilities	
Current Liabilities	
Trade Creditors and other liabilities	3,488
Related Party Loan -Director's Loan -R Shaw	27,874
Related Party Loan –Vibrante Solutions Pty Ltd	34,524
Total Liabilities	65,886
Net (Liabilities)/Assets	**2,600,000**
Consideration	**2,600,000**
Goodwill	**-**

Pursuant to a share sale agreement dated January 11, 2010, Earth Heat Australia Pty Ltd (formerly Earth Heat Limited) became a wholly owned subsidiary of Earth Heat Resources Ltd ("Company") on January 22, 2010.

260,000,000 ordinary shares with a fair value of $2,600,000 were issued to the existing shareholders of Earth Heat Australia Pty Ltd in exchange for control of that Company.

Terms and condition of share sale agreement
The share sale agreement dated January 11, 2010 between the Company and Earth Heat Australia Pty Ltd included the following conditions that occurred prior to acquisition:

- 1 for 3 share consolidation; and
- 69,000,000 shares issued in full and final settlement of liabilities and loans amounting to $3,400,000.

15. SUBSEQUENT EVENTS (Continued)

The credit to the Income Statement for the year ended September 30, 2010 included:

- On January 25, 2010 the convertible notes balance of $1,452,032 and all accrued interest of $175,208 were converted into 29,452,256 and 3,553,833 shares respectively, pursuant to a share sale agreement dated January 11, 2010 between the Company and Earth Heat Australia Pty Ltd. The convertible notes were converted at $0.2028 per $1 of liability; this resulted in a resulting in a $1,995,564 increase in the fair value of shares issued to $4,595,564; and a credit to the Income Statement of $139,670 for interest.

- On the January 25, 2010 the notes payable balance of $819,260 including interest of $121,324 were converted into 15,340,420 shares, pursuant to a share sale agreement dated January 11, 2010 between the Company and Earth Heat Australia Pty Ltd and resulted in a credit to the Income Statement of $653,085.

May 2010: the Company announced that it had come to agreement with Geothermal One Inc to participate in the Copahue geothermal power project in Argentina, a true milestone for the transformation of its core business.

June 2010: the Company announced the divestment of its stake in the West Florence project in the USA. This was deemed to be non-core after strategic review and sold to Adelaide Energy Ltd, a joint venture partner in the project.

July 29, 2010: the Company announced that the rebranding of the consolidated entity had been completed including the change of name from Fall River Resources Ltd to Earth Heat Resources Ltd.

July 2010 the Company and its partner, Geothermal One Inc were awarded via adjudication, the Copahue Project in Argentina.

October 10, 2010: a Joint Venture Agreement ("JV") was signed between the Djibouti Ministry of Energy and Natural Resources and Electricitie' de Djibouti in relation to the Fiale Geothermal Development Project ("Fiale Project"). Since the year end, the Company engaged in discussions on the absolute structure of a Joint Venture with Electricitie' De Djibouti, and a suitable Power Purchase Agreement and as of the date of this report management discussion and analysis the structure of the joint venture agreement has not been finalized.

October 26, 2010: 20,037,500 shares were issued as follow:
- 9,125,000 as consideration for the acquisition Fiale Project;
- 912,500 in settlement of a commercial agreement in respect to the Fiale Project; and
- 10,000,000 at $0.025 to sophisticated investors.

February 14, 2011: 25,316,456 ordinary shares at 7.9 cents and 12,658,228 unquoted options were issued pursuant to a Share Subscription Agreement between the Company and Socius CG II, Ltd dated February 14, 2011. The Agreement was for a total investment of up to $5,000,000 over the next two years in two tranches of $2,000,000 each and one tranche of $1,000,000 at issue prices for the shares equivalent to the closing bid price of the Company's CDI/ORD shares the day before each close, plus unquoted 5 year options to 50% in number of the shares issued at an exercise price equivalent to the related share issue price. The investor shall have a right during the term of the options (after expiry of 10 days) to surrender the options for a number of shares the aggregate value of which is to be determined by a Black Scholes calculation as detailed in the Share Subscription Agreement. At the date of this report $3,000,000 of the Socius investment is available.

15. SUBSEQUENT EVENTS (Continued)

February 23, 2011: the following resolutions were passed at the AGM:

- Number of directors for ensuing year at six;
- Raymond Shaw, Torey Marshall, David Sutton, Normal Zillman and Stephen Pearce to be re-elected as directors of the Company;
- Alexander Rose-Innes election as a director of the Company was ratified;
- KS Black & Co be appointed as auditors and directors to fix auditors remuneration;
- Issue of Options to Alexander Rose-Innes pursuant to employment agreement;
- Share issue for transfer of rights to acquire the Fiale project in Djibouti; and
- Approval of Employee Share Option Scheme.

February 25, 2011: 42,000,000 unquoted options were issued with exercise price ranging from $0.02 to $0.08 and expiry dates ranging from August 3, 2011 to August 3, 2013.

On March 2, 2011: 587,998 Canadian issued common stock was transferred to ASX listed ordinary shares.

March 8, 2011: the Company announced the engagement of the services of specialist consulting group Sinclair Knight Merz (SKM).

March 16, 2011: the Company announced Memorandum of Understanding (MOU) signed with United Arab Emirates company, Drake and Scull Water and Power (DSWP), a wholly owned subsidiary of Drake and Scull International (DSI) to jointly explore, bid and secure geothermal project opportunities in the Middle East and Africa.

May 11, 2011: the Company announced a simplification of the board structure and the resignation of three directors, David Sutton, Alexander Rose-Innes and Stephen Pearce. As a result, Alexander Rose-Innes 20,000,000 unquoted options lapsed.

May 18, 2011: the Company announced significant resource upgrade at Copahue.

May 20, 2011: the Company announced significant concept study for accelerated 15MW plant at Copahue.

July 28, 2011: the Company announced a positive completion of Copahue concept study by Sinclair Knight Merz.

October 5, 2011: the Company announced the signing of a Letter of Intention & Heads of Agreement for a power purchase off take in Argentina with Loma Negra CIASA.

15. SUBSEQUENT EVENTS (Continued)

October 12, 2011: the Company held an Extraordinary General Meeting and the shareholders' passed the following resolutions:

- The Shareholders approve and authorise the prior issue of 25,316,456 ordinary shares and 12,658,228 unquoted options to Socius Capital Group LLC in accordance with the Share Subscription Agreement.
- The Shareholders approve and authorise the future issues of ordinary shares and unquoted options to Socius Capital Group LLC in the three month period following October 12, 2011, subject to the terms of the Share Subscription Agreement.
- The Shareholders approve and authorise the future issue of 136,000,000 ordinary shares at an issue price of at least 80% of the volume weighted average market price calculated over the last 5 days on which the security were recorded.
- The Shareholders approve and authorise the future issue of 20,000,000 unquoted options at no cost to the recipient (who shall not be a related party), as required for corporate purposes.

October 18, 2011: the Company announced the signing of a Letter of Intention & Heads of Agreement for a power purchase off take in Argentina with Electrometalurgica Andina SAIC.

October 31, 2011: 10,000,000 options were exercised.

November 17, 2011: the consolidated entity surrendered Gel 505 and GEL 506.

November 24, 2011: the consolidated entity announced it has mandated the Inter-American Development Bank's ('IDB' or 'the Bank') Structured and Corporate Finance Department ('SCF'), to raise up to USD$134,000,000 in project finance for the development of the 30MWe Copahue Project in Argentina.

December 12, 2011: $600,000 was raised for the issue of 20,000,000 ordinary shares at $0.03, in addition one free attaching options was issued for every two shares purchased.

Except for the matters referred to above, there is no other matter or circumstance that has arisen since September 30, 2008 that has significantly affected or may significantly affect:

a) the operations, in financial years subsequent to September 30, 2008, of the consolidated group;
b) the results of those operations; or
c) the state of affairs, in financial years subsequent to September 30, 2008 of the consolidated group.

16. SEGMENT REPORTING

For the year ended September 30, 2008 the consolidated entity operates predominately in one industry in North America. The principal activity of the consolidated group is the continued exploration for oil and gas.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED SEPTEMBER 30, 2008

17. 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.

There are no externally imposed capital requirements.

There have been no changes in the strategy adopted by management to control the capital of the group since the prior year, which is to maintain the debt to equity ratio at not more than 100%. The debt-equity ratios as at September 30, 2008 and September 30, 2007 are as follows:

	Note	**September 30, 2008 $**	September 30, 2007 $
Total loans and borrowings	8, 9	2,914,477	1,879,944
Less: Cash and cash equivalent		(131,484)	(288,157)
Net borrowings		2,782,993	1,591,787
Total equity		(3,170,355)	547,375
Total capital		11,011,753	11,011,753
Gearing ratio		25%	14%

The increase in the gearing ratio during 2008 is primarily due to the increase in loans and borrowings.

18. AUDITORS REMUNERATION

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

	September 30, 2008 $	September 30, 2007 $
Audit and review of financial statements		
- K S Black & Co	**17,950**	20,000
- BDO	**-**	6,000
Other assurance services	**900**	36,872
	18,850	62,872

FORM 52-109F1

CERTIFICATION OF ANNUAL FILINGS

FULL CERTIFICATE

I, Torey Marshall, the Manager of Earth Heat Resources Limited, in the capacity of Chief Executive Officer of Earth Heat Resources Limited, certify the following:

1. ***Review:*** I have reviewed the AIF, if any, annual financial statements and annual MD&A, including, for greater certainty, all documents and information that are incorporated by reference in the AIF (together, the "annual filings")~~,~~ of Earth Heat Resources Limited (the "issuer") for the financial year ended September 30, 2008.

2. ***No misrepresentations:*** Based on my knowledge, having exercised reasonable diligence, the annual filings do not contain any untrue statement of a material fact or omit to state a material fact required to be stated or that is necessary to make a statement not misleading in light of the circumstances under which it was made, for the period covered by the annual filings.

3. ***Fair presentation:*** Based on my knowledge, having exercised reasonable diligence, the annual financial statements together with the other financial information included in the annual filings fairly present in all material respects the financial condition, results of operations and cash flows of the issuer, as of the date of and for the periods presented in the annual filings.

4. ***Responsibility:*** The issuer's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (DC&P) and internal control over financial reporting (ICFR), as those terms are defined in National Instrument 52-109 *Certification of Disclosure in Issuers' Annual and Interim Filings*, for the issuer.

5. ***Design:*** Subject to the limitations, if any, described in paragraphs 5.2 and 5.3, the issuer's other certifying officer(s) and I have, as at the financial year end

(a) designed DC&P, or caused it to be designed under our supervision, to provide reasonable assurance that

(i) material information relating to the issuer is made known to us by others, particularly during the period in which the annual filings are being prepared; and

(ii) information required to be disclosed by the issuer in its annual filings, interim filings or other reports filed or submitted by it under securities legislation is recorded, processed, summarized and reported within the time periods specified in securities legislation; and

(b) designed ICFR, or caused it to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with the issuer's GAAP.

5.1 ***Control framework:*** The control framework the issuer's other certifying officer(s) and I used to design the issuer's ICFR is the *Internal Control-Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

5.2 ***ICFR*** *Material weakness relating to design:* N/A.

5.3 *Limitation on scope of design:* N/A.

6. ***Evaluation***: The issuer's other certifying officer(s) and I have

(a) evaluated, or caused to be evaluated under our supervision, the effectiveness of the issuer's DC&P at the financial year end and the issuer has disclosed in its annual MD&A our conclusion about the effectiveness of DC&P at the financial year end based on that evaluation; and

(b) evaluated, or caused to be evaluated under our supervision, the effectiveness of the issuer's ICFR at the financial year end and the issuer had disclosed in its annual MD&A

(i) our conclusions about the effectiveness of ICFR at the financial year end based on that evaluation; and
(ii) N/A.

7. ***Reporting changes in*** *ICFR*: The issuer has disclosed in its annual MD&A any change in the issuer's ICFR that occurred during the period beginning on October 1, 2007 and ended on September 30, 2008 that has materially affected, or is reasonably likely to materially affect, the issuer's ICFR.

8. ***Reporting to the issuer's auditors and board or directors or audit committee:*** The issuer's other certifying officer(s) and I have disclosed, based on our most recent evaluation of ICFR, to the issuer's auditors, and the board of directors or the audit committee of the board of directors any fraud that involved management or other employees who have a significant role in the issuer's ICFR.

Date: December 30, 2011

Torey Marshall
In the capacity of Chief Executive Officer

FORM 52-109F1

CERTIFICATION OF ANNUAL FILINGS

FULL CERTIFICATE

I, Victoria Allinson, the Manager of Earth Heat Resources Limited, in the capacity of Chief Financial Officer of Earth Heat Resources Limited, certify the following:

1. **Review:** I have reviewed the AIF, if any, annual financial statements and annual MD&A, including, for greater certainty, all documents and information that are incorporated by reference in the AIF (together, the “annual filings”)~~,~~ of Earth Heat Resources Limited (the "issuer") for the financial year ended September 30, 2008.

2. **No misrepresentations:** Based on my knowledge, having exercised reasonable diligence, the annual filings do not contain any untrue statement of a material fact or omit to state a material fact required to be stated or that is necessary to make a statement not misleading in light of the circumstances under which it was made, for the period covered by the annual filings.

3. **Fair presentation:** Based on my knowledge, having exercised reasonable diligence, the annual financial statements together with the other financial information included in the annual filings fairly present in all material respects the financial condition, results of operations and cash flows of the issuer, as of the date of and for the periods presented in the annual filings.

4. **Responsibility:** The issuer's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (DC&P) and internal control over financial reporting (ICFR), as those terms are defined in National Instrument 52-109 Certification of Disclosure in Issuers' Annual and Interim Filings, for the issuer.

5. **Design:** Subject to the limitations, if any, described in paragraphs 5.2 and 5.3, the issuer's other certifying officer(s) and I have, as at the financial year end

(a) designed DC&P, or caused it to be designed under our supervision, to provide reasonable assurance that

(ii) material information relating to the issuer is made known to us by others, particularly during the period in which the annual filings are being prepared; and

(ii) information required to be disclosed by the issuer in its annual filings, interim filings or other reports filed or submitted by it under securities legislation is recorded, processed, summarized and reported within the time periods specified in securities legislation; and

(b) designed ICFR, or caused it to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with the issuer's GAAP.

5.1 **Control framework:** The control framework the issuer's other certifying officer(s) and I used to design the issuer's ICFR is the Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission.

5.2 **ICFR** Material weakness relating to design: N/A.

5.3 Limitation on scope of design: N/A.

6. **Evaluation**: The issuer's other certifying officer(s) and I have

(c) evaluated, or caused to be evaluated under our supervision, the effectiveness of the issuer's DC&P at the financial year end and the issuer has disclosed in its annual MD&A our conclusion about the effectiveness of DC&P at the financial year end based on that evaluation; and

(d) evaluated, or caused to be evaluated under our supervision, the effectiveness of the issuer's ICFR at the financial year end and the issuer had disclosed in its annual MD&A

(iii) our conclusions about the effectiveness of ICFR at the financial year end based on that evaluation; and
(iv) N/A.

7. **Reporting changes in** ICFR**:** The issuer has disclosed in its annual MD&A any change in the issuer's ICFR that occurred during the period beginning on October 1, 2007 and ended on September 30, 2008 that has materially affected, or is reasonably likely to materially affect, the issuer's ICFR.

8. **Reporting to the issuer's auditors and board or directors or audit committee:** The issuer's other certifying officer(s) and I have disclosed, based on our most recent evaluation of ICFR, to the issuer's auditors, and the board of directors or the audit committee of the board of directors any fraud that involved management or other employees who have a significant role in the issuer's ICFR.

Date: December 30, 2011

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Victoria Allinson
In the capacity of Chief Financial Officer