FALL RIVER RESOURCES LTD

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED MARCH 31, 2007
UNAUDITED - PREPARED BY MANAGEMENT

Including

Directors Report

Auditors Independence Declaration

Auditors Review Report

(Stated in Canadian Dollars)

FALL RIVER RESOURCES LTD.

31st March 2007

DIRECTORS REPORT

Your Directors submit their report for the 6 Months Ended 31st March 2007.

Directors

The names of the directors of the company in office during the 6 months and until the date of this report are:

Mr Rod Hollingsworth – Chairman
Mr Ian McBain – President and Chief Executive Officer
Mr Jack Mulready – Technical Director
Mr Stephen Pearce – Executive Director and Company Secretary

All Directors held their position as a Director throughout the entire period and up to the date of this report.

Principal Activities
The principal activities of the company during the 6 months were oil and gas exploration in Canada and United States of America.

Fall River is a Canadian listed public company with its shares traded on the Canadian TSX Venture Exchange under the symbol "FRR" as a Tier 2 company and on the Australian Stock Exchange under the trading code of "FRV".

Review and Results of Operations
The Company incurred a net loss for the 6 months ended 31st March 2007 of $950,626 compared to a net loss of $810,265 for the 6 months ended 31st March 2006.

Raising of Capital
During the period to 31st March 2007 the Company announced commencement of a capital raising of 9,200,000 CDI's at a price of AUS$0.10 per CDI to raise AUS$920,000 before costs. Subsequent to 31st March 2007 the placement was closed raising AUS$872,050 and resulted in the issue of 8,720,500 CDI's and 10,720,500 unquoted options. The options are exercisable at any time to 9th May 2009.

During the period to 31st March 2007 the Company commenced the raising of additional capital at a price of AUS$0.07 per CDI with a 1 attaching option for each CDI issued exercisable at any time to 9th May 2009 at a price of AUS$0.10 each. Subsequent to 31st March 2007 the placement was closed raising AUS$1,189,308 and resulted in the issue of 16,990,115 CDI's and 19,490,115 unquoted options. A further placement on the same terms and conditions was also closed in June

2007 raising a further AUS$199,000 and resulted in the issue of 2,842,857 CDI,s and 2,842,857 unquoted options.

West Florence

During the 6 month period the Company through its wholly owned subsidiary Spring River Resources Ltd entered into a participation agreement with Mountain Energy LLC to acquire a 15% working interest in 12,000 acres of leasehold located in Canyon City Florence, sub basin of the Denver basin.

Subsequently a well has been drilled to a depth of 1,957 metres, production casing has been run and a forward program is underway to analyse the significance of the hydrocarbon shows seen in the well whilst drilling.

Sprowl Gas Field - USA

The Company through its wholly owned subsidiary Spring River Resources Ltd holds a 20% interest in Sprowl Gas Field. During the period, the Company continued with production from Sprowl Gas Field whilst examining opportunities to increase production.

Baxter Shale – Green Canyon and Flaming Gorge - USA

The Company through its wholly owned subsidiary Spring River Resources Ltd holds a 15% working interest in certain leases in Green Canyon and an option to earn a 15% working interest in certain leases in the Flaming Gorge area, Wyoming USA to pursue commercial exploitation of the Baxter shale.

The operator has provided the Company with the proposal for the drilling of the next well into the Baxter Shale which will be a conventional vertical well bore which will be fracture stimulated. Planning of that well is now underway.

Lake David - Canada

The Company holds a 15% working interest in the petroleum and gas lease at Lake David, Alberta, Canada.

Negotiations to acquire additional acreage continue and await resolution.

Sunken Lake - Canada

The Company holds a 25% working interest in the petroleum and gas lease at Sunken Lake, Alberta, Canada.

This prospect was previously drilled and recorded gas show. It is planned to assess the potential for commercial gas production.

Additional details may be sourced from the quarterly “Management Discussion and Analysis” filed with ASX and also on SEDAR at www.sedar.com.au

Auditors’ declaration

The Company is incorporated in Canada and in that jurisdiction there is no requirement for the Company to prepare audited financial reports for any period other than on an annual basis.

For the purposes of complying with the Listing Rules of the Australian Stock Exchange the company appointed Morgan & Company to complete a review of the interim financial result for the six months ended 31 March 2007.

The independence declaration is contained within the reports herein for the half year ended 31 March 2007.

This report is signed in accordance with a resolution of the Board of Directors.

Ian F McBain

Director

Dated this 19^{th} Day of June 2007

June 19, 2007

AUDITORS' INDEPENDENCE DECLARATION

To the Directors of Fall River Resources Ltd.

To the best of our knowledge and belief there have been:-

(i) no contraventions of the auditor independence requirements

(ii) no contravention of any applicable code of professional conduct in relation to the review.

"Morgan & Company"

Morgan & Company
Chartered Accountants
Vancouver, Canada

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MEMBER OF ihi

P.O. Box 10007 Pacific Centre
Suite 1488 - 700 West Georgia Street
Vancouver, B.C. V7Y 1A1

June 19, 2007

Fall River Resources Ltd.
Suite 711 – 675 West Hastings Street
Vancouver, British Columbia, Canada V6B 1N2

To the Audit Committee

Dear Sirs:

In accordance with our engagement letter dated May 31, 2007, we have reviewed the consolidated balance sheet of Fall River Resources Ltd. as at March 31, 20007, and the consolidated statements of loss and deficit and cash flows for the three-month and six-month periods then ended. These financial statements are the responsibility of the Company's management.

We performed our review in accordance with Canadian generally accepted standards for a review of interim financial statements by an entity's auditor. Such an interim review consists principally of applying analytical procedures to financial data, and making enquiries of and having discussions with persons responsible for financial and accounting matters. An interim review is substantially less in scope than an audit, whose objective is the expression of an opinion regarding the financial statements; accordingly, we do not express such an opinion. An interim review does not provide assurance that we would become aware of any or all significant matters that might be identified in an audit.

Based on our review, we am not aware of any material modification that needs to be made for these interim financial statements to be in accordance with Canadian generally accepted accounting principles.

This report is solely for the use of the Audit Committee of Fall River Resources Ltd. to assist it in discharging its regulatory obligation to review these financial statements, and should not be used for any other purpose. Any use that a third party makes of this report, or any reliance or decisions made based on it, are the responsibility of such third party. We accept no responsibility for loss or damages, if any, suffered by any third party as a result of decisions made or actions taken based on this report.

Yours very truly,

"Morgan & Company"

Morgan & Company
Chartered Accountants

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FALL RIVER RESOURCES LTD.
CONSOLIDATED BALANCE SHEETS
(Stated in Canadian Dollars)
(Unaudited)

	March 31 2007	September 30 2006
ASSETS		
Current		
Cash	**$ 398,641**	$ -
Restricted cash – prepaid debenture interest	**246,513**	215,127
Accounts receivable	**213,012**	82,654
Loan receivable	**9,653**	122,374
	867,819	420,155
Restricted Cash	**297,869**	266,266
Natural Gas And Petroleum Property Interests (Note 3)	**4,074,216**	2,923,367
Equipment	**6,539**	7,693
Debenture Sinking Fund	**200,941**	176,226
Debenture Discount And Financing Costs	**213,583**	254,487
	$ 5,660,967	$ 4,048,194
LIABILITIES		
Current		
Bank indebtedness	**$ -**	$ 42,300
Accounts payable and accrued liabilities	**2,151,660**	716,346
Due to related parties (Note 4)	**307,537**	142,417
	2,459,197	901,063
Convertible Debentures	**1,944,562**	1,720,853
	4,403,759	2,621,916
SHAREHOLDERS' EQUITY		
Share Capital	**8,940,260**	8,940,260
Warrants	**105,000**	105,000
Equity Portion Of Convertible Debenture	**51,090**	51,090
Subscriptions Received	**781,556**	-
Contributed Surplus	**691,992**	691,992
Deficit	**(9,312,690)**	(8,362,064)
	1,257,208	1,426,278
	$ 5,660,967	$ 4,048,194

Approved on behalf of the Board:

"Ian McBain"	"Stephen Pearce"
Director	Director

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

FALL RIVER RESOURCES LTD.
CONSOLIDATED STATEMENTS OF LOSS AND DEFICIT
(Stated in Canadian Dollars)
(Unaudited)

	For the Three Months Ended March 31 2007	2006	For the Six Months Ended March 31 2007	2006
Revenues				
Natural gas and petroleum	**$ 51,377**	$ -	**$ 120,245**	$ -
Expenses				
Consulting	**41,566**	8,693	**52,816**	34,127
Debenture interest, discount amortization and accretion	**66,680**	71,348	**148,749**	141,752
Depletion and equipment amortization	**87,577**	194	**201,154**	194
Foreign exchange loss	**(18,484)**	(22,606)	**163,788**	(8,916)
Management fees	**4,500**	4,500	**9,000**	9,000
Office	**23,897**	7,683	**29,946**	58,771
Professional fees	**78,520**	1,919	**100,023**	17,105
Property investigation	**-**	-	**-**	2,359
Regulatory and filing fees	**14,025**	(1,820)	**18,951**	23,602
Salaries and benefits	**180,764**	143,936	**312,244**	236,850
Stock based compensation	**-**	-	**-**	93,600
Travel and promotion	**30,218**	96,101	**46,883**	238,550
	509,263	305,948	**1,083,554**	846,994
Loss Before Other Items	**(457,886)**	(305,948)	**(963,309)**	(846,994)
Other Items				
Interest income	**3,888**	23,082	**12,683**	36,729
Loss Before Income Tax	**(453,998)**	(286,866)	**(950,626)**	(810,265)
Future income tax recovery	**-**	16,400	**-**	16,400
Net Loss For The Period	**(453,998)**	(270,466)	**(950,626)**	(793,865)
Deficit, Beginning Of Period	**(8,858,692)**	(4,858,229)	**(8,362,064)**	(4,216,764)
Deficit, End Of The Period	**$ (9,312,690)**	$ (5,264,118)	**$ (9,312,690)**	$ (5,010,629)
Net Loss Per Share, Basic and diluted	**$ (0.01)**	$ (0.01)	**$ (0.02)**	$ (0.03)
Weighted Average Number Of Shares Outstanding, Basic and diluted	**61,983,050**	28,624,800	**61,983,050**	23,119,167

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

FALL RIVER RESOURCES LTD.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Stated in Canadian Dollars)
(Unaudited)

	For the Three Months Ended March 31		For the Six Months Ended March 31	
	2007	2006	**2007**	2006
Cash Flows Provided By (Used In)				
Operating Activities				
Net loss for the period	**$ (453,998)**	$ (405,889)	**$ (950,626)**	$ (1,047,354)
Adjustment for items not requiring an outlay of cash:				
Debenture discount amortization and accretion	**44,808**	8,931	**48,544**	17,650
Depletion and equipment amortization	**87,577**	194	**201,154**	194
Unrealized foreign exchange loss (gain)	**42,991**	(6,063)	**244,933**	(1,574)
Future income tax recovery	**-**	(16,400)	**-**	(16,400)
Stock based compensation	**-**	-	**-**	93,600
	(278,622)	(419,227)	**(455,995)**	(953,884)
Changes in non-cash working capital items:				
Accounts receivable	**4,437**	(3,316)	**(130,358)**	(17,684)
Prepaid expenses	**-**	-	**-**	43,108
Restricted cash	**(6,556)**	-	**(31,386)**	-
Debenture financing costs and sinking funds	**(42,497)**	-	**(100,382)**	(93,650)
Accounts payable and accrued liabilities	**94,726**	73,937	**119,846**	191,997
	(228,512)	(348,606)	**(598,275)**	(830,113)
Investing Activities				
Capital assets	**-**	(3,879)	**-**	(3,879)
Natural gas and petroleum property interest payments	**(60,910)**	(707,684)	**(35,381)**	(812,105)
	(60,910)	(711,563)	**(35,381)**	(815,984)
Financing Activities				
Common shares issued	**-**	-	**-**	1,377,583
Share subscriptions received	**602,410**	-	**781,556**	(1,465,994)
Convertible debenture	**-**	-	**-**	761,292
Loan receivable	**(9,653)**	-	**112,721**	-
Due to related parties	**59,688**	56,778	**165,120**	20,596
	652,445	110,869	**1059,397**	693,477
Foreign Exchange Gain From Holding Cash	**11,742**	74,856	**15,200**	24,085
Increase (Decrease) In Cash	**374,765**	(928,535)	**440,941**	(928,535)
Cash (Bank Indebtedness), Beginning Of Period	**23,876**	874,444	**(42,300)**	874,444
Cash (Bank Indebtedness), End Of Period	**$ 398,641**	$ (54,091)	**$ 398,641**	$ (54,091)

Supplementary Cash Flow Information (Note 5)

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

FALL RIVER RESOURCES LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SIX MONTHS ENDED MARCH 31, 2007
(Stated in Canadian Dollars)
(Unaudited)

1. NATURE OF OPERATIONS AND GOING CONCERN

a) The Company was incorporated under the Alberta Business Corporations Act as 777231 Alberta Ltd. on February 5, 1998. On April 24, 1998, it changed its name to Trent-Severn Watershed Ltd. and on November 14, 2002, to Fall River Resources Ltd. The Company was continued in British Columbia effective December 23, 2004. The Company registered as a foreign company in Australia on August 29, 2005. The principal business activities include the evaluation, acquisition, exploration and development of natural gas and petroleum properties.

b) At March 31, 2007, the Company had a working capital deficiency of $1,591,378 and reported loss for the six month period ended March 31, 2007 of $950,626.

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

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

2. SIGNIFICANT ACCOUNTING POLICIES

Management in accordance with Canadian generally accepted accounting principles has prepared the consolidated financial statements of the Company.

The Company's standards of financial disclosure in these interim consolidated financial statements are in accordance with the recommendations in the Canadian Institute of Chartered Accountants' ("CICA") standard on Interim Financial Statements. Certain note disclosures do not fully conform to Canadian GAAP disclosure requirements for annual financial statements and these interim financial statements should be read in conjunction with the Company's audited financial statements for the years ended September 30, 2006 and 2005.

The unaudited interim consolidated financial statements follow the same accounting policies and methods of computation as the audited financial statements for the year ended September 30, 2006.

FALL RIVER RESOURCES LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SIX MONTHS ENDED MARCH 31, 2007
(Stated in Canadian Dollars)
(Unaudited)

3. NATURAL GAS AND PETROLEUM PROPERTY INTERESTS

March 31, 2007

	BAXTER WY, USA (3(a))	SPROWL OK, USA (3(b))	WEST FLORENCE CO, USA (3(c))	LAKE DAVID AB, CANADA (3(d))	SUNKEN LAKE AB, CANADA (3(e))	SOUTH WILDWOOD SK, CANADA (3(f))	ROSE CREEK AB, CANADA	TOTAL 2007
Balance, of year	$ 698,548	$ 1,706,000	$ -	$ 274,002	$ 244,817	$ -	$ -	$ 2,923,367
Accrued drilling advances	1,076,682	-	159,015	-	-	-	-	1,235,697
Current costs	-	114,075	-	-	1,077	-	-	115,152
Depletion	-	(200,000)	-	-	-	-	-	(200,000)
Balance, end of year	$ 1,775,230	$ 1,620,075	$ 159,015	$ 274,002	$ 245,894	$ -	$ -	$ 4,074,216

September 30, 2006

	BAXTER WY, USA (3(a))	SPROWL OK, USA (3(b))	WEST FLORENCE CO, USA (3(c))	LAKE DAVID AB, CANADA (3(d))	SUNKEN LAKE AB, CANADA (3(e))	SOUTH WILDWOOD SK, CANADA (3(f))	ROSE CREEK AB, CANADA	TOTAL 2006
Balance, of year	$ -	$ -	$ -	$ 195,411	$ 162,285	$ 160,752	$ -	$ 518,448
Current costs	698,548	4,181,200	-	78,591	82,532	68,852	153,120	5,262,843
Impairment write-down	-	(2,475,200)	-	-	-	-	-	(2,475,200)
Write-off	-	-	-	-	-	(229,604)	(153,120)	(382,724)
Balance, end of year	$ 698,548	$ 1,706,000	$ -	$ 274,002	$ 244,817	$ -	$ -	$ 2,923,367

No interest or general and administrative costs were capitalized during six month periods ended March 31, 2007 and 2006. Unproven natural gas and petroleum capitalized costs in the amount of $2,454,151 as at March 31, 2007 (September 30, 2006 - $1,217,367) have been excluded from capitalized costs subject to depletion. No depletion was recorded in the period ended March 31, 2006 as all properties were unproven.

a) Baxter Agreement – By an agreement dated November 14, 2005, the Company and a public company agreed on the terms of a participation agreement involving oil and gas leases forming part of the Baxter Field in the county of Sweetwater, Wyoming, U.S.A. The Company has an option to: (i) a farmin with respect to an initial well using the Green Canyon 27-3 well bore on oil and gas leases known as the Green Canyon Prospect; (ii) an option to farmin with respect to a phase 2 well on the Green Canyon Prospect; and (iii) an option to farmin with respect to the oil and gas leases known as the Flaming Gorge Prospect.

3. NATURAL GAS AND PETROLEUM PROPERTY INTERESTS (Continued)

a) Baxter Agreement (Continued)

The agreement includes provisions that:

I) Initial Well

i) AFE for Initial Well: The Company is to be responsible for funding an authorization for expenditures ("AFE") for an initial well within 30 days of receipt of the AFE from the public company (completed).

ii) Interest Earned in Initial Well: Upon drilling of the initial well to the contracted depth and completing the well, the Company will earn 25% of the public company's working interest and operating rights in the Baxter leases only insofar as the Baxter leases cover the Baxter Shale underlying certain specified land, up to initial well payout (in summary, the recovery of the cost of drilling the initial well and any royalty interests), and 15% after initial well payout (completed).

II) Phase 2 Well

i) Second Well Participation: Within 60 days of release of the rig from the initial well, the public company must send the Company an AFE for a well for a second location on the Baxter leases. In March, 2007, an AFE in the amount of $1,076,682 representing the Company's share of costs for drilling the phase 2 well was received, approved and accrued.

ii) Option: The Company has the option to participate in the second well (the "Phase 2 Well") within 30 days of receipt of the AFE. The Phase 2 Well depth is not defined.

iii) Failure to Participate: If the Company elects not to participate, the agreement terminates and it loses its rights in the initial well and its option to participate in the Flaming Gorge Prospect.

iv) Interest Earned in Phase 2 Well: Upon drilling of the Phase 2 Well and completing the well, the Company will earn 25% of the private company's working interest and operating rights in the Baxter leases only insofar as the Baxter leases cover the Baxter Shale underlying certain specified land, up to initial well payout (in summary, the recovery of the cost of drilling the initial well and any royalty interests), and 15% after initial well payout.

3. NATURAL GAS AND PETROLEUM PROPERTY INTERESTS (Continued)

a) Baxter Agreement (Continued)

III) Flaming Gorge Option

i) Option: If the Company participates and fulfils its obligations with respect to the initial well and the Phase 2 Well, the Company has the option to acquire 15% of the company's working interest in the Flaming Gorge leases.

ii) Initial Flaming Gorge Well Participation: The private company must send the Company an AFE for a well on the Flaming Gorge leases within 90 days of release of the rig from the initial well, and must send the Company an AFE for a well for a second location on the Baxter leases.

iii) Interest Earned in Flaming Gorge Leases: Upon drilling of the initial Flaming Gorge well and completing the well, the Company will earn 25% of the public company's working interest and operating rights in the Flaming Gorge leases, up to initial well payout (in summary, the recovery of the cost of drilling the initial well and any royalty interests), and 15% after initial well payout.

b) Sprowl Agreement – By agreement dated October 15, 2005 (as amended by an Amendment dated November 16, 2005 and January 14, 2006), between the Company and a private company, the Company acquired the option to earn a 50% interest in the private company's 40% interest in the oil and gas leases ("Sprowl Leases") known as the Sprowl Gas Field, forming part of the South East Middleberg Field in Grady County, Oklahoma, U.S.A.

The agreement includes provisions that:

I) Option: The private company grants to the Company an option to acquire a 50% interest in the private company's 40% interest in the Sprowl Leases; (completed)

II) Exercise Price: To exercise the option and acquire the interest, the Company must:

i) Pay to the private company US$2,600,000; (completed)
ii) Pay to the private company any AFE payments paid by the private company for the Sprowl Leases after the date of the agreement and prior to settlement within seven days of presentation of proof of payment; (completed)
iii) Issue to the private company 1,500,000 common shares of the Company; (completed) and
iv) Issue to the private company 500,000 share purchase warrants, on the same terms as the share purchase options are to be issued under the prospectus issued in connection with the financing for this acquisition (completed).

III) Joint Operating Agreement: The Company must join as a party the joint operating agreement for operation of the Sprowl Leases (completed).

IV) Due Diligence: During the currency of the agreement, the Company may undertake due diligence (completed).

3. NATURAL GAS AND PETROLEUM PROPERTY INTERESTS (Continued)

b) Sprowl Agreement (Continued)

V) Costs arising from Delayed Settlement: The Company must pay interest at 9% on any moneys borrowed from the private company to fund the operating costs incurred in relation to the interest that the Company would have acquired if it had settled on January 31, 2006 for the period from February 1, 2006 until settlement plus a payment for the cost of operations to the private company for the months of February and March 2006 agreed at AUS$37,500 per month, to cover additional costs incurred arising from the delayed settlement (completed).

c) West Florence Agreement – The Company entered into a joint participation agreement for the West Florence project covering an area of 12,000 acres under oil and gas leases in Fremont County, approximately 190 kilometres (120 miles) south of the City of Denver, Colorado, U.S.A. The Company has a 15% working interest in the project. In March, 2007, an AFE in the amount of $159,015 representing the Company's share of costs for drilling the first test well was received and accrued.

d) Lake David Agreement - By an agreement dated July 20, 2005, the Company and another company as farmees ("Farmee") agreed with two companies as farmors ("Farmor") on the terms of a farmin over Farmor's 50% interest in the petroleum and natural gas lease P&NG Lease No. 0405060737 at Lake David in the province of Alberta, Canada.

The agreement includes provisions that:

I) Test Well: Farmee is to be responsible for spudding a test well within 90 days of the date of the agreement (completed).

II) Test Well Earning: Upon having drilled the test well, Farmee earns 100% of Farmor's working interest before payout, subject to an overriding royalty of 5% convertible to a working interest, and 50% after payout. The Company's working interest before payout was 30% and its working interest after payout and interest in the balance of the land in the lease will be 15%.

III) Plant Participation: Each party has a right to participate in construction for the purposes of treating, processing or transporting petroleum substances from the farmout lands.

e) Sunken Lake Agreement - By an agreement dated July 20, 2005, the Company and two company's as farmees ("Farmee") agreed with two companies as farmors ("Farmor") on the terms of a farmin over Farmor's 50% interest in the petroleum and natural gas lease P&NG Lease No. 0403010183 at Sunken Lake in the province of Alberta, Canada.

3. NATURAL GAS AND PETROLEUM PROPERTY INTERESTS (Continued)

e) Sunken Lake Agreement (Continued)

The agreement includes provisions that:

I) Test Well: Farmee is responsible for spudding a test well within 60 days of the date of the agreement (completed).

II) Test Well Earning: Upon having drilled the test well, Farmee earns 100% of Farmor's working interest before payout, subject to an overriding royalty of 5% convertible to a working interest, and 50% after payout. The Company's working interest before payout was 50% and its working interest after payout and interest in the balance of the land in the lease will be 25%.

III) Plant Participation: Each party has a right to participate in construction for the purposes of treating, processing or transporting petroleum substances from the farmout lands.

f) South Wildwood Agreement - By an agreement dated July 12, 2005, the Company as farmee ("Farmee") agreed with a company as farmor ("Farmor") and another company on the terms of a farmin over Farmor's 50% interest in the oil and gas leases itemized in the agreement at South Wildwood in the province of Saskatchewan, Canada.

The agreement includes provisions that:

I) Test Well: Operator is responsible for spudding a test well by 9 November 2005 with the Company to pay 50% of the cost (completed).

II) Test Well Earning: Upon having drilled the test well, Farmee earns 100% of Farmor's working interest before payout, subject to an overriding royalty of 5% convertible to a working interest, and 60% after payout. The Company's working interest before payout will be 50% and its working interest after payout and interest in the balance of the lands in the lease will be 30%.

III) Plant Participation: Each party has a right to participate in construction for the purposes of treating, processing or transporting petroleum substances from the farmout lands.

The Company abandoned this agreement during the year ended September 30, 2006 and wrote off its exploration costs.

4. RELATED PARTY TRANSACTIONS

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

During the period consulting fees of $22,500 (2006 – $22,500) were recorded by the Company to one director and salaries of $249,722 (2006 - $236,850) were recorded by the Company to three directors.

Directors or parties related to directors hold $244,306 of the face value of convertible debentures. Interest paid or accrued on convertible debentures owing to the related parties amounted to $6,397 during the quarter.

5. SUPPLEMENTARY CASH FLOW INFORMATION

Interest recorded $100,382 (2006 - $104,626). Income and withholding taxes recorded $Nil (2006 - $Nil). Non-cash financing and investing activities: None (2006 - None).

6. SUBSEQUENT EVENTS

a) The Company completed a private placement raising a total of AUS$872,050. Each of the 8,720,500 units consists of a share and 2 warrants exercisable up to 9th May 2009 at a price of AUS$0.10. Management and placement fees of AUS$61,215, and 2,000,000 were paid.

b) The Company completed a private placement raising a total of AUS$1,189,308. Each of the 16,990,115 units consists of a share and a warrant exercisable up to 9th May 2009 at a price of AUS$0.10. Management and placement fees of AUS$85,585 and 2,500,000 warrants were paid.

c) The Company completed a private placement raising a total of AUS$199,000. Each of the 2,842,857 units consists of a share and a warrant exercisable up to 9th May 2009 at a price of AUS$0.10. In addition management and placement fees of AUS$14,630 was paid

d) 1,038,870 warrants expired unexercised.