



FALL RIVER RESOURCES LTD.

**AND CONTROLLED ENTITIES
ABN 86 115 229 984**

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED SEPTEMBER 30, 2008

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

COMPANY INFORMATION

Directors

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

Secretary

David Hughes – Joint Company Secretary

Registered Office

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

Auditors

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

Share Registry

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

Stock Exchange Listing

Australian Securities Exchange – Australia – Code FRV

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

Directors' Report

The Directors' present their report together with the Financial Report of Fall River Resources Limited ("the Company") and of the consolidated entity, being the Company and its controlled entities for the year ended 30 September 2008.

1. Directors'

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

Bruce McLeod	Chairman - Non-Executive
Jack Mulready	Technical Director – Executive
Stephen Pearce	Non-Executive Director
David Sutton	Non-Executive Director
Rod Hollingsworth	Former Chairman – Non-Executive, resigned 29 February 2008
Ian McBain	Former President and Chief Executive Officer, resigned 29 February 2008

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

2. Principal Activities

During the year the principal continuing activities of the consolidated entity were oil and gas exploration in Canada and the United States of America. There were no significant changes to those activities during the period under review.

3. Review of Results

The consolidated net loss of the consolidated entity after providing for income tax for the financial year ended 30 September 2008 was \$2,417,485 compared to a loss for the previous corresponding period of \$3,366,899.

4. Financial Position

The net assets of the consolidated group have decreased from \$424,640 at 30 September 2007 to a deficiency of \$2,071,364 at 30 September 2008 due primarily to write-downs in connection with natural gas and petroleum properties.

5. Dividends

The directors do not recommend the payment of a dividend.

6. Significant Changes in the State of Affairs

Significant changes in the state of affairs of the consolidated entity during the financial year were:

- Fall River Resources Limited accepted an offer from R & M Oil and Gas LLLP of Denver, Colorado for the purchase of its 20% working interest in the Sprowl Gas Field Oklahoma.

The purchase price was US\$510,000 of which US\$212,242 was credited to Kaiser-Francis, the operator of the field, in payment of outstanding debt.

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Directors' Report (Continued)

7. Matters Subsequent to Balance Date

At 28 November 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.

The Company is currently negotiating with Noteholders in relation to the redemption of the balance of the principal amount of the notes and is seeking to extend the maturity date to 31 March 2009 to allow the negotiation process to proceed.

All interest payments on the outstanding convertible notes had been made up to 28 November 2008.

On 19 December 2008 the financial report was authorised for issue by a resolution of Directors.

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.

8. Likely Developments

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

9. Information on Directors'

Bruce McLeod
Non-Executive Chairman

Experience and expertise

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

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Directors' Report (Continued)

**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

**Stephen Pearce
Non-Executive Director and Joint Company Secretary**

Experience and expertise

Stephen 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.

**David Sutton
Non-Executive Director**

Experience and expertise

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

Special responsibilities

Member of the audit committee.

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Directors' Report (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 29 February 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 Fall River, Ian was the equivalent position to a managing director of an Australian company. Served as a Director from November 2002 until his resignation on 29 February 2008.

Special responsibilities

Nil

10. Joint Company Secretary

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

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

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Directors' Report (Continued)

11. Meetings of Directors

The number of meetings of the Company's Board of Directors and of each board committee held during the year ended 30 September 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	-	-

12. Remuneration Report

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

Remuneration Committee

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

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Directors' Report (Continued)

Executive Compensation

Summary 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 2008	Salary (\$)	Bonus (\$)	Other Annual Compensation and Superannuation (\$)	Total (\$)
Ian F. McBain President	2008	\$69,009	Nil	\$6,210	\$75,220
	2007	\$245,934	Nil	\$11,974	\$257,908
Jack Mulready Executive Director	2008	\$146,447	Nil	\$13,180	\$159,268
	2007	\$213,037	Nil	\$23,671	\$236,708
Rod Hollingsworth	2008	\$9,859	Nil	Nil	\$9,859
	2007	\$64,052	Nil	Nil	\$64,052
Stephen Pearce	2008	\$48,818	Nil	Nil	\$48,818
	2007	\$51,015	Nil	Nil	\$51,015
Bruce McLeod	2008	\$30,000	Nil	\$2,700	\$32,700
David Sutton	2008	\$30,000	Nil	\$2,700	\$32,700
David Hughes	2008	\$16,000	Nil	Nil	\$16,000

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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Directors' Report (Continued)

Share Options

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

The Company has the following history of stock options outstanding:

	NUMBER OF OPTIONS	WEIGHTED AVERAGE EXERCISE PRICE
Balance, September 30, 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	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

Directors' Interests

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

Director	Number of shares owned or over which control is exercised	Number of options owned or over which control is exercised - including exercise price
Jack Mulready	590,300	800,000 @ \$0.18 CAD\$
Stephen Pearce	374,000	20,000 @ \$0.18 CAD\$
David Sutton	2,251,250	4,000,000 @ \$0.10 AUD\$
Bruce McLeod	2,250,000	4,500,000 @ \$0.10 AUD\$

Directors' Report (Continued)

**FALL RIVER RESOURCES LTD
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Environmental Regulations

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

Auditors

Smythe Ratcliffe LLP Chartered Accountants were the auditors of the Company until they resigned. K S Black & Co. Chartered Accountants were appointed auditors of the Company following the resignation of SmytheRatcliffe. The appointment of K S Black & Co. as auditor of the Company is to be confirmed by shareholders at the Annual General Meeting of the Company.

Non-Audit Services

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

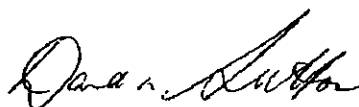
The aggregate fees billed by the Company's external auditors for the last financial year are as follows:

	SmytheRatcliffe		K S Black & Co.
	2008	2007	2008
Audit fees – Full Year	\$25,000	\$35,800	\$20,000
– Half Year	\$20,000	\$25,000	-
Tax related services	-	-	-
Other	-	-	-

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

A copy of the Auditors' Independence Declaration as required under section 307C of the Corporations Act 2001 is attached and forms part of the director's report for the twelve month period ended 30 September 2008.

Signed in accordance with a resolution of the directors.



D H SUTTON
Director

Dated: 19th December 2008

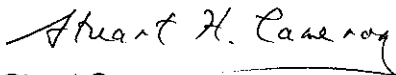
**FALL RIVER RESOURCES LTD
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AUDITORS' INDEPENDENCE DECLARATION

To The Directors of Fall River Resources Ltd and controlled entities

In relation to our audit of Fall River Resources Ltd. for the year ended September 30, 2008, to the best of our knowledge and belief there have been:

- (i) No contraventions of the auditor independence requirements as set out in the Corporations Act 2001
- (ii) No contravention of any applicable rules of professional conduct in relation to the audit.


Stuart Cameron
Partner

K S Black & Co
Chartered Accountants
Sydney, 19 December 2008

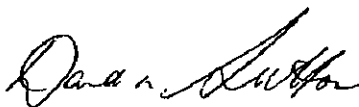
**FALL RIVER RESOURCES LTD
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DIRECTORS' DECLARATION

In the opinion of the directors of Fall River Resources Limited:

- a** The financial statements and notes of the Company and of the consolidated entity, set out on pages 20 to 38 are in accordance with the Corporations Act 2001, including:
 - i** Giving a true and fair view of the financial position of the Company and the consolidated entity as at 30 September 2008 and of their performance, as represented by the results of their operations and their cash flows, for the year ended on that date; and
 - ii** Complying with Australian Accounting Standards and the Corporations Regulations 2001; and
- b** The directors have been given the declarations required by section 295A of the Corporations Act 2001 from the chief executive officer and chief financial officer; and
- c** In the directors' opinion there are reasonable grounds to believe the company will be able to pay its debts as and when they fall due.

Signed in accordance with a resolution of the directors.



D H SUTTON
Director

Dated: 19th December 2008

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF FALL RIVER RESOURCES LIMITED

Report on the Financial Report

We have audited the accompanying financial report of Fall River Resources Limited and its controlled entities (the consolidated entity) which comprises the balance sheet as at 30 September 2008, and the income statement, statement of changes in equity and cash flow statement for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Act 2001. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error, selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

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

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

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

Independence

In conducting our audit, we complied with applicable independence requirements of the Corporations Act 2001.

**INDEPENDENT AUDITOR'S REPORT
TO THE MEMBERS OF FALL RIVER RESOURCES**

(Continued)

Bases for Qualified Audit Opinion

1. Note 5 of the financial statements places a value on undeveloped oil and gas interests of \$886,124. This value has been determined by the directors using reserve and forecast cash flow information from an independent petroleum engineering report, but has not been valued independently. As a result, we are unable to place reliance on this value.
2. Accounts payable and accrued liabilities include accruals to employees of \$352,618. These amounts have not been able to be confirmed. As a result, we are unable to rely on this sum as representing the total accrual due.

Qualified Auditor's Opinion

Except for the effects of such adjustments, if any, coming from the matters discussed in the qualification paragraph above, in our opinion:

- a. The financial report of Fall River Resources Limited is in accordance with the Corporations Act 2001, including:
 - i. giving a true and fair view of the company's and consolidated entity's financial position as at 30 September 2008 and of their performance for the year ended on that date; and
 - ii. complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001; and
- b. the financial report also complies with International Financial Reporting Standards.

Significant Uncertainty Regarding Going Concern

Without qualification to the opinion expressed above, we draw attention to Notes 2 and 14 to the financial statements. The company's ability to continue as a going concern is dependent upon extending the term of convertible notes that have fallen due, and obtaining additional financing.

Report on the Remuneration Report

We have audited the Remuneration Report included on page 6 of the directors' report for the year ended 30 September 2008. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the Corporations Act 2001. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

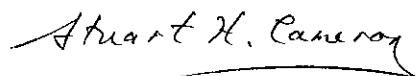
**INDEPENDENT AUDITOR'S REPORT
TO THE MEMBERS OF FALL RIVER RESOURCES**

(Continued)

Auditor's Opinion

In our opinion the Remuneration Report of Fall River Resources Limited for the year ended 30 September 2008, complies with section 300A of the Corporations Act 2001.

KS BLACK & CO
Chartered Accountants

A handwritten signature in cursive script that reads "Stuart H. Cameron". The signature is written in dark ink and is positioned above a horizontal line.

Stuart H Cameron
Partner

Sydney, 19 December 2008

**FALL RIVER RESOURCES LTD
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**CONSOLIDATED BALANCE SHEET
AS AT 30 SEPTEMBER 2008**

	September 30 2008	September 30 2007
ASSETS		
Current		
Cash and cash equivalents	\$ 131,484	\$ 288,157
Restricted cash – prepaid debenture interest	268,088	256,957
Accounts receivable	414,399	51,523
Loan receivable	57,453	159,441
	<u>871,424</u>	<u>756,078</u>
Restricted Cash (Note 6)	318,715	318,852
Property and Equipment (Note 5)	899,316	2,495,014
Debenture Sinking Fund	445,490	426,693
Debenture Discount And Financing Costs	29,339	160,733
	<u>2,564,284</u>	<u>4,157,370</u>
TOTAL ASSETS	\$ 2,564,284	\$ 4,157,370
LIABILITIES		
Current		
Accounts payable and accrued liabilities	\$ 1,213,997	\$ 1,263,266
Due to related parties (Note 12)	311,880	261,901
Interest bearing liabilities	879,981	100,012
	<u>2,405,858</u>	<u>1,625,179</u>
Asset Retirement Obligation	156,543	44,175
Convertible Debentures	2,073,247	2,063,376
	<u>4,635,648</u>	<u>3,732,730</u>
	<u>(2,071,364)</u>	<u>424,640</u>
(Deficiency in)/Net Assets		
SHAREHOLDERS' EQUITY		
Share Capital (Note 9)	\$ 12,100,668	12,100,668
Warrants (Note 9)	119,034	119,034
Foreign Exchange Reserve	(78,519)	-
Equity Portion Of Convertible Debenture (Note 8)	57,919	57,919
Accumulated Losses	(14,270,466)	(11,852,981)
(DEFICIENCY IN) /SHAREHOLDERS EQUITY	\$ (2,071,364)	\$ 424,640
Contingent Liabilities (Note 10)		
Commitments (Note 11)		
Subsequent Events (Note 14)		

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

**FALL RIVER RESOURCES LTD
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**CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED 30 SEPTEMBER 2008**

	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	420,951	404,551
Equipment amortization	3,078	2,616
Foreign exchange loss	58,589	191,952
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
	1,685,504	2,082,733
Loss Before Other Items	(1,499,602)	(1,883,430)
Other Items		
Natural gas and petroleum properties written down	(781,161)	(1,250,425)
Natural gas and petroleum properties written off	(176,095)	(262,758)
Interest income	37,163	29,714
Other revenue	2,210	-
Loss Before Income Tax Expense	(2,417,485)	(3,366,899)
Income Tax Expense	-	-
Net Loss For The Year	(2,417,485)	(3,366,899)
Loss Per Share, Basic and diluted	\$ (0.027)	\$ (0.046)
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.

**FALL RIVER RESOURCES LTD
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**STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 SEPTEMBER 2008**

Consolidated Group	Share Capital	Foreign Currency Translation	Convertible Debentures	Accumulated Losses	Total
Balance 1 October 2006	10,045,074	-	57,919	(8,486,082)	1,616,911
Share issues	2,539,221				2,539,221
Share issue transaction costs	(364,593)				(364,593)
Net loss for period				(3,366,899)	(3,366,899)
Balance 30 September 2007	12,219,702	-	57,919	(11,852,981)	424,640
Net loss for period	-			(2,417,485)	(2,417,485)
Transfer to reserves		(78,519)			(78,519)
Balance 30 September 2008	12,219,702	(78,519)	57,919	(14,270,466)	(2,071,364)

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

CONSOLIDATED CASHFLOW STATEMENT FOR THE YEAR ENDED 30 SEPTEMBER 2008

	For the Years Ended September 30	
	2008	2007
Cash Flows Provided By (Used In)		
Operating Activities		
Net loss	\$ (2,417,485)	\$ (3,366,899)
Adjustment for items not requiring an outlay of cash:		
Debenture discount amortization and accretion	420,951	145,376
Equipment amortization	3,078	2,616
Unrealized foreign exchange loss	58,589	94,909
Natural gas and petroleum properties written down	781,161	1,250,425
Natural gas and petroleum properties written off	176,095	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	(76,594)	(643,818)
- disposals	615,299	
Loan receivable	101,988	(20,711)
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.

**FALL RIVER RESOURCES LTD.
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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 SEPTEMBER 2008**

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

Management has prepared the consolidated financial statements of the Company in accordance with the requirements of the Corporations Act 2001 and Australian Accounting Standards (including Australian Accounting Interpretations). Compliance with these standards ensures compliance with international financial reporting standards.

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

The financial statements have been prepared on an accruals basis and are based on historical costs.

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

a) Consolidation

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

b) Foreign Currency Translation

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

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

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

c) Property and Equipment

I) Oil and Gas Interests

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

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

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

II) Amortization

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

III) 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 amortization, which is recorded over the useful lives of the assets on the declining balance basis at the rate of 30%.

d) Asset Retirement Obligations

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

e) Financing Fees

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

f) Revenue Recognition

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

g) Loss Per Share

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

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

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

h) Income Taxes

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

i) Financial Instrument Policies

Recognition and Initial Measurement

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

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

Derecognition

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

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

Classification and Subsequent Measurement

i. Financial assets at fair value through profit or loss

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

ii. Loans and receivables

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

iii. Held-to-maturity investments

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

iv. Available-for-sale financial assets

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

v. Financial Liabilities

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

Fair value

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

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

Impairment

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

j) **New Standards but not yet effective**

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

2. NATURE OF OPERATIONS AND GOING CONCERN

- a) The Company was incorporated under the *Alberta Business Corporations Act* as 777231 Alberta Ltd. on February 5, 1998. On April 24, 1998, it changed its name to Trent-Severn Watershed Ltd. and on November 14, 2002 to Fall River Resources Ltd. The Company registered as a foreign company in Australia on August 29, 2005. The principal business activities include the evaluation, acquisition, exploration and development of natural gas and petroleum properties.
- b) At September 30, 2008, the Company had a deficiency in shareholders equity of \$2,071,364, and loss for the year then ended of \$2,417,485.

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

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

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

3. FINANCIAL INSTRUMENTS

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

Financial Risk Management

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

Financial Instrument Risk Exposure

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

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

Currency Risk

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

Credit Risk

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

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

	Consolidated	
	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	18,171	6,055
Unite States / Canada	453,681	204,909

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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3. FINANCIAL INSTRUMENTS (Continued)

Market and Interest Rate Risk

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

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

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

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

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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3. FINANCIAL INSTRUMENTS (Continued)

		<u>Fixed Interest Maturing in</u>			
		<u>1 Year or</u>	<u>Over 1 to 5</u>		
	%	Floating Interest Rate	Less	Years	Non-Interest Bearing
CONSOLIDATED					
2007					
Financial Assets					
Cash and cash equivalents		288,157			288,157
Restricted cash – prepaid					
Debt interest		256,957			256,957
Accounts receivable					51,523
Loan receivable					159,441
Restricted cash					318,852
Debt Sinking Fund		426,693			426,693
Financial Liabilities					
Accounts payable and accrued liabilities					1,263,266
Due to related parties					261,901
Interest bearing liabilities 8%			100,012		100,012
Convertible Debentures 12%			2,063,376		2,063,376

Sensitivity Analysis

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

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

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

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)

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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3. FINANCIAL INSTRUMENTS (Continued)

Liquidity Risk

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

Maturity Analysis	Carrying Amount \$	Contractual Cash flows \$	< 6 months \$	6-12 months \$	1-3 years \$
Consolidated 2008					
Accounts payable	1,213,997	1,213,997	1,213,997		
Related parties	311,880	311,880	311,880		
Interest bearing liabilities	879,981	879,981	879,981		
Convertible debentures	2,073,247	2,073,247	2,073,247		
 Consolidated 2007					
Accounts payable	1,263,266	1,263,266			
Related parties	261,901	261,901			
Interest bearing liabilities	100,012				100,012
Convertible debentures	2,063,376				2,063,376

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
Oil and gas interests	\$ -	\$ -	\$ -	\$ 806,842
Undeveloped oil and gas interests	1,162,034	(275,910)	886,124	1,637,893
Asset retirement obligation	10,165	-	10,165	44,175
Office equipment	6,105	(3,078)	3,027	6,105
	\$ 1,178,304	\$ (278,988)	\$ 899,316	\$ 2,495,015

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5. PROPERTY AND EQUIPMENT (Continued)

Movements in carrying amounts

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

	2008	2007
	\$	\$
Oil and gas interests	806,842	1,934,021
Additions	(49,458)	123,246
Disposals	(615,299)	-
Amount written off	(142,085)	(1,250,425)
	<u>-</u>	<u>806,842</u>
Undeveloped oil and gas interest	1,637,893	1,380,078
Prior period adjustment	(47,202)	-
Additions	76,594	520,573
Disposals	-	-
Amortization	(781,161)	(262,758)
	<u>886,124</u>	<u>1,637,893</u>
Asset Retirement Obligations		-
Carrying value at beginning	44,175	44,175
Additions	-	-
Amount written-off	(34,010)	-
	<u>10,165</u>	<u>44,175</u>
Office equipment		
Carrying value at being	6,105	8,721
Additions	-	-
Disposals	-	-
Depreciation expense	(3,078)	(2,616)
Balance 30 September 2008	<u>3,027</u>	<u>6,105</u>

6. RESTRICTED CASH

On March 23, 2006, the Company purchased AUD\$320,000 of non-refundable trade dollars from a public Australian company engaged in bartering services including accounting, legal, printing, office supplies and office space in addition to offering the Company's shares to its members for investment. As at September 30, 2008, AUD\$318,715 of the trade dollars remain.

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7. CONVERTIBLE DEBENTURES

	2008	2007
Convertible debentures	\$ 2,080,918	\$ 2,080,918
Equity portion of convertible debentures	(57,919)	(57,919)
Interest accrual	34,235	34,235
Foreign exchange (gain) loss	16,013	6,142
Liability portion of convertible debentures	\$ 2,073,247	\$ 2,063,376

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

In accordance with the terms of the debentures, the Company is required to deposit, in trust, a minimum amount equivalent to two month's interest on the debenture outstanding at the time of the deposit. The amount deposited in trust at September 30, 2008 was \$268,089 (2007 - \$256,957).

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7. CONVERTIBLE DEBENTURES (Continued)

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%

8. NOTES PAYABLE AND ACCRUED INTEREST

MATURITY DATE	September 30, 2008	September 30, 2007
March 31, 2009	\$ 879,981	\$ 100,012

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

9. SHARE CAPITAL

a) Shares Issued and Outstanding

	NUMBER			
	2008	2007	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)
	-	28,553,472	-	1,966,842
Balance, beginning of year	90,536,522	61,983,050	12,100,668	10,133,826
Balance, end of year	90,536,522	90,536,522	\$ 12,100,668	\$ 12,100,668

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

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9. SHARE CAPITAL (Continued)

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.

b) Warrants

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

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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9. SHARE CAPITAL (Continued)

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
	<u>41,773,972</u>	

c) Share Options

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

The Company has the following history of stock options outstanding:

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

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	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
	<u>\$ 0.18</u>	<u>2,690,000</u>	<u>2,690,000</u>

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10. CONTINGENT LIABILITIES

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

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

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

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

The Company's counter claim is now being held in abeyance. There are no amounts provided in the Company's financial statements for any of the above mentioned items.

- b) The Company will be liable for asset retirement obligations with respect to one of its oil and gas tenements that was abandoned during the period. The Company will accrue the related asset retirement obligation when the costs are known.
- c) The Company made a late payment of the cash call for one of its wells which has resulted in legal issues. The matter that remains to be resolved with the operator and penalties, if any, will be accrued when the Company has reached a resolution with the operator.

11. COMMITMENTS

The Company has an employment agreement with one employee who is also a director. The remuneration payable is \$240,000pa. This agreement is in effect until October 31, 2010.

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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12. RELATED PARTY TRANSACTIONS

I) Related Party Transactions

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

During the year, salaries of \$265,747 (2007 - \$735,462) and Directors fees of \$108,818 (2007 - \$51,015) were paid or accrued by the Company to Directors.

Notes payable includes \$318,715 due to a Company owned by a Director of the Company.

Joint Venture contributions were paid on behalf of a Company of which one of its Directors is also a Director of the Company. The balance of loans owing at balance date was \$57,453.

Interest paid or accrued on convertible debentures owing to the related parties amounted to \$6,385 (2007 - \$10,974).

Office accommodation and administration fees of \$24,600 (2007 – Nil) were paid to a Company of which two of the Company's Director's are also Directors.

Loans were made available by a Company of which one of its Directors is also a Director of the Company. The loans are unsecured and accrue interest at 8% pa. the balance of the loans at balance date including interest is \$707,656.

II) Key Management personnel

Key management personnel include the directors and joint company secretary.

The names of persons who were directors of the Company at any time during the financial year were:

B W McLeod

J Mulready

S Pearce

D Sutton

R Hollingsworth

I McBain

D L Hughes was a Joint Company Secretary

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.

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12. RELATED PARTY TRANSACTIONS (Continued)

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

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

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

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

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

13. INCOME TAXES

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

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

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

	<u>2008</u>	<u>2007</u>
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	<u>(5,141,979)</u>	<u>(4,416,733)</u>
	<u>\$ -</u>	<u>\$ -</u>

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13. INCOME TAXES (Continued)

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	<u>1,601,000</u>
	<u>\$ 5,928,000</u>

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

14. SUBSEQUENT EVENTS

At 28 November 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.

The Company is currently negotiating with Noteholders in relation to the redemption of the balance of the principal amount of the notes and is seeking to extend the maturity date to 31 March 2009 to allow the negotiation process to proceed.

All interest payments on the outstanding convertible notes had been made up to 28 November 2008.

On 19 December 2008 the financial report was authorized for issued by a resolution of Directors.

Except for the matters referred to above, there is no other matter or circumstance that has arisen since 30 June 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.

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15. MANAGEMENT OF CAPITAL

The Company manages its cash, ordinary shares, stock options and warrants as capital. The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to pursue the development of its mineral properties and to maintain a flexible capital structure, which optimizes the costs of capital at an acceptable risk. The Company does not have any externally imposed capital requirements to which it is subject.

The Company manages the capital structure and makes adjustment to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Company may attempt to issue new shares, issue debt, acquire or dispose of assets, or adjust the amount of cash and cash equivalents.

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

16. AUDITORS REMUNERATION

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

	2008	2007
	\$	\$
Audit and review of financial assets - SmytheRatcliffe	45,000	60,800
- K S Black & Co	20,000	-
Other assurance services	-	-
	<u>65,000</u>	<u>60,800</u>

There were no non-audit services provided by the auditors during the year.

17. SEGMENT REPORTING

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

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CORPORATE GOVERNANCE STATEMENT

The Board of Directors (Board) are committed and responsible for the principles and the implementation of sound corporate governance and the guidelines set out in the ASX Principles of Good Corporate Governance.

The Board embraces and takes measures, so far as is practical, to comply with the ASX Principles of Good Corporate Governance, having regard to the size, nature and of the various companies making up the group.

The Board continues to review these practices to ensure that they meet the interest of shareholders.

Board of Directors

The Board of Directors' (**'the Board's'**) primary role is the protection and enhancement of long-term shareholder value. In fulfilling this role, the Board is responsible for the overall corporate governance of the Company and its controlled entities ensuring the Consolidated Entity is run in a proper manner.

Responsibilities and Functions of the Board

The Board operates in accordance with the broad principles set out in its Charter and Terms of Reference. The Charter details the Board's composition and responsibilities.

The responsibilities of the Board include:

- reporting to shareholders and the market;
- ensuring adequate risk management processes exist and are complied with;
- reviewing internal controls and internal and external audit reports;
- ensuring regulatory compliance;
- monitoring financial performance, including approval of the annual and half-yearly financial reports and liaison with the Company's auditors;
- reviewing the performance of senior management;
- monitoring the Board composition, director selection and Board processes and performance;
- validating and approving corporate strategy;
- reviewing the assumptions and rationale underlying the annual plans and approving such plans; and
- authorising and monitoring major investment and strategic commitments.

The Board met 8 times during the year and Directors attendances are disclosed in the Directors Report.

Composition of the Board of Directors

The composition of the Board is determined in accordance with the following:

- the size of the Board be reviewed periodically and at least annually
- the optimum number of Directors be reviewed periodically and at least annually and comprise at least three directors
- the chairperson be a non-executive director
- the Board comprise directors with an appropriate range of qualifications and expertise

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

The Board has assessed the independent status of the Directors and has determined that the three Non-Executive Directors are independent directors pursuant to the ASX Corporate Governance Guidelines.

Details of the members of the Board, their experience, expertise, qualifications and term in office are set out in the Directors Report.

Term in Office

The term in office of each Director at the date of this report is as follows:

Name	Position	Term in Office
Bruce McLeod	Chairman – Non-Executive	16 months
Jack Mulready	Technical Director – Executive	36 months
Stephen Pearce	Non-Executive Director	48 months
David Sutton	Non-Executive Director	16 months

Risk Assessment and Internal Control Procedures

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

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

The Board has received written confirmation from the chairman and company secretary that the integrity of the financial statement is founded on a sound system of risk management and internal compliance and control which implements the policies adopted by the Board.

The Company's risk management and internal compliance and control system is operating efficiently in all material respects.

The Board requires this declaration to be made bi-annually.

Policy on Dealing in Company Securities

The Company has a policy on how and when the directors and employees may deal in the Company's securities. The purpose of this policy is to ensure that the directors and employees deal in the Company's securities in a manner which properly reflects their fiduciary duty, and that they do not transact in those securities whilst in possession of price sensitive information. This policy requires all directors and employees to seek approval from the Chairman and Company Secretary prior to dealing in the Company's securities.

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Continuous Disclosure

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

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

Ethical Standards

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

Access to Independent Professional Advice

Each director has the right of access to all relevant Company information and to the Company's executives. The directors also have access to external resources as required to fully discharge their obligations as directors of the Company. The use of these resources is co-ordinated through the Chairman of the Board. No such advice has been sought during the year.

Director Education

The Company provides a formal induction process for all new employees and directors to educate them on the nature of the business and its operations. Continuing education is provided via the regular Board updates provided by the divisional chief executives.

Board Committees

To assist in the execution of its responsibilities, and to allow detailed consideration of complex issues, the Board has established a number of permanent committees, the details of which are set out below.

In addition, the Board will from time to time form a due diligence committee to monitor any projects that require a due process of enquiry and substantiation.

Nomination Committee

The Board has not yet formed a separate Nominations Committee and all matters that would normally be the responsibility of the Nominations Committee are dealt with by the Board of Directors.

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

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The Company does not comply with recommendation 2.4, which recommends that the Board should establish a nomination committee. The Board considers that the Board is currently not of sufficient size to justify the establishment of a separate nomination committee.

Remuneration Committee

No remuneration committee exists as all matters that would normally be the responsibility of a remuneration committee are dealt with by the full Board of Directors.

- review and approval of the Group's policy for determining executive remuneration and any amendment to that policy;
- review the on-going appropriateness and relevance of the policy;
- consider and make recommendations to the Board on the remuneration of executive directors (including base salary, incentive payments, equity awards and service contracts);
- to review and approve the design of all equity based plans;
- to review and approve the total proposed payments under each plan; and
- review and approve the remuneration levels for non-executive directors.

Further information on directors and executive officers remuneration is set out in the Directors Report.

Audit Committee

The members of the audit committee during the year were:

- Jack Mulready – Executive Non-Independent Director
- Stephen Pearce – Independent Non-Executive Director
- David Sutton – Independent Non-Executive Director. Appointed 29.02.08
- Rod Hollingsworth – Independent Non-Executive Director. Resigned 29.02.08

The committee met twice during the year.

The audit committee has adopted a formal charter which sets out the responsibilities of the audit committee. These responsibilities include:

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

The audit committee has received confirmation in writing from the Chief Executive officer and the Chief Financial officer that:

The Company's financial reports present a true and fair view, in all material respects, of the company's financial condition on operational results and are in accordance with relevant accounting standards.

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Due Diligence Committee

The Board will from time to time form a due diligence committee to monitor any projects that require a due process of enquiry and substantiation.

Board Performance Evaluation

ASX Corporate Governance Council best practice recommendation 8.1 requires the disclosure of the process for performance evaluation of the Board, its committees and individual directors, and key executives. Given the current size of the Latrobe Magnesium's Board and level of activity of the Company, the Board does not currently have a formal process for the evaluation of individual Directors and would consider the implementation of one at this particular point as impractical.

External Auditors

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

The current auditors, K S Black & Co, were appointed following resignation of SmytheRatcliffe. The Australian accounting bodies' statement on professional independence and the Corporations Act 2001 requires mandatory rotation of audit partners for listed companies every five years. K S Black & Co confirm that they conform with these requirements.

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

Chairman

The Chairman is responsible for leading the Board, ensuring that the Board activities are organised and efficiently conducted and for ensuring the directors are properly briefed for meetings. The Board's Charter and Terms of Reference specify that these are separate roles to be undertaken by separate people and that there should at all times be a clear division between the responsibilities of the Board and management.

Communication with Shareholders

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

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

The Company achieves this through the following avenues:

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- i) The Company's website **www.fallriverresources.com**
The website provides detailed information about all aspects of the Company's operations.
- ii) Regular mailings
The Company provides shareholders with the option of receiving copies of all announcements made to the ASX by mail or via an electronic link to our website, ensuring that all shareholders are kept informed about the Company.

Shareholders also have the option of receiving a hard copy of the Annual Report each year or they can elect to receive an electronic link to the website via e-mail.
- iii) General meetings
All shareholders are invited to attend the Annual General Meeting. The full Board and senior executives are present and available to answer questions from the floor, as are the External Auditor and a representative from the Company's legal advisors.

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FALL RIVER RESOURCES LTD.

OPERATIONS REPORT FOR THE YEAR 1.10.07 TO 30.09.08

SUMMARY

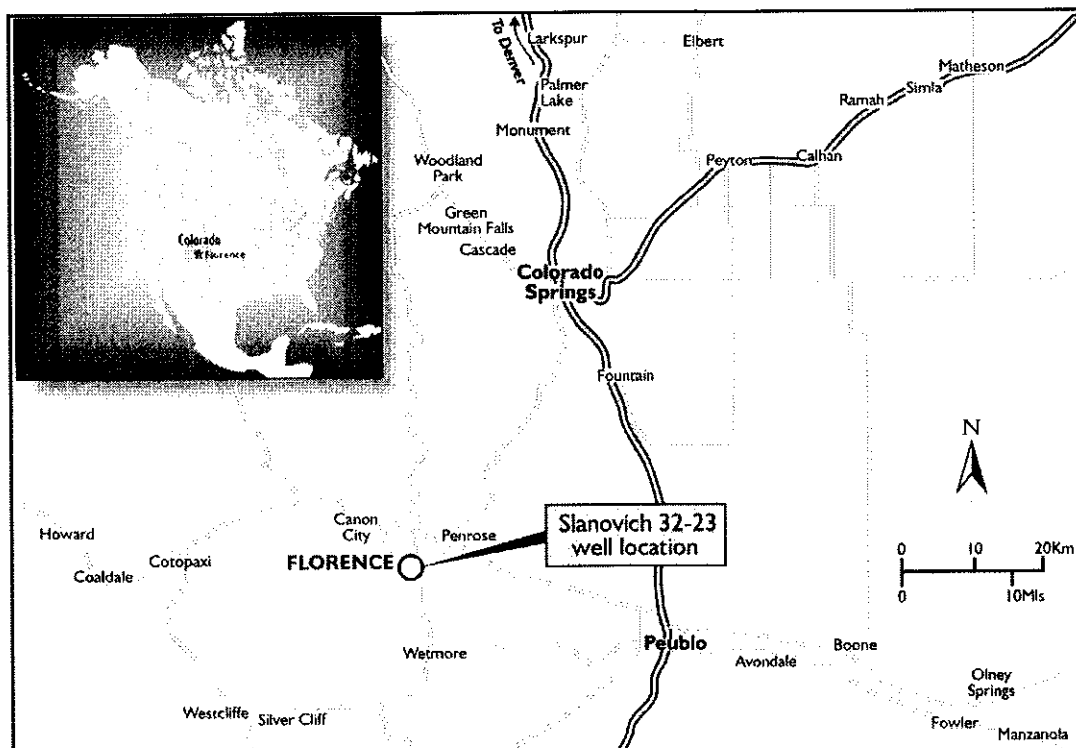
- **Decision to concentrate exploration effort on West Florence project**
- **Withdrawal from Canadian projects.**
- **Company to seek an agreement with Operator of Baxter project to consolidate present interest.**
- **Sale of the company's 20% working interest in Sprowl gas field.**

1. OPERATIONS

A. West Florence Exploration Joint Venture, Colorado.

Production from the Slanovich 32-23 well has continued to decline, despite the recent workover that opened up additional section in the well.

The Pierre Formation is still to be evaluated, but this will require an additional well to be drilled. In the meantime the joint venture is planning to acquire 3D seismic over part of the licence area in the new year, and is in the process of attempting to renew an option covering an additional 13,000 acres located adjacent to the existing 12,000 acre West Florence holding. This area would also be required to be selectively covered by 3D seismic acquired in conjunction with the seismic in West Florence.



Location Map - Florence Colorado

(Map supplied courtesy N.Meyers, petroleum consultant.)

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Background

In January 2007 Fall River entered into an agreement with Mountain Petroleum whereby Fall River would earn a 15% working interest in 12,000 acres of exploration acreage located in the Florence sub-basin of the Denver Basin, in Colorado. The leasehold is approximately 190 kilometers (120 miles) south of the city of Denver, Colorado.

Fall River reimbursed Mountain for the cost of acreage acquisition and participated pro-rata in the initial exploration well, Slanovich 32-23 (also known as West Florence-1). The well was drilled to a total depth of 6,421 ft in May 2007, and encountered massive lost circulation problems in the Pierre Formation from around 4,030 ft. which more than doubled the programmed drilling time.

Oil shows were encountered in all three secondary targets, (Pierre Shale, Codell Sandstone and Niobrara Formation).

Gas shows were encountered in the Dakota Sandstone, however subsequent testing undertaken in August after casing the well yielded water with some gas.

Testing of the upper oil zones produced oil and water from both the Codell Sandstone and Niobrara Formation..

Testing of the Pierre Fm was not possible in the well due to formation damage of potential reservoirs from cement plugs. This interval will need to be tested in a future well specifically designed to test the extensively fractured Pierre Fm interval.

The Codell Fm was fracture stimulated and after installation of a pump has subsequently settled into a flow rate of approximately 15 bopd of oil with accompanying water..

Stratigraphic Table Slanovich 32-23 Well West Florence Colorado

FORMATION	DEPTH KB	COMMENTS
Raton Formation	Surface	
Trinidad Sand	970	
Pierre Shale	1070	
Sharon Springs Member	24780	Oil shows - lost circulation problems prevented evaluation.
Niobrara Formation	5130	
Red Hay Limestone Member	5535	Oil reservoir - tested oil and water.
Codell Sandstone	5618	Oil reservoir - tested oil and water after fracture stimulation. Now on production at approximately 15 bopd.
Carlisle Shale	5624	
Greenhorn Limestone	5836	
Graneros Shale	5910	
Dakota Group	6106	Tested water with minor gas
Muddy J Sand	6106	
Main Dakota Sand	6130	
Skull Creek Mbr	6180	
Lyle Sand	6268	
Morrison Formation	6302	
Total Depth	6421	

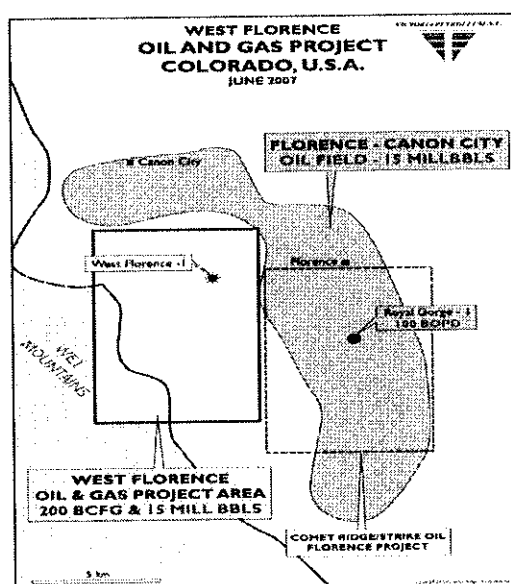
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Recent Developments

This rate has steadily declined, and in June the pump was pulled, and found to be damaged. A new pump was installed, and the lower section of the overlying Niobrara Formation opened up to the well bore.

Work was also undertaken to free up blocked perforations.

After some initial improvement production from the well has continued to decline, to approximately 2 bopd, and it may shortly be necessary to again pull the pump to see if there is still a mechanical problem, and ascertain whether the remedial work undertaken to free up the perforations has been successful.



In the neighboring Florence field permit to the east, four wells have recently been drilled and completed in the Pierre and Niobrara Formations by the Operator, Comet Ridge. No test results are available at this stage, but the fact that oil and gas shows were encountered and the wells were completed is encouraging.

B. Baxter Shale Project Green River Basin Wyoming, USA

The company is in dispute with Samson Oil & Gas, the Operator of the Baxter joint venture, regarding our status in the joint venture, following late payment of a cash call. At this stage there is no evidence that the Operator intends drilling the second well required by the joint venture agreement.

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C. Sprowl Gas Field, Oklahoma

In August an agreement was reached with R&M PPLC, an existing Joint Venture partner at Sprowl, to sell the company's 20% working interest for US\$510,000. Approximately US\$204,000 of this sum was used to retire debt of approximately \$204,000 owing to Kaiser-Francis, the Operator of the Sprowl field, leaving US\$306,000 to be used as working funds for the company. These funds (approx A\$471,000) had not been received by the review date and accordingly are not included in the Appendix 5B consolidated Statement of Cashflow accompanying this report.

D. CANADIAN OPERATIONS

Lake David, Alberta - 1 Well, FRR paying 15% working interest

The company has decided to relinquish its share of the section containing the Lake David-1 well. Some abandonment costs may be payable.

Sunken Lake, Alberta - 1 well, FRR paying 50% to earn 25% after payout

The joint venture has relinquished the section containing the Sunken Lake -1 well, and the company is awaiting advice regarding abandonment of the well.

East Queensdale Project Saskatchewan

The well was abandoned last December. The company now plans to relinquish its interest in the half section currently held over the Queensdale East permit.

Finalisation of these arrangements will mean that the company has withdrawn from all Canadian exploration