

# **Fairstar Resources Limited**

ABN: 38 115 157 689

Interim Financial report for the half-year ended  
31 December 2008

[www.fairstarresources.com](http://www.fairstarresources.com)

## **Interim Financial report for the half-year ended 31 December 2008**

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## **Company Directory**

### **DIRECTORS**

Harold J Paiker  
(Non-Executive Director)

Kevin J Robertson  
(Managing Director - Executive)

Vaz Hovanessian  
(Non-Executive Chairman)

Mahendra Pal  
(Director Executive – Exploration & Technical)

### **COMPANY SECRETARY**

Alan Thomas

### **PRINCIPAL OFFICE**

Unit 3, 136 Main Street  
OSBORNE PARK WA 6017  
Telephone: (08) 9242 5111  
Facsimile: (08) 9242 5677

### **REGISTERED OFFICE**

Unit 3, 136 Main Street  
OSBORNE PARK WA 6017

### **AUDITORS**

Stantons International  
First Floor, 1 Havelock Street  
Perth WA 6000

### **SHARE REGISTRY**

Advanced Share Registry Services  
110 Stirling Highway  
NEDLANDS WA 6009  
Telephone: (08) 9389 8033  
Facsimile: (08) 9389 7871

### **STOCK EXCHANGE LISTING**

Australian Stock Exchange  
Home Exchange: Perth, Western Australia  
Code: FAS

## Directors' report

The directors of Fairstar Resources Ltd ("Fairstar") submit herewith the financial report for the half-year ended 31 December 2008. In order to comply with the provisions of the Corporations Act 2001, the directors report as follows:

The names of the directors of the company during or since the end of the half-year are:

### **Name**

Harold J Paiker

Kevin J Robertson

Alan P Rudd                      Resigned 27 November 2008

Mahendra Pal

Vaz Hovanessian

Directors have been in office since the start of the financial year to the date of this report unless otherwise stated.

### **Operating Results**

The operating loss of the company for the six months amounted to \$3,714,984 (December 2007 – Loss of \$4,758,215).

### **Review of operations**

#### **Exploration Activity**

Fairstar Resources' exploration activities spread over the States of Western Australia and Victoria. The Company currently has four core projects: Kurnalpi-Randalls Gold Project in the Eastern Goldfields of Western Australia, Mahendra's Find -"iron discovery"- at the Kurnalpi-Randalls project area, Mount Padbury Uranium Project near Meekatharra in the Murchison region of Western Australia, and a farm-in agreement with Knight Industries Pty Ltd in respect of an oil and gas project near the town of Sea Lake in the on-shore Murray Basin in north west Victoria.

At 31<sup>st</sup> December 2008 the Company had an interest in 30 tenements; comprising 20 Exploration Licences, 9 Prospecting Licences and 1 Mining Lease. The exploration activities included: data review, adding and reviewing information to computerised database, geological reconnaissance work, estimation of gold mineralisation at the Area 9 Prospect of the Kurnalpi Gold Project, 262 ground radiometric survey readings and analysis at Mount Padbury Uranium Project, rock chip sampling and assaying of 275 samples (221 for iron and related elements and 54 for multi-elements), defining eight exploration targets in Western Australia, drilling of one exploration well (Sea Lake 1 Well) for oil and gas in the Murray Basin part of Victoria, statutory reporting to the State Government, etc.

As of 6<sup>th</sup> March 2009 in Western Australia Fairstar has a portfolio of 32 tenements, of which applications for 3 tenements are pending approval with the State Department of Resources and Industry.

#### *Half-Year Highlights*

- Drilling of Sea Lake 1 Well in the lands of Petroleum Exploration Permit 165 (PEP 165) near the town of Sea Lake in the Murray Basin part of Victoria, commenced on 22<sup>nd</sup> June 2008 and drilled to a depth of 606 metres before drilling ceased on 10 July 2008. The drilling intersected hydrocarbon in the form of C1 (methane) natural gas, at a depth of 240 metres to 257 metres, but due to technical difficulties drilling at Sea Lake 1 was terminated on 10<sup>th</sup> July at a depth of 606m. No other valid hydrocarbon areas were intersected. Fairstar is currently in dispute with its joint venture partner so no further work on this project.
- At the Area 9 prospect at the Kurnalpi-Randalls Gold Project, gold mineralisation of 93,000t @ 7.0g/t gold was estimated (at 1.0g/t cut-off)
- At the Mahendra's Find iron discovery 216 grab samples were collected and analysed for iron (Fe) and related elements.
- Hematite outcrop from the iron discovery area was assayed at 65.99% Fe (with 2.2 % SiO<sub>2</sub>, 0.63 % Al<sub>2</sub>O<sub>3</sub>, 0.011% P, and 2.03 % LOI)
- Eight exploration targets for gold, uranium, Platinum Group Elements and base metals were identified at

- the Mindoolah (6 targets) and Killara (2 targets) Projects in the Murchison region of WA
- A preliminary ground radiometric survey was conducted at the Mount Padbury Uranium Project (tenement E51/1147), which showed the total counts channel was anomalous and closely tracked the uranium channel response

Note: For further details on operations, reference should be made to Fairstar reports for the quarters ending September and December 2008 and Annual Report 2008

### **Shares in Golden West Resources Ltd**

As at the date of this report, Fairstar owns 18.3% of the issued capital of Golden West Resources Ltd (GWR) which, based on current ASX prices, is valued at approximately \$7.6 million. It is able to dispose of these shares if required or pledge them as security for short or long term borrowings.

The Board is currently considering a number of options with regard to its holding in GWR, and announcements will be made as developments occur.

### **Legal Matters**

The Company continues to pursue settlement of a number of legal issues, namely:

(a) Opes Prime / ANZ Bank

Fairstar continues to monitor the administration of Opes Prime Group Limited and receive advice in relation to the unauthorised disposal of GWR shares by ANZ bank. It believes it has a substantial claim against ANZ and/or Opes Prime not only for the loss of its GWR shares but also for damages suffered as a consequence of the abandonment of the GWR takeover.

(b) Disposal of shares by financier

As detailed in Note 8(b) to the financial statements, Fairstar is currently pursuing and is confident of receiving an amount of approximately \$2,200,000, being proceeds of shares in GWR disposed of unlawfully by a financier.

(c) Claims made against Fairstar by advisers

Fairstar is confident of successfully defending or negotiating favourable settlements of any claims by Findlays & Co Stockbrokers Pty Ltd, as detailed in Notes 7(b) to the financial statements.

Fairstar advises the claim made by another adviser in relation to the GWR takeover bid has been settled on favourable terms.

(d) Joint Venture Agreement – Knight Industries Pty Ltd

In July 2007 Fairstar entered into an agreement with Knight Industries Pty Ltd to acquire oil interests in Victoria, Australia. Under the agreement, Fairstar was to earn a 60% interest by expending \$1,000,000 on the costs of exploration of a first well and a further \$1,500,000 on a second well subject to drilling results. This was increased to 75% by mutual agreement in July 2008. Approximately \$1,400,000 has been expended by Fairstar and Knight Industries Pty Ltd has lodged a claim for slightly in excess of \$1,000,000. Fairstar disputes the claim by Knight Industries Pty Ltd and indeed asserts that the Joint Venture Agreement has come to an end and will seek to recover from Knight Industries Pty Ltd loss and damage which Fairstar has suffered as a result of the false and misleading conduct of Knight Industries Pty Ltd. The matter is the subject of proceedings issued out of the Supreme Court of Western Australia. Fairstar is unable to quantify the effect, if any, of any potential settlement or liability in respect of this matter at this time.

### **Fundraising**

During the half-year the Company continued to source short-term debt funding, to fund its exploration and administration activities.

During the half-year loan funding of approximately \$1.8 million was received, together with \$1.3 million from the issue of convertible notes. The notes are repayable in May 2009, but may be converted to fully paid shares at the option of the noteholders at the lower of 80% of the weighted average price of shares traded on ASX over the 5 day period prior to the conversion, or \$0.05 each.

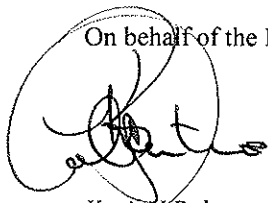
Fairstar will repay the outstanding borrowings and notes either by the disposal of non-core assets, by raising further equity capital or arranging long term financing.

**Auditor's independence declaration**

The auditor's independence declaration is included on page 7 of the half-year financial report

Signed in accordance with a resolution of directors made pursuant to s.306 (3) of the Corporations Act 2001.

On behalf of the Directors

A handwritten signature in black ink, appearing to read 'Kevin J Robertson', is written over a circular stamp. The signature is fluid and cursive.

*Kevin J Robertson*  
Managing Director  
12 March 2009

# Stantons International

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12 March 2009

Board of Directors  
Fairstar Resources Limited  
Unit 3, 136 Main Street  
OSBORNE PARK WA 6017

Dear Sirs

**RE: FAIRSTAR RESOURCES LIMITED**

In accordance with section 307C of the Corporations Act 2001, I am pleased to provide the following declaration of independence to the directors of Fairstar Resources Limited.

As Audit Director for the review of the financial statements of Fairstar Resources Limited for the half year ended 31 December 2008, I declare that to the best of my knowledge and belief, there have been no contraventions of:

- (i) the auditor independence requirements of the Corporations Act 2001 in relation to the review; and
- (ii) any applicable code of professional conduct in relation to the review.

Yours sincerely

**STANTONS INTERNATIONAL**  
**(Authorised Audit Company)**



**J P Van Dieren**  
Director

## INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF FAIRSTAR RESOURCES LIMITED

### Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Fairstar Resources Limited, which comprises the condensed balance sheet as at 31 December 2008, and the condensed income statement, condensed statement of changes in equity and condensed cash flow statement for the half-year ended on that date, a condensed statement of accounting policies, other selected explanatory notes and the directors' declaration.

#### *Directors' Responsibility for the Half-Year Financial Report*

The directors of the Company are responsible for the preparation and fair presentation of the half-year financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of the half-year 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 a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standards on Review Engagements ASRE 2410 *Review of Interim Financial and Other Financial Reports Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the *Corporations Act 2001* including giving a true and fair view of the Company's financial position as at 31 December 2008 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting and the Corporations Regulations 2001*. As the auditor of Fairstar Resources Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.



### *Independence*

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, has been provided to the directors of Fairstar Resources Limited on 12 March 2009.

### *Conclusion*

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Fairstar Resources Limited is not in accordance with the *Corporations Act 2001* including:

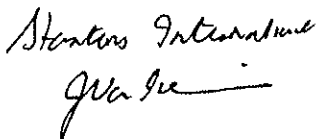
- (a) giving a true and fair view of the Company's financial position as at 31 December 2008 and of its performance for the half-year ended on that date; and
- (b) complying with Accounting Standards AASB 134 Interim Financial Reporting and Corporations Regulations 2001.

### *Inherent Uncertainty Regarding Going Concern*

Without qualification to the conclusion expressed above, attention is drawn to the following matters:

As referred to in Note 1 to the half year financial report, the financial statements have been prepared on the going concern basis. At 31 December 2008 the entity had a working capital deficiency of \$3,134,972 and had incurred a loss for the half year of \$3,714,984. The ability of the entity to continue as a going concern is subject to the successful recapitalisation of the Company by way of a capital raising and/or the sale of the Company's investments and/or mineral tenement interests at sufficient amounts so the Company can meet its existing and future commitments and proposed expenditures. In the event that the Board is not successful in recapitalising the Company and in raising further funds, the entity may not be able to continue as a going concern and the non current assets may not necessarily realise book values.

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**John P Van Dieren**  
**Director**

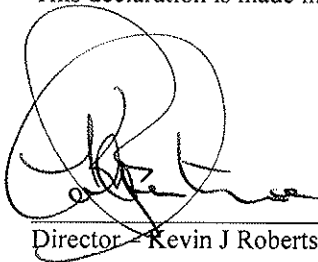
West Perth, Western Australia  
12 March 2009

## **Directors' declaration**

The directors of the Company declare that:

1. The financial statements and notes set out on pages 11 to 19 are in accordance with the Corporations Act 2001, including:
  - (a) complying with Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements; and
  - (b) giving a true and fair view of the company's financial position as at 31 December 2008 and of its performance, as represented by the results of its operations and its cash flow, for the half-year ended on that date.
2. In the directors' opinion there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of the Board of Directors.



Director — Kevin J Robertson

Date: 12 March 2009

## Interim income statement for the half-year ended 31 December 2008

	Note	Half-year ended 31 Dec 2008 \$	Half-year ended 31 Dec 2007 \$
Revenue		7,099	90,256
Employee and contractors expenses		(1,007,374)	(666,555)
Occupancy expenses		(75,806)	(70,843)
Administration expenses		(290,683)	(213,144)
Consultants expenses and professional costs		(539,268)	(295,029)
Borrowing expenses		(448,556)	(1,704)
Depreciation		(70,716)	(76,425)
Travel expenses		(55,740)	(117,491)
Professional fees		-	(97,969)
Capitalised exploration expenditure written off		(179,400)	-
Other expenses		(80,951)	(40,182)
Exploration and evaluation expenses		(441,139)	(369,129)
Share based payments	2	(532,450)	(2,900,000)
<b>Loss from continuing operations before income tax expense</b>		<b>(3,714,984)</b>	<b>(4,758,215)</b>
Income tax expense		-	-
<b>Loss from continuing operations for the period</b>		<b>(3,714,984)</b>	<b>(4,758,215)</b>
<b>Loss per share:</b>			
Basic (cents per share)		(0.01)	(3.94)

Diluted earnings per share is not disclosed as the company incurred a loss and the options are not deemed to be dilutive.

Notes to the financial statements are included on pages 15 to 19.

## Interim balance sheet as at 31 December 2008

	Note	31 December 2008 \$	30 June 2008 \$
<b>Current assets</b>			
Cash and cash equivalents		190,292	1,485,268
Trade and other receivables		45,905	278,505
Other financial assets		18,998	415,836
<b>Total current assets</b>		<b>255,195</b>	<b>2,179,609</b>
<b>Non-current assets</b>			
Other receivables		23,000	23,000
Financial Assets	3	7,336,409	49,078,039
Exploration expenditure		577,600	735,000
Property, plant and equipment		566,194	620,105
<b>Total non-current assets</b>		<b>8,503,203</b>	<b>50,456,144</b>
<b>Total assets</b>		<b>8,758,398</b>	<b>52,635,753</b>
<b>Current liabilities</b>			
Trade and other payables		568,127	246,374
Interest-bearing borrowings	4	2,812,040	2,271,471
Provisions		10,000	10,000
<b>Total current liabilities</b>		<b>3,390,167</b>	<b>2,527,845</b>
<b>Non – current liabilities</b>			
Interest-bearing borrowings	4	59,746	75,258
<b>Total non – current liabilities</b>		<b>59,746</b>	<b>75,258</b>
<b>Total liabilities</b>		<b>3,449,913</b>	<b>2,603,103</b>
<b>Net assets</b>		<b>5,308,485</b>	<b>50,032,650</b>
<b>Equity</b>			
Issued capital	5	96,745,764	96,013,314
Reserves		(48,710,660)	(6,969,029)
Accumulated losses		(42,726,619)	(39,011,635)
<b>Total equity</b>		<b>5,308,485</b>	<b>50,032,650</b>

Notes to the financial statements are included on pages 15 to 19.

## Interim statement of changes in equity For the half-year ended 31 December 2008

For the period ended 31 December 2007	Attributable to equity holders				
	Ordinary Shares \$	Option Reserve \$	Available for Sale Investments Revaluation Reserve	Accumulated Losses \$	Total Equity \$
At beginning of period	10,470,741	393,208	-	(4,849,682)	6,014,267
Loss for the period	-	-	-	(4,758,215)	(4,758,215)
Total recognised income and expense for the period	-	-	-	(4,758,215)	(4,758,215)
Issue of shares	55,152,083	-	-	-	55,152,083
At end of period	65,622,824	393,208	-	(9,607,897)	56,408,135

For the period ended 31 December 2008	Attributable to equity holders				
	Ordinary Shares \$	Option Reserve \$	Available for Sale Investments Revaluation Reserve	Accumulated Losses \$	Total Equity \$
At beginning of period	96,013,314	582,014	(7,551,043)	(39,011,635)	50,032,650
Revaluation of available for sale investments	-	-	(41,741,631)	-	(41,741,631)
Loss for the period	-	-	-	(3,714,984)	(3,714,984)
Total recognised income and expense for the period	-	-	-	(3,714,984)	(3,714,984)
Issue of shares	732,450	-	-	-	732,450
At end of period	96,745,764	582,014	(49,292,674)	(42,726,619)	5,308,485

Notes to the financial statements are included on pages 15 to 19.

## Interim Cash flow statement for the half-year ended 31 December 2008

	Half-year ended 31 Dec 2008 \$	Half-year ended 31 Dec 2007 \$
<b>Cash flows from operating activities</b>		
Payments to suppliers and employees	(1,983,258)	(2,115,535)
Interest received	7,099	90,256
Interest and other cost of finance paid	(380,069)	(1,704)
Net cash used in operating activities	<u>(2,356,228)</u>	<u>(2,026,983)</u>
<b>Cash flows from investing activities</b>		
Payments for investments in associates	-	(1,944,724)
Payment for capitalized mineral acquisition costs	(22,000)	-
Payments for property, plant and equipment	(16,805)	(63,370)
Net cash used in investing activities	<u>(38,805)</u>	<u>(2,008,094)</u>
<b>Cash flows from financing activities</b>		
Proceeds from issues of equity securities	200,000	834,528
Proceeds from issue of convertible notes	1,300,000	-
Proceeds from borrowings	1,602,000	-
Repayment of borrowings	(2,001,943)	(6,825)
Net cash provided by financing activities	<u>1,100,057</u>	<u>827,703</u>
<b>Net decrease in cash and cash equivalents</b>	(1,294,976)	(3,207,374)
<b>Cash and cash equivalents at the beginning of the half-year</b>	1,485,268	4,665,478
<b>Cash and cash equivalents at the end of the half-year</b>	<u>190,292</u>	<u>1,458,104</u>

Notes to the financial statements are included on pages 15 to 19

## Condensed notes to the interim financial statements for the half-year ended 31 December 2008

### 1. Basis of Accounting and Statement of Compliance

The half-year financial report is a general purpose financial report prepared in accordance with the requirements of the Corporations Act 2001, applicable Accounting Standards including AASB 134 'Interim Financial Reporting' and other mandatory professional reporting requirements. The interim financial statements were approved by the Board or Directors on 12 March 2009. The accounting policies applied by the Company in this interim financial report are the same as those applied by the Company in its financial report for the year ended 30 June 2008.

It is also recommended that the half year financial report be considered together with any public announcements made by Fairstar Resources Limited during the half year ended 31 December 2008 in accordance with the continuous disclosure obligations arising under the Corporations Act 2001.

#### (a) Going Concern

The financial statements have been prepared on a going concern basis. The ability of the company to continue as a going concern and meet its planned expenditure commitments is subject to raising further equity and/or loan capital, or alternatively negotiating the sale of its interest in Golden West Resources Ltd (refer Note 3). In the event that the company is unable to raise additional funds, the company may not be able to continue as a going concern and may not be able to realise its assets at their stated amounts.

As at the date of this report the Directors are confident of securing further equity and/or loan capital, or negotiating the sale of some or all of its holding in Golden West Resources Ltd.

### 2. Profit/(Loss) for the half-year

The following revenue and (expense) items are relevant in explaining the financial performance for the interim period:

	31.12.2008	31.12.2007
	\$	\$
<b>Share based payments</b>		
Corporate advisory fees satisfied by the issue of 6,000,000 shares at 6.5 cents each	390,000	-
Corporate advisory fees satisfied by the issue of 2,000,000 shares at 5 cents each	100,000	-
Payment for exploration expenditure satisfied by the issue of 331,641 shares at 12.8 cents each	42,450	-
Consultancy Fees related to acquisition of oil and gas interests, satisfied by the issue of 4,000,000 shares at 72.5 cents each	-	2,900,000
	<u>532,450</u>	<u>2,900,000</u>

### 3. Financial Assets

	31.12.2008	30.06.2008
	\$	\$
<b>Available-for-sale financial assets</b>		
Shares in listed company – at cost	56,629,082	56,629,082
Less diminution in value	<u>(49,292,673)</u>	<u>(7,551,043)</u>
	<u>7,336,409</u>	<u>49,078,039</u>

(a) The investment in listed Company represents a 18.3% (30 June 2008 – 22.9%) interest in Golden West Resources Ltd (GWR), an ASX listed Company. Fairstar's interest was diluted during the period due to the issue of shares by GWR.

## Condensed notes to the interim financial statements for the half-year ended 31 December 2008 (cont)

	31.12.2008 \$	30.06.2008 \$
(b) Market value of listed investment		
As at 31 December 2008 (\$0.29 per share) (30 June 2008 - \$1.94 per share)	7,336,41	49,078,039
As at 12 March 2009 (\$0.30 per share)	7,589,01	
The market value is calculated by reference to the closing price on ASX on the date.		
<b>4. Interest Bearing Borrowings</b>	<b>31.12.2008</b>	<b>30.06.2008</b>
	<b>\$</b>	<b>\$</b>
<b>Current</b>		
Loans – secured (see Note 4(a))	300,000	-
Convertible notes (see Note 4(b))	1,300,000	-
Loans – unsecured (Note 4(d))	1,185,500	-
Secured loan (see Note 4 (c))	-	2,250,000
Hire purchase contract	26,540	21,471
	<u>2,812,040</u>	<u>2,271,471</u>
<b>Non-Current</b>		
Hire purchase contract	59,746	75,258

(a) 2,640,000 shares held in Golden West Resources Ltd have been pledged to financiers as security for loans totalling \$300,000. An additional 10% of the original sum is payable on maturity.

(b) In December 2008 the Company issued convertible notes with a face value totalling \$1,300,000. The notes are repayable within 6 months, and a coupon rate of 10% is payable. They are convertible to fully paid ordinary shares at the option of the noteholder at the lower of 80% of the weighted average price of shares traded on ASX over the 5 day period prior to the conversion, or \$0.05 each at any time during the term. A royalty may be payable in certain circumstances.

(c) 9,000,000 shares in Golden West Resources Ltd were transferred as security for the secured loan at 30 June 2008 of \$2,250,000. These shares have now been returned to Fairstar.

(d) The unsecured loans are from unrelated entities. An interest rate of 10% is payable on the principal amount of the loans. There are no set terms for repayment.

### 5. Issued Capital

Movements in share capital during the six months to 31 December 2008 were as follows:

		Issue Price	Fully Paid Ordinary Shares	\$
01/07/08	Opening balance		373,543,017	96,013,314
02/10/2008	Shares issued for services rendered	0.128	331,641	42,450
10/10/2008	Shares issued for services rendered	0.065	6,000,000	390,000
28/11/2008	Shares issued for services rendered	0.05	2,000,000	100,000
28/11/2008	Shares issued for cash	0.05	4,000,000	200,000
			<u>385,874,658</u>	<u>96,745,764</u>



## Condensed notes to the interim financial statements for the half-year ended 31 December 2008 (cont)

### 6. Segment Reporting

The company operates predominantly in one industry and one geographical segment, being the Mining industry within Australia. Exploration is undertaken in Western Australia and Victoria. The operations in Western Australia relate to exploration for gold, base metals, uranium, and iron. The operations in Victoria relate to the exploration for oil and gas. The net loss related to oil and gas exploration activities in Victoria for the half-year ended 31 December 2008 is estimated at \$250,000 (2007 - \$2,900,000).

### 7. Contingent Liabilities

#### (a) Share based payment

The Company may be required to issue 1,000,000 ordinary shares to Kevin Robertson in the event that the share price of Fairstar Resources Ltd trading on the Australian Securities Exchange reaches \$2.00 before October 2009.

#### (b) Dispute with Findlay & Co Stockbrokers (Underwriters) Pty Ltd ("Findlays")

Findlays were appointed corporate advisers to Fairstar in relation to the takeover bid for Golden West Resources Ltd, and may have been entitled to a success-based fee upon successful completion of the takeover bid. Notwithstanding the takeover bid did not achieve the required 50% interest in Golden West Resources Ltd, Findlays have made a claim against Fairstar of approximately \$1,400,000 in relation to the matter. Fairstar believes no amount is payable and is defending the claim, and believes it has a counterclaim against Findlays. Fairstar is currently negotiating this matter with Findlays.

#### (c) Joint Venture Agreement – Knight Industries Pty Ltd

In July 2007 Fairstar entered into an agreement with Knight Industries Pty Ltd to acquire oil interests in Victoria, Australia. Under the agreement, Fairstar was to earn a 60% interest by expending \$1,000,000 on the costs of exploration of a first well and a further \$1,500,000 on a second well subject to drilling results. This was increased to 75% by mutual agreement in July 2008. Approximately \$1,400,000 has been expended by Fairstar and Knight Industries Pty Ltd has lodged a claim for slightly in excess of \$1,000,000. Fairstar disputes the claim by Knight Industries Pty Ltd and indeed asserts that the Joint Venture Agreement has come to an end and will seek to recover from Knight Industries Pty Ltd loss and damage which Fairstar has suffered as a result of the false and misleading conduct of Knight Industries Pty Ltd. The matter is the subject of proceedings issued out of the Supreme Court of Western Australia. Fairstar is unable to quantify the effect, if any, of any potential settlement or liability in respect of this matter at this time.

### 8. Contingent Assets

#### (a) Opes Prime Company Ltd (Opes Prime)

In January 2008 Fairstar secured financing of approximately \$3.3 million to assist with the Company's working capital requirement, exploration expenditure program, and to participate in Golden West Resources Ltd's (GWR) pro rata share issue. This funding was secured through Opes Prime. As security for the loan, 10 million GWR shares were pledged to ANZ Nominees (on behalf of Opes Prime) as security. ANZ disposed of these shares in April 2008 without authority. Fairstar maintains that it has retained beneficial ownership of these GWR shares and that ANZ had no right to dispose of them.

As a result of the disposal, the loan with Opes Prime, which was approximately \$1.8 million, was repaid, and Fairstar is an unsecured creditor of Opes Prime to the extent of approximately \$7 million. Fairstar believes its claim is for a larger amount, but is unable to determine the extent to which any return will be available to unsecured creditors of Opes Prime. The full loss on the disposal of the 10,000,000 shares has been provided for in the financial statements in the year ended 30 June 2008.

## Condensed notes to the interim financial statements for the half-year ended 31 December 2008 (cont)

Fairstar is currently pursuing its rights as an unsecured creditor of Opes Prime, and is also taking legal advice in relation to the unauthorised disposal by ANZ Bank of the shares in GWR and any damages arising from that.

### (b) Shares disposed by a Financier

In March 2008 Fairstar entered into a financing facility with an unrelated Company to secure loan funding of up to \$4 million. Security for the facility was the pledging of 5 million shares held by Fairstar in Golden West Resources Ltd. Prior to any monies being advanced on the facility the financier defaulted on their agreement by disposing of 1,854,730 shares pledged to them as security. They had no right to deal with these shares. Fairstar is currently taking legal action against the financier, and a third party to whom it transferred the shares. Under a settlement agreement a third party was to pay an amount of approximately \$2.2 million, being the proceeds from the unlawful disposal. Although judgement has been awarded to Fairstar, the third party has yet to pay the settlement sum. Fairstar continues to pursue recovery. A provision for impairment was recorded at 30 June 2008.

## 9. Royalty and Capital Commitments

### (a) Royalty Commitments

The Company has a royalty obligation to Australian Health Care Limited in the sum of 2% of the net profit derived from mining activities on Exploration Licence 28/1749 (previously 28/465).

Furthermore, if at any time mining operations commence on the southern portion of the Exploration Licence and this royalty is not payable, a royalty is payable to Total Mineral Resources Pty Ltd equal to:

- (i) Fifty cents per tonne of ore processed from the tenement with a reconciled mill head grade above 4.5 grams of gold per tonne; and
- (ii) Twenty Five cents per tonne of ore processed from the Exploration Licence with a reconciled mill head grade of 4.5 grams of gold per tonne or less.

Provided however if at the time mining operations commence on the southern portion of the Exploration Licence the Australian Health Care Limited royalty is payable, an amount of \$25,000 is payable to Total Mineral Resources Pty Ltd on the date being 12 months after mining operations commence.

### (b) Option agreements –P.R. Gianni and A.P. Rudd

In 2005 the company entered into option agreements to acquire interests in Exploration Licences 15/870, 28/1672, 28/1863 and 28/1561 and Prospecting Licences 25/1836, 1856, 1857 and 1858 from PR Gianni and AP Rudd respectively, of which option fees totalling \$300,000 have been paid and these amounts are capitalised as Exploration Expenditure. During the period ended 31 December 2008, the company exercised its rights to acquire the rights to explore for and extract gold and silver only, and a first to last rights of refusal to acquire the rights in relation to other minerals. In addition the Company has a royalty obligation equal to \$5.00 per ounce of gold extracted.

### (c) Option agreements – Spinifex Well, Cue and Mindoolah prospects

The company has entered into five option agreements to acquire a 70% interest in tenements known as the Spinifex Well, Cue and Mindoolah prospects. Option fees totalling \$120,000 have been paid and capitalised as Exploration Expenditure. Each option can only be exercised if the company has arranged for the production of a bankable feasibility study (as defined). The estimated exercise price to acquire the tenements subject to these options is \$6,000. The options expire on 1 May 2009, but Fairstar are confident of negotiating an extension.

## **Condensed notes to the interim financial statements for the half-year ended 31 December 2008 (cont)**

(d) Convertible notes – Royalty Commitment

A royalty may be payable in certain circumstances to holders of convertible notes – refer Note 4(b).

### **10. Subsequent events**

There are no matters or circumstances that have arisen since 31 December 2008 that have or may significantly affect the operations, results, or state of affairs of the Company in future financial periods.