FAIRSTAR RESOURCES LTD

ABN 38 115 157 689

Financial report for the year ended 30 June 2007

Financial report
for the financial year ended 30 June 2007

Directors' report

The directors of Fairstar Resources Ltd submit herewith the financial report of the company for the financial year ended 30 June 2007. In order to comply with the provisions of the Corporations Act 2001, the directors report as follows:

Directors

The names of the directors in office at any time during or since the end of the year are:

Name of Director	Period as Director			
HJ Paiker	Appointed	11/04/2006		
KM Allen	Appointed	12/02/2006		
K Robertson	Appointed	12/02/2006		
NH Maund	Appointed	11/04/2006	Resigned	07/03/2007
AP Rudd	Appointed	11/04/2006		
S Nigam	Appointed	05/02/2007	Resigned	21/03/2007

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

Information on Directors:

Harold Paiker	—	Chairman (Non-executive), Age 51
Qualifications	—	B. Juris LLB LLM
Experience	—	Mr Paiker is a commercial lawyer and principal of his own practice. He qualified as a lawyer in South Africa and emigrated to Australia in 1987. In 1991 he obtained a Masters degree in law with an emphasis in Corporations Law.
Interest in Shares and Options	—	500,000 ordinary shares in Fairstar Resources Ltd and options to acquire a further 850,000 ordinary shares.
Directorships held in other listed entities during the past 3 years.	—	None

Kevin J Robertson	—	Managing Director (Executive), Age 60
Qualifications	—	Certified quarry manager
Experience	—	Mr Robertson entered the Australian Mining Industry in 1972 and has been actively involved, mostly at a senior level, in various mining operations throughout Tasmania and Western Australia, including the positions of Open – Pit Supervisor for the Savage River Iron Ore Mining Operation in Tasmania and as Mine Manager for a gold mining operation in Coolgardie, Western Australia. Mr Robertson is a certified quarry manager and has gained considerable experience in the gold mining industry from project development through to production.
Interest in Shares and Options	—	2,333,000 ordinary shares and options to acquire a further 2,740,000 ordinary shares.
Directorships held in other listed entities during the past 3 years.	—	None

Alan Rudd	—	Director (Non-executive), Age 41
Qualifications	—	B.App.Sc
Experience	—	Mr Rudd has been involved in mineral exploration for 17 years since graduating from Curtin University of Western Australia in 1990. He has successfully explored for a wide range of commodities including gold and base metals predominantly in the Eastern Goldfields of Western Australia. Mr Rudd resides in Kalgoorlie and brings a wealth of experience in all facets of geology including tenement project acquisition, grass roots exploration and project development. He is a also a non executive director of Golden West Resources.
Interest in Shares and Options	—	3,125,000 ordinary shares and options to acquire a further 2,162,500 ordinary shares.
Directorships held in other listed entities during the past 3 years.	—	Current director of Golden West Resources Limited since 8 March 2004. The Fairstar board has implemented appropriate protocols relating to Mr Rudd's participation in Fairstar board meetings and management discussions by excluding Mr Rudd from such participation relating to the Golden West Resources Ltd takeover bid

Kenneth M Allen	—	Director (Non-executive), Company Secretary, Age 45
Qualifications	—	B.Bus(Curtin), PNA,FNTAA,FTIA,MTMA
Experience	—	Mr Allen is a qualified accountant and has run a successful accountancy firm in Kalgoorlie-Boulder since 1991. He has been involved in the mining industry for over 20 years
Interest in Shares and Options	—	500,000 Ordinary Shares and options to acquire a further 850,000 ordinary shares.
Directorships held in other listed entities during the past 3 years.	—	Director of Kalgoorlie-Boulder Resources Ltd from 14 January 2005 to April 2007

Principal Activities

The principal activity of Fairstar Resources Ltd is exploring for gold, uranium and base metals and oil and gas.

Operating Result

The loss of the company after taxation for the financial year ended 30 June 2007 was $4,060,592.

Dividends Paid or Recommended

No dividends were paid during the year and no recommendation is made as to dividends.

Review of Operations

During the year ended 30 June 2007 the Company successfully raised $7,500,000 pursuant to its prospectus dated 13 September 2006, and was first quoted on the Australian Stock Exchange on 30 October 2006.

Since listing, the Company has consolidated the initial acquisition of mining and exploration interests at a cost of $735,000 and has been exploring for gold, base metals and uranium in the Yilgarn Block of Western Australia over the lands of 27 tenements; comprising 18 Exploration Licences, 7 prospecting Licenses and 2 Mining Leases.

The exploration activities have included -

- Data review;
- Geological reconnaissance work;
- RC percussion drilling of 3,436m along 37 holes in Kurnalpi Project: Halfway Hill and Colour Dam

tenement for gold and base metals;
- Grab sampling for uranium (carnotite) in Mt Padbury Project;
- Aerial photography over Mt Padbury & Spinifex Well Project areas for geological and regolith mapping; and
- Multiclient geophysical data acquisition and processing over Mt Padbury and Spinifex Well Projects.

Furthermore, during July 2007, Fairstar Resources entered into a *"Farm-in"* Agreement with Knight Industries Pty Ltd for hydrocarbon exploration in the lands of Petroleum Exploration Permit 165 (PEP165) in the Murray Basin part of Victoria, Australia. Presently the Farm-in partners are waiting on Victorian Government's approval for exploration in the said tenement.

Out of the 27 tenements two tenement applications are awaiting Western Australian Government approval. In the coming months, in addition to the usual exploration activities, a preliminary resource estimate of Company's known gold resources, using computer added resource models, will be carried out. Overall planned exploration work remains broadly on schedule.

Note that a detailed exploration activity report will be included in the Annual Report to Shareholders.

Significant Changes in the State of Affairs

Significant changes in the state of affairs of the company during the financial year were as follows:

- The Company successfully raised $7,500,000 via an initial public offering on 30 October 2006.
- On 26 February 2007 the Company announced a rights issue offer inviting shareholders to subscribe for 1 option for each 2 shares held. A total of 48,401, 560 options at an issue price of 0.5 cents each were issued, raising $242,008.
- Subsequent to the successful listing on the Australian Stock Exchange, the company acquired interests as detailed in the Prospectus dated 13 September 2006, in various mining and exploration tenements during the year ended 30 June 2007. The Company paid $210,000 in cash and issued 2,100,000 shares at $0.25 each to acquire these interests.

After Balance Date Events

Matters subsequent to the end of the financial year were as follows:

(a) In July 2007 the Company entered into a Farm-in Agreement with Knight Industries Pty Ltd to acquire Oil interests situated in Victoria, Australia. Under the Agreement Fairstar will earn a 60% interest in the project by investing $100,000 upfront with a further $1,000,000 required after drilling approval, and a further $1,500,000 required subject to drilling results. 4,000,000 shares were issued to consultants in July 2007 in relation to this acquisition.

(b) Subsequent to balance date 1,643,291 options were exercised and converted to ordinary shares at an exercise price of $0.25 each, raising $410,823.

(c) On 4 September 2007 the Company announced the proposed offmarket bid for all shares in Golden West Resources Limited. Shareholders in Golden West will be offered 5 fully paid shares in Fairstar for every share in Golden West. As at the date of this report the bidders statement was being prepared. The proposed offer will be subject to a number of conditions, which were detailed in the 4 September 2007 announcement.

Future Developments

The company will continue progressing its various exploration opportunities with the object of finding mineral resources. The Kurnalpi and Spinifex Well have the potential to yield substantial gold reserves. Further ground analysis and sampling for uranium will be undertaken at Mount Padbury. Upon all necessary approvals being obtained, a drilling program will be implemented for hydrocarbon exploration in accordance with the Farm-in agreement with Knight Industries.

The company will pursue all the shares in Golden West Resources Ltd pursuant to Fairstar's announcement on the 4th September 2007.

Environmental regulations

The Company is aware of its environmental obligations and acts to ensure its environmental commitments are met. The Directors are not aware of any environmental regulation which has not been complied with.

Directors' meetings

The following table sets out the number of directors' meetings (including meetings of committees of directors) held during the financial year and the number of meetings attended by each director (while they were a director or committee member). During the financial year, ten board meetings were held (including circulating resolutions passed by Directors).

	Board of directors	
Directors	**A**	**B**
Harold Paiker	10	10
Kenneth M Allen	10	10
Kevin Robertson	10	10
Nigel Maund	3	3
Alan Rudd	10	7
Sharad Nigam	2	2

Notes
A - Number of meetings held during the time the director held office during the year.
B - Number of meetings attended.

Shares under Option

Unissued ordinary shares of Fairstar Resources Limited under option at the date of this report are as follows:

Date options granted	Expiry date	Exercise price of options	Number under option
1 May 2006	30 August 2009	$0.25	4,200,000
11 April 2007	30 August 2009	$0.25	45,785,075
			49,985,075

No option holder has any right under the options to participate in any other share issue of the Company or any other entity.

Directors' Share and Option holdings

As at the date of this report the interests of the directors in the shares and options of the Company were:

Director	Ordinary Shares	Options over Ordinary Shares
H J Paiker	500,000	850,000
K M Allen	500,000	850,000
K Robertson	2,333,000	2,740,000
A P Rudd	3,125,000	2,162,500

Remuneration Report

This report describes the remuneration arrangements for directors and other key management personnel of the Company.

(a) Remuneration policy (Audited)

The remuneration policy of Fairstar Resources Limited has been designed to align director and executive objectives with shareholder and business objectives by providing a fixed remuneration component and offering specific long-term incentives based on key performance areas affecting the company's financial results. The board of Fairstar Resources Limited believes the remuneration policy to be appropriate and effective in its ability to attract and retain the best executives and directors to run and manage the company.

The board's policy for determining the nature and amount of remuneration for board members and senior executives of the company is as follows:

The remuneration policy, setting the terms and conditions for the executive directors and other senior executives, was developed by the board. All executives receive a base salary (which is based on factors such as length of service and experience) and superannuation. The board reviews executive packages annually by reference to the company's performance, executive performance and comparable information from industry sectors and other listed companies in similar industries.

The board may exercise discretion in relation to approving incentives, bonuses and options. The policy is designed to attract the highest calibre of executives and reward them for performance that results in long-term growth in shareholder wealth. Executives are also entitled to participate in the employee share and option arrangements.

The directors and executives receive a superannuation guarantee contribution required by the government, which is currently 9%. Some individuals have chosen to sacrifice part of their salary to increase payments towards superannuation.

All remuneration paid to directors and executives is valued at the cost to the company and expensed. Shares given to directors and executives are valued as the difference between the market price of those shares and the amount paid by the director or executive. Options are valued using the Black-Scholes or Binomial methodologies.

The board policy is to remunerate non-executive directors at market rates for comparable companies for time, commitment and responsibilities. The board determines payments to the non-executive directors and reviews their remuneration annually based on market practice, duties and accountability. Independent external advice is sought when required. The maximum aggregate amount of fees that can be paid to non-executive directors is subject to approval by shareholders at the annual general meeting (currently $350,000) Fees for non-executive directors are not linked to the performance of the economic entity. However, to align directors' interests with shareholder interests, the directors are encouraged to hold shares in the company and are able to participate in employee option plans.

Performance based remuneration

The managing director has an element of performance based remuneration built into his remuneration. During the year ended 30 June 2007 the Managing Director received 1,000,000 shares under the terms of his contract when the shares of the company reached $1.00. The company must issue a further 1,000,000 shares should the company's share price reach $2.00 during the term of his contract. Apart from the above, the company has no other performance based remuneration component built into director and executive remuneration packages.

Company performance, shareholder wealth and directors' and executives' remuneration

The remuneration policy has been tailored to increase goal congruence between shareholders and directors and executives. Currently, this is facilitated through the issue of options to the majority of directors and executives to encourage the alignment of personal and shareholder interests. The company believes this policy will be effective in increasing shareholder wealth. At commencement of mine production, performance based bonuses based on key performance indicators are expected to be introduced. For details of directors and executives interests in options at year end, refer note 20.

(b) Compensation of Key Management Personnel (Audited)

The emoluments for each director and key management personnel of the Company are as follows:

Year ended 30 June 2007	Short-term			Post employment	Share-based payments		Total
	Salary & Fees	*Consulting*	*Non Cash*	*Superannuation*	*Options*	*Shares*	
Directors							
H J Paiker	15,833	-	-	33,336	-	-	49,169
K J Robertson	168,750	38,413	-	-	-	1,000,000	1,207,163
A Rudd	25,833	27,522	-	2,325	-	-	55,680
N Maund	108,702	-	6,763	9,783	-	-	125,248
K M Allen	50,063	-	-	3,900	-	-	53,963
S Nigam	5,000	-	-	450	-	-	5,450
Other key management personnel							
M Pal	-	-	-	33,333	-	-	33,333
	374,181	65,935	6,763	83,127	-	1,000,000	1,530,006

Period Ended 30 June 2006	Short-Term		Post Employment	Share-Based Payments		Total
	Salary & Fees	*Consulting*	*Superannuation*	*Options*	*Shares*	
Directors						
H J Paiker	4,160	-	12,501	21,600	-	38,261
K J Robertson	-	-	-	21,600	40,000	61,600
A Rudd	5,000	-	-	21,600	-	26,600
N Maund	15,000	-	-	21,600	25,000	61,600
K M Allen	-	-	-	21,600	-	21,600
M J Doutch	35,000	-	-	21,600	44	56,644
R Brouwer	-	-	-	-	-	-
J W Doutch	50,000	-	-	21,600	63	71,663
	109,160	-	12,501	151,200	65,107	337,968

(c) Performance Income as a proportion of total compensation (Audited)

No performance based bonuses have been paid to key management personnel during the financial year, other than the issue of 1,000,000 shares to K J Robertson under the terms of his contract when the shares in the company reached $1.00. This represents 82.8% of his total remuneration for the year.

(d) Share-Based Payments (Audited)

For details of share based payments to Directors and key management personnel, refer to Note 24.

(e) Service agreements (Audited)

The agreements related to remuneration are set out below

Kevin Robertson, Managing Director
*Term of agreement – 3 years commencing 30 October 2006.
* Base remuneration, being payable to Byko Investments Pty Ltd, a company controlled by Mr Robertson - $290,500
* Payment of termination benefit on early termination by the company, other than by gross misconduct, equal to 3 months remuneration

Mahendra Pal, Exploration Manager
*Term of agreement – 2 years commencing 1 May 2007.
* Base remuneration, exclusive of Statutory superannuation - $200,000
* Payment of termination benefit on early termination by the company, Nil.

Indemnification of Officers and Auditors

During the financial year, the Company paid a premium in respect of a contract of insurance insuring the directors and officers of the Company against certain liabilities specified in the contract. The contract prohibits disclosure of the nature of the liabilities insured and the amount of the premium.

The Company has not otherwise, during or since the financial year, indemnified or agreed to indemnify an officer or auditor of the Company against a liability incurred as such an officer or auditor.

Non-Audit Services

The directors are satisfied that the provision of non-audit services, during the year, by the auditor or a related practice of the auditor is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001.

The directors are also satisfied that the provision of non-audit services by the auditor, as set out in note 5 to the financial statements, did not compromise the auditor independence requirements of the Corporations Act 2001 for the following reasons:

- All non-audit services have been reviewed by the audit committee to ensure they do not impact the impartiality and objectivity of the auditor, and
- None of the services undermine the general principles relating to auditor's independence as set out in APES110: Code of Ethics for Professional Accountants.

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 is included in this Financial Report.

Details of amounts paid or payable to the auditor, Stantons International, for audit and non-audit services provided during the year are set out in note 5 to the financial statements.

Proceedings on Behalf of the Company

No person has applied for leave of Court to bring proceedings on behalf of the Company or intervene in any proceedings to which the Company is party for the purpose of taking responsibility on behalf of the Company for all or part of those proceedings.

The Company was not a party to any such proceedings during the year.

Signed in accordance with a resolution of the directors made pursuant to s.298(2) of the Corporations Act 2001.

On behalf of the Directors

Harold Joseph Paiker
Chairman

Perth, 28 September 2007

Directors' declaration

The directors declare that:

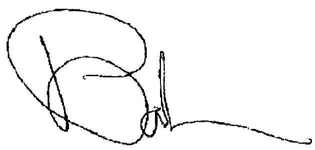
(a) in the directors' opinion, there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable;

(b) in the directors' opinion, the attached financial statements and notes thereto are in accordance with the Corporations Act 2001, including:
(i) compliance with Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements
(ii) giving a true and fair view of the financial position at 30 June 2007 and performance of the company for the financial year ended on that date; and

(c) the directors have been given the declarations required by s.295A of the Corporations Act for the financial year ending 30 June 2007.

Signed in accordance with a resolution of the directors made pursuant to s.295(5) of the Corporations Act 2001.

On behalf of the Directors



Harold Joseph Paiker
Chairman

Perth, 28 September 2007

Income statement for the year ended 30 June 2007

	Note	1 July 2006 to 30 June 2007 (12 months) $	31 August 2005 to 30 June 2006 $
Revenue	2	242,625	7,218
Borrowing costs	2	(4,266)	(1,304)
Consultancy expenses		(757,938)	(233,690)
Depreciation	2	(92,993)	(9,677)
Employment and contractor expenses		(694,384)	(22,920)
Exploration expenses		(1,129,681)	(206,682)
Occupancy expenses		(75,815)	(14,419)
Share based payments	24	(1,000,000)	(151,200)
Travel expenses		(48,226)	-
Administration expenses		(407,943)	-
Other operating expenses		(91,971)	(156,416)
Loss before income tax expense	2	(4,060,592)	(789,090)
Income tax expense	3	-	-
Loss attributable to members	15	(4,060,592)	(789,090)
Loss per share:			
Basic (cents per share)	16	(4.61)	(4.78)

Diluted earnings per share have not been included as it results in a more favourable earnings per share figure than basic earnings per share.

Notes to the financial statements are included on pages 14 to 31.

Balance sheet
as at 30 June 2007

	Note	2007 $	2006 $
Current assets			
Cash and cash equivalents	22	4,665,478	772,345
Trade and other receivables	6	160,826	54,840
Other assets	7	36,508	60,410
Total current assets		4,862,812	887,595
Non-current assets			
Other receivables	6	23,000	-
Property, plant and equipment	8	673,973	129,281
Exploration expenditure	9	735,000	-
Total non-current assets		1,431,973	129,281
Total assets		6,294,785	1,016,876
Current liabilities			
Trade and other payables	10	221,270	201,676
Interest-bearing borrowings	11	11,215	10,356
Provisions	12	10,925	-
Total current liabilities		243,410	212,032
Non-current liabilities			
Interest-bearing borrowings	11	37,108	47,165
Total non-current liabilities		37,108	47,165
Total liabilities		280,518	259,197
Net assets		6,014,267	757,679
Equity			
Issued capital	13	10,470,741	1,395,569
Reserves	14	393,208	151,200
Accumulated losses	15	(4,849,682)	(789,090)
Total equity		6,014,267	757,679

Notes to the financial statements are included on pages 14 to 31.

Statement of Changes in Equity for the year ended 30 June 2007

	Attributable to equity holders			
	Ordinary Shares $	Option Reserve $	Accumulated Losses $	Total Equity $
For the period ended 30 June 2006				
Balance at 31 August 2005 (incorporation)	-	-	-	-
Loss for the period	-	-	(789,090)	(789,090)
Total recognised income and expense for the year	-	-	(789,090)	(789,090)
Issue of shares	1,395,569	-	-	1,395,569
Issue of options	-	151,200	-	151,200
Balance at 30 June 2006	1,395,569	151,200	(789,090)	757,679
For the year ended 30 June 2007				
Balance at 1 July 2006	1,395,569	151,200	(789,090)	757,679
Loss for the year	-	-	(4,060,592)	(4,060,592)
Total recognised income and expense for the year	-	-	(4,060,592)	(4,060,592)
Shares issued during the year	9,519,655	-	-	9,519,655
Share issue costs	(444,483)	-	-	(444,483)
Options granted	-	242,008	-	242,008
Balance as at 30 June 2007	10,470,741	393,208	(4,849,682)	6,014,267

Notes to the financial statements are included on pages 14 to 31.

Cash flow statement
for the year ended 30 June 2007

	Note	2007 $	2006 $
Cash flows from operating activities			
Receipts from customers		-	-
Payments to suppliers and employees		(3,257,523)	(399,115)
Interest received		242,625	7,218
Interest and other costs of finance paid		(4,266)	(1,304)
Net cash flows used in operating activities	22(b)	(3,019,164)	(393,201)
Cash flows from investing activities			
Payment for acquisition of exploration interests		(210,000)	-
Payment for rental bond		(23,000)	-
Payment for property, plant and equipment		(637,685)	(83,518)
Net cash flows used in investing activities		(870,685)	(83,518)
Cash flows from financing activities			
Proceeds from issues of ordinary shares		7,919,655	1,311,955
Option issue proceeds		242,008	-
Share issue costs		(369,483)	-
Payment for prepaid share issue costs		-	(60,410)
Repayment of interest-bearing borrowings		(9,198)	(2,481)
Net cash flows from financing activities		7,782,982	1,249,064
Net increase in cash and cash equivalents		3,893,133	772,345
Cash and cash equivalents at the beginning of the financial year		772,345	-
Cash and cash equivalents at the end of the financial year	22(a)	4,665,478	772,345

Notes to the financial statements are included on pages 14 to 31.

1. Summary of accounting policies

Statement of compliance

The financial report is a general purpose financial report which has been prepared in accordance with the Corporations Act 2001, Accounting Standards and Urgent Issues Group Interpretations, and complies with other requirements of the law. Accounting Standards include Australian equivalents to International Financial Reporting Standards ('A-IFRS'). Compliance with the A-IFRS ensures that the financial statements comply with International Financial Reporting Standards ('IFRS').

The financial statements were authorised for issue by the directors on 28 September 2007.

Basis of preparation

The financial report has been prepared on the basis of historical cost. Cost is based on the fair values of the consideration given in exchange for assets.

In the application of A-IFRS management is required to make judgments, estimates and assumptions about carrying values of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstance, the results of which form the basis of making the judgments. Actual results may differ from these estimates

Accounting policies are selected and applied in a manner which ensures that the resulting financial information satisfies the concepts of relevance and reliability, thereby ensuring that the substance of the underlying transactions or other events is reported.

The following significant accounting policies have been adopted in the preparation and presentation of the financial report:

(a) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, cash in banks and investments in money market instruments, net of outstanding bank overdrafts.

(b) Employee benefits

Provision is made for benefits accruing to employees in respect of wages and salaries, annual leave, and sick leave when it is probable that settlement will be required and they are capable of being measured reliably.

Provisions made in respect of employee benefits expected to be settled within 12 months, are measured at their nominal values using the remuneration rate expected to apply at the time of settlement.

Provisions made in respect of employee benefits which are not expected to be settled within 12 months are measured as the present value of the estimated future cash outflows to be made by the entity in respect of services provided by employees up to reporting date.

1. Summary of accounting policies (cont'd)

(c) Financial assets

Investments are recognised and derecognised on trade date where purchase or sale of an investment is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned, and are initially measured at fair value, net of transaction costs.

Subsequent to initial recognition, investments in subsidiaries are measured at cost.

Other financial assets are classified into the following specified categories: financial assets 'at fair value through profit or loss', 'available-for-sale' financial assets, and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Available-for-sale financial assets
Shares and options held by the company are classified as being available-for-sale and are stated at fair value less impairment. Gains and losses arising from changes in fair value are recognised directly in the available-for-sale revaluation reserve, until the investment is disposed of or is determined to be impaired, at which time the cumulative gain or loss previously recognised in the available-for-sale revaluation reserve is included in profit or loss for the period.

Financial assets at fair value through profit or loss
The Company classifies certain shares as financial assets at fair value through profit or loss. Financial assets held for trading purposes are classified as current assets and are stated at fair value, with any resultant gain or loss recognised in profit or loss.

Loans and receivables
Trade receivables, loans, and other receivables are recorded at amortised cost less impairment.

(d) Financial instruments issued by the company

Debt and equity instruments
Debt and equity instruments are classified as either liabilities or as equity in accordance with the substance of the contractual arrangement.

Transaction costs on the issue of equity instruments
Transaction costs arising on the issue of equity instruments are recognised directly in equity as a reduction of the proceeds of the equity instruments to which the costs relate. Transaction costs are the costs that are incurred directly in connection with the issue of those equity instruments and which would not have been incurred had those instruments not been issued.

(e) Goods and services tax

Revenues, expenses and assets are recognised net of the amount of goods and services tax (GST), except:

i. where the amount of GST incurred is not recoverable from the taxation authority, it is recognised as part of the cost of acquisition of an asset or as part of an item of expense; or

ii. for receivables and payables which are recognised inclusive of GST;

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables.

Cash flows are included in the cash flow statement on a gross basis. The GST component of cash flows arising from investing and financing activities which is recoverable from, or payable to, the taxation authority is classified as operating cash flows.

1. Summary of accounting policies (cont'd)

(f) Impairment of assets

At each reporting date, the consolidated entity reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the consolidated entity estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment annually and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised in the profit or loss immediately, unless the relevant asset is carried at fair value, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but only to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised in profit or loss immediately, unless the relevant asset is carried at fair value, in which case the reversal of the impairment loss is treated as a revaluation increase.

(g) Income tax

<u>Current tax</u>
Current tax is calculated by reference to the amount of income tax payable or recoverable in respect of the taxable profit or tax loss for the period. It is calculated using tax rates and tax laws that have been enacted or substantively enacted by reporting date. Current tax for current and prior periods is recognised as a liability (or asset) to the extent that it is unpaid (or refundable).

<u>Deferred tax</u>
Deferred tax is accounted for using the comprehensive balance sheet liability method in respect of temporary differences arising from differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax base of those items.

In principle, deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised to the extent that it is probable that sufficient taxable amounts will be available against which deductible temporary differences or unused tax losses and tax offsets can be utilised. However, deferred tax assets and liabilities are not recognised if the temporary differences giving rise to them arise from the initial recognition of assets and liabilities (other than as a result of a business combination) which affects neither taxable income nor accounting profit. Furthermore, a deferred tax liability is not recognised in relation to taxable temporary differences arising from goodwill.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, branches, associates and joint ventures except where the entity is able to control the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with these investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

1. Summary of accounting policies (cont'd)

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period(s) when the asset and liability giving rise to them are realised or settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by reporting date. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the entity expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the entity intends to settle its current tax assets and liabilities on a net basis.

Current and deferred tax for the period
Current and deferred tax is recognised as an expense or income in the income statement, except when it relates to items credited or debited directly to equity, in which case the deferred tax is also recognised directly in equity, or where it arises from the initial accounting for a business combination, in which case it is taken into account in the determination of goodwill or excess.

(h) Intangible assets

Exploration and Evaluation Expenditure
Exploration and evaluation costs are expensed as incurred. Acquisition costs are accumulated in respect of each separate area of interest. Acquisition costs are carried forward where right of tenure of the area of interest is current and they are expected to be recouped through sale or successful development and exploitation of the area of interest or, where exploration and evaluation activities in the area of interest have not yet reached a stage that permits reasonable assessment of the existence of economically recoverable reserves. When an area of interest is abandoned or the Directors decide that it is not commercial, any accumulated acquisition costs in respect of that area are written off in the financial period the decision is made. Each area of interest is also reviewed at the end of each accounting period and accumulated acquisition costs written off to the extent that they will not be recoverable in the future. Amortisation is not charged on acquisition costs carried forward in respect of areas of interest in the development phase until production commences.

(i) Operating cycle

The operating cycle of the entity coincides with the annual reporting cycle.

(j) Payables

Trade payables and other accounts payable are recognised when the entity becomes obliged to make future payments resulting from the purchase of goods and services.

(k) Presentation currency

The entity operates entirely within Australia and the presentation currency is Australian dollars.

(l) Plant and equipment

Each class of property, plant and equipment is carried at cost or fair value less, where applicable, any accumulated depreciation. The carrying amount of plant and equipment is reviewed annually by directors to ensure it is not in excess of the recoverable amount from these assets.

Depreciation
The depreciable amount of all fixed assets is depreciated on a diminishing value basis over their useful lives to the Company commencing from the time the asset is held ready for use. The depreciation rates used for each class of depreciable assets are:

Plant, furniture and equipment	15% to 37.5%%
Motor vehicle	18.75%
Leasehold improvements	33.33%

1. Summary of accounting policies (cont'd)

(m) Provisions

Provisions are recognised when the consolidated entity has a present obligation, the future sacrifice of economic benefits is probable, and the amount of the provision can be measured reliably.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at reporting date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cashflows estimated to settle the present obligation, its carrying amount is the present value of those cashflows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognised as an asset if it is virtually certain that recovery will be received and the amount of the receivable can be measured reliably.

(n) Revenue recognition

Interest revenue
Interest revenue is recognised on a time proportionate basis that takes into account the effective yield on the financial asset.

(o) Equity based compensation

The Company expenses equity based compensation such as share and option issues after ascribing a fair value to the shares and/or options issued. If options vest at date of grant, the expense is taken up at date of grant and a corresponding Option Reserve is credited.

(p) Issued Capital

Issued capital is recognised at the fair value of the consideration received by the Company. Any transaction costs on the issue of shares are recognised directly in equity as a reduction of the share proceeds received.

(q) Leases

Leases of fixed assets where substantially all the risks and benefits incidental to the ownership of the asset, but not the legal ownership that it transferred to the company, are classified as finance leases.

Finance leases are capitalised by recording an asset and a liability at the lower of the amounts equal to the fair value of the leased property or the present value of the minimum lease payments, including any guaranteed residual values. Lease payments are allocated between the reduction of the lease liability and the lease interest expense for the period.

Leased assets are depreciated on a straight-line basis over the shorter of their estimated useful lives or the lease term.

Lease payments for operating leases, where substantially all the risks and benefits remain with the lessor, are charged as expenses in the periods in which they are incurred.

Lease incentives under operating leases are recognised as a liability and amortised on a straight-line basis over the life of the lease term.

(r) Earnings per share

Basic earnings per share is calculated as a net profit attributable to members, adjusted to exclude any costs of servicing equity (other than dividends) and preference share dividends, divided by the weighted average number of ordinary shares, adjusted for any bonus element.

1. Summary of accounting policies (cont'd)

Diluted earnings per share is calculated as net profit attributable to members, adjusted for:

- costs of servicing equity (other than dividends) and preference share dividends;
- the after tax effect of dividends and interest associated with dilutive potential ordinary shares that have been recognised as expenses; and
- other non-discretionary changes in revenues or expenses during the period that would result from the dilution of potential ordinary shares; divided by the weighted average number of ordinary shares and dilutive potential ordinary shares, adjusted for any bonus element.

(s) New accounting standards and interpretations

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2007 reporting periods. The Company's assessment of the impact of these new standards and interpretations is set out below.

(i) AASB 7 Financial Instruments: Disclosures and AASN 2005-10 Amendments to Australian Accounting Standards[AASB 132, AASB 101, AASB 114, AASB 117, AASB 133, AASB 139, AASB 1, AASB 4, AASB 1023 & AASB 1038]
AASB 7 and AASB 2005-10 are applicable to annual reporting periods beginning on or after 1 January 2007. The Company has not adopted the standards early. Application of the standards will not affect any of the amounts recognised in the financial statements, but will impact the type of information disclosed in relation to the Company's financial instruments.

(ii) AASB-I 10 Interim Financial Reporting and Impairment
AASB-I 10 is applicable to reporting periods commencing on or after 1 November 2006. The Company has not recognised an impairment loss in relation to goodwill, investments in equity instruments or financial assets carried at cost in an interim reporting period but subsequently reversed the impairment loss in the annual report. Application of the interpretation will therefore have no impact on the Company's financial statements.

(t) Critical accounting judgements, estimates and assumptions

The preparation of financial statements in conformity with AIFRS required the use of certain critical estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are:

Share based payment transactions
The Company measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined by an internal valuation using a Black-Scholes option pricing model.

Exploration and evaluation costs
Exploration and evaluation costs are written off in the year they are incurred apart from acquisition costs which are carried forward where right of tenure of the area of interest is current.
These costs are carried forward in respect of an area that has not at balance sheet date reached a stage that permits reasonable assessment of the existence of economically recoverable reserves.

(u) Comparative figures

The Company was incorporated on 31 August 2005. The comparative results therefore represent the period 31 August 2005 to 30 June 2006.

	2007 $	2006 $
2. Loss before income tax		
Revenue		
Interest revenue	242,625	7,218
Expenses		
The loss before income tax has been arrived at after charging the following expenses:		
Finance costs:		
Other interest expense	4,266	1,304
Depreciation of plant & equipment	92,993	9,677
Operating lease rental expenses:		
Minimum lease payments	75,815	14,419

3. Income taxes

(a) **Income tax recognised in profit or loss**		
Tax expense/(income) comprises:		
Current tax expense/(income)	-	-
Deferred tax expense/(income) relating to the origination and reversal of temporary differences	-	-
Total tax expense/(income)	-	-
(b) The prima facie income tax expense on pre-tax accounting loss from operations reconciles to the income tax expense in the financial statements as follows:		
Loss from operations	(4,060,592)	(789,090)
Income tax benefit calculated at 30%	(1,218,178)	(236,727)
Capital raising costs	-	(3,625)
Non-deductible expenses	134,149	49,110
	(1,084,029)	(191,242)
Movements in unrecognised temporary differences	(214,005)	-
Unused tax loss not recognised as a deferred tax asset	1,298,034	191,242
Income tax attributable to operating loss	-	-

The tax rate used in the above reconciliation is the corporate tax rate of 30% payable by Australian corporate entities on taxable profits under Australian tax law.

3. Income taxes (cont'd)

	2007 $	2006 $
(c) **Unrecognised deferred tax balances**		
The following deferred tax assets (at 30%) have not been brought to account :		
Unrecognised deferred tax asset - tax losses	1,489,276	191,242
Unrecognised deferred tax asset - Sec 40-880	106,676	14,498
Unrecognised deferred tax asset - other temporary differences	33,164	-
Unrecognised deferred tax liability – Capitalised exploration expenses claimed for tax purposes	(220,500)	-
Net deferred tax assets	1,408,616	205,740

The net deferred tax assets not brought into account will only be of a benefit to the Company if future assessable income is derived of a nature and amount sufficient to enable the benefits to be realised, the conditions for deductibility imposed by the tax legislation continue to be complied with and the Company are able to meet the continuity of ownership and/or continuity of business tests.

4. Segment Information

The company operates within one industry and one geographical location, namely the mining industry within Western Australia. As detailed in Note 21, the Company has acquired an interest in an oil and gas project based in Victoria. There are no assets or liabilities attributable to this geographical area at balance date.

5. Remuneration of auditors

	2007 $	2006 $
Audit or review of the financial report	39,195	10,000
	39,195	10,000

The auditor of Fairstar Resources Ltd is Stantons International.

6. Current trade and other receivables

	2007 $	2006 $
Current		
Other debtors	20,787	3,489
Goods and services tax (GST) recoverable	140,039	51,351
	160,826	54,840
Non-Current		
Rental bond	23,000	-

7. Other current assets

	2007 $	2006 $
Prepayments	36,508	60,410
	36,508	60,410

8. Property, plant and equipment

	Leasehold Improvements $	Motor Vehicles $	Plant and Equipment	Total $
Year ended 30 June 2007				
Opening net book value	8,397	90,184	30,700	129,281
Additions	170,391	302,531	164,763	637,685
Depreciation charge for the year	(19,781)	(55,426)	(17,786)	(92,993)
Closing net book value	159,007	337,289	177,677	673,973
At 30 June 2007				
Cost or fair value	179,439	398,887	198,315	776,641
Accumulated depreciation	(20,432)	(61,598)	(20,638)	(102,668)
Net book value	159,007	337,289	177,677	673,973
Period ended 30 June 2006				
Opening net book value	-	-	-	-
Additions	9,050	96,356	33,552	138,958
Depreciation charge for the year	(653)	(6,172)	(2,852)	(9,677)
Closing net book value	8,397	90,184	30,700	129,281
At 30 June 2006				
Cost or fair value	9,050	96,356	33,552	138,958
Accumulated depreciation	(653)	(6,172)	(2,852)	(9,677)
Net book value	8,397	90,184	30,700	129,281

	2007 $	2006 $
9. Exploration Expenditure		
Balance at beginning of the financial year	-	-
Acquisition of interests during the financial year	735,000	-
Closing balance	735,000	-

The ultimate recoupment of tenement acquisition costs carried forward for exploration and evaluation phases is dependent on the successful development and commercial exploration or sale of the respective mining areas.

10. Current trade and other payables

	2007 $	2006 $
Trade payables (i)	221,270	201,676
	221,270	201,676

(i) Trade payables are non-interest bearing and are normally settled on 30-60 day terms

11. Interest-bearing borrowings

	2007 $	2006 $
Current		
Hire purchase contract (refer note 17(b))	11,215	10,356
	11,215	10,356
Non -current		
Hire purchase contract (Refer note17(b))	37,108	47,165

12. Provisions

	2007 $	2006 $
Employee entitlements	10,925	-

13. Issued capital

	2007 $	2006 $
97,758,622 (2006 - 62,480,002) fully paid ordinary shares	10,470,741	1,395,569
	10,470,741	1,395,569

(a) **Movements in issued capital:**

	Issue price $	No of shares	$
Period ended 30 June 2006			
Balance at beginning of financial period		-	-
31 August 2005 (Incorporation date)	2.00	2	2
11 April 2006 – share issues	0.0001	35,670,000	3567
11 April 2006 – share issues	0.08	6,700,000	536,000
11 April 2006 – share issues	0.01	4,200,000	42,000
11 April 2006 – share issues	0.10	2,960,000	296,000
11 April 2006 – share issues	0.04	12,950,000	518,000
Balance as at 30 June 2006		62,480,002	1,395,569

Year ended 30 June 2007	Issue price $	No of shares	$
Balance as at 1 July 2006		62,480,002	1,395,569
Oct 06 - Shares issued pursuant to prospectus	$0.25	30,000,000	7,500,000
Nov 06 - Shares issued at $0.25	$0.25	723,000	180,750
Oct 06 - Shares issued in consideration for acquisition of mining interests	$0.25	1,000,000	250,000
Oct 06 - Shares issued in consideration for acquisition of mining interests	$0.25	1,100,000	275,000
Dec 06 - Shares issued to Director	$1.00	1,000,000	1,000,000
Oct 06 - Shares issued in part payment of share issue costs	$0.15	500,000	75,000
April – June 07 Exercise of options at $0.25 each	$0.25	955,620	238,905
Share issue costs		-	(444,483)
Balance as at 30 June 2007		97,758,622	10,470,741

(b) Fully paid ordinary shares carry one vote per share and carry the right to dividends.

(c) Movements in Options on Issue	2007 Number	2006 Number
Opening balance	4,200,000	-
Options issued to Directors	-	4,200,000
Options issued at $0.005 pursuant to rights issue	48,401,560	-
Exercise of options	(955,620)	-
Closing Balance	51,645,940	4,200,000

14. Reserves

	2007 $	2006 $
Option reserve	393,208	151,200
	393,208	151,200

Option reserve		
Balance at beginning of financial year	151,200	-
Issue of 48,401,560 options at $0.005 each	242,008	-
Share based payments to directors – 1 May 2006	-	151,200
Balance at end of financial year	393,208	151,200

This option issue reserve is used to recognise both the fair value or issue price of options issued.

15. Accumulated losses

	2007 $	2006 $
Balance at beginning of financial year	(789,090)	-
Loss attributable to members	(4,060,592)	(789,090)
Balance at end of financial year	(4,849,682)	(789,090)

16. Loss per share

	2007 Cents Per share	2006 Cents per share
Basic loss per share:	(4.61)	(4.78)

The loss for the period and the weighted average number of ordinary shares used in the calculation of basic loss per share are as follows:

	2007 $	2006 $
Loss for the period after income tax	(4,060,592)	(789,090)
	2007 No.	**2006 No.**
Weighted average number of ordinary shares for the purposes of basic earnings per share	88,012,905	16,496,372

17. Commitments for expenditure

	2007 $	2006 $
(a) Operating lease commitments		
Not longer than 1 year	69,000	31,344
Longer than 1 year and not longer than 5 years	253,000	19,042
	322,000	50,386
(b) Hire purchase contracts		
Not longer than 1 year	14,622	14,622
Longer than 1 year and not longer than 5 years	40,211	47,165
	54,833	61,787

17. Commitments for expenditure (cont'd)

	2007 $	2006 $
(c) Exploration commitments		
The company has certain commitments to meet minimum expenditure requirements on the mineral exploration assets it has an interest in. Outstanding exploration commitments are as follows:		
Not later than 1 year	692,978	-
Later than 1 year and not later than 2 years	1,491,647	-
Later than 2 years and not later than 5 years	3,614,984	-
	5,799,609	-

(d) 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 28/465.
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.

(e) Option agreements

(i) The company has entered into option agreements to acquire tenements from A. Rudd & P. Gianni, of which option fees totalling $300,000 have been paid and these amounts are capitalised as Exploration Expenditure.

The total capital commitment required to acquire the tenements subject to these options is estimated at $1,750.

(ii) 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 $100,000 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.

(f) Expenditure Commitment – Option Agreement

The agreement relating to Spinifex Well is subject to the Company paying other parties under an agreement between such parties and the option vendors whereby the option vendors have an option to acquire the tenement. The cost to maintain such options is $10,000 per tenement on the first, second and third anniversaries of the grant of the tenements and a final payment of $210,000 for each tenement upon the fourth anniversary of the grant of the tenements. The first anniversary was in September 2006.

18. Contingent liabilities and contingent assets

The company had no contingent assets at the date of signing the financial report. The following contingent liabilities existed at the date of signing the financial report:

(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.

19. Related party disclosures

(a) Directors remuneration

Details of key management personnel remuneration are disclosed in note 20 to the financial statements.

(b) Other transactions with director related entities

Transactions with director related entities are on commercial terms no more favourable than those available to other persons unless otherwise stated.

	2007 $	2006 $
(i) Consulting fees paid to Byko Investments Pty Ltd, a related company of Kevin Robertson *	38,413	32,727
(ii) Accounting, administration & labour hire fees paid to Allens Business Group Pty Ltd, a related company of Kenneth Allen	60,829	28,669
(iii) Exploration services paid to Denarda Holdings Pty Ltd, a related company of Malcolm Doutch	-	34,727
(iv) Acquisition of motor vehicle from Byko Investments Pty Ltd at market value	95,282	-
(v) Exploration consulting services paid to A. Rudd *	27,522	-
(vi) Legal fees paid to Paiker & Overmeire, a firm of which Harold Paiker is a principal	8,629	-
(vii) Payments to Byko Investments Pty Ltd for lease of motor vehicle *	16,500	-
(viii) In October 2006, 500,000 ordinary shares at $0.25 each were issued to A. Rudd to acquire an option to purchase Exploration and Prospecting Licenses. Upon exercise of the option, the Company is to pay A. Rudd the consideration of $1,000.	125,000	-

* These amounts are included in Key Management Personnel remuneration totals in Note 20, and in the remuneration report in the Director's Report

(c) Directors loans

	2007 $	2006 $
Aggregate amount payable to directors and their director related entities at balance date		
Current liabilities		
Trade payables	1,606	-

20. Key Management Personnel Disclosures

(a) Details of Key Management Personnel
(i) Directors
The names of the directors in office at any time during or since the end of the year are:

Name of Director		
HJ Paiker	Chairman	
KM Allen	Non-Executive Director	
K Robertson	Managing Director	
NH Maund	Executive Director	(Resigned 07/03/2007)
AP Rudd	Non-Executive Director	
S Nigam	Non-Executive Director	(Appointed 05/02/2007, Resigned 21/03/2007)

(ii) Executives
Mahendra Pal, Exploration Manager (Appointed 01/05/2007)

(b) Key Management Personnel Disclosures

	2007	2006
	$	$
Short term employee benefits	446,879	109,160
Share based payments	1,000,000	216,200
Post employment benefits	83,127	12,501
	1,530,006	337,861

The company has taken advantage of the relief provided by Corporations Regulation 2M 6.04 and has transferred the detailed remuneration disclosures to the directors' report. The relevant information can be found in the remuneration report.

(c) Option holdings of Key Management Personnel

2007	Opening balance No.	Granted as remuneration No.	Sales No.	Options issued at $0.005	Balance @ 30/06/07 No.	Bal vested @ 30/06/07 No.	Vested and exercisable No.	Options vested during year No.
Directors								
H Paiker	600,000	-	-	250,000	850,000	850,000	850,000	-
KJ Robertson	600,000	-	(150,000)	2,290,000	2,740,000	2,740,000	2,740,000	-
KM Allen	600,000	-	-	250,000	850,000	850,000	850,000	-
NH Maund	600,000	-	-	718,750	1,318,750*	1,318,750	1,318,750	-
AP Rudd	600,000	-	-	1,562,500	2,162,500	2,162,500	2,162,500	-
	3,000,000	-	(150,000)	5,071,250	7,921,250	7,921,250	7,921,250	-

During the financial year, no options were exercised by specified directors for ordinary shares in Fairstar Resources Ltd.

M.Pal does not hold and has not held shares or options in the Company

* Represents balance held at date of resignation

2006	Opening balance	Granted as remu-neration	Exer-cised	Balance @ 30/06/06	Bal vested @ 30/06/06	Vested and exerci-sable	Options vested during year
	No.	No.	No.	No.	No.	No.	No.
Directors							
H Paiker	-	600,000	-	600,000	600,000	600,000	600,000
KJ Robertson	-	600,000	-	600,000	600,000	600,000	600,000
KM Allen	-	600,000	-	600,000	600,000	600,000	600,000
NH Maund	-	600,000	-	600,000	600,000	600,000	600,000
AP Rudd	-	600,000	-	600,000	600,000	600,000	600,000
	-	3,000,000	-	3,000,000	3,000,000	3,000,000	3,000,000

(d) Shareholdings of Key Management Personnel

2007	Opening Balance	Granted for services rendered	Balance held at appointment	Share issues to directors	Share Sales	Balance@ 30/6/07
	No.	No.	No.	No.		No.
Directors						
HJ Paiker	500,000	-	-	-	-	500,000
KM Allen	500,000	-	-	-	-	500,000
NH Maund	812,500	-	-	625,000	-	1,437,500 *
AP Rudd	2,000,000	-	-	1,125,000	-	3,125,000
K Robertson	2,000,000	1,000,000	-	125,000	(741,000)	2,384,000
S Nigam	-	-	1,266,000	-	-	1,266,000 *
	5,812,500	1,000,000	1,266,000	1,875,000	(741,000)	9,212,500

* Represents balance held at date of resignation

2006	Opening Balance		Granted for services rendered	Received on exercise of options	Share issues to directors	Balance@ 30/6/06
	No.		No.	No.	No.	No.
Directors						
HJ Paiker	-		-	-	500,000	500,000
NH Maund	-		312,500	-	500,000	812,500
AP Rudd	-		-	-	2,000,000	2,000,000
K Robertson	-		500,000	-	1,500,000	2,000,000
KM Allen	-		-	-	500,000	500,000
	-		812,500	-	5,000,000	5,812,500

(e) Other transactions with Key Management Personnel
Other transactions with Key Management Personnel are included in Note 19.

21. Subsequent events

(a) In July 2007 the Company entered into a Farm-in Agreement with Knight Industries Pty Ltd to acquire Oil interests situated in Victoria, Australia. Under the Agreement, Fairstar will earn a 60% interest in the project by investing $100,000 upfront with a further $1,000,000 required after drilling approval, and a further $1,500,000 required subject to drilling results. 4,000,000 shares were issued to consultants in July 2007 in relation to this acquisition.

(b) Subsequent to balance date 1,643,291 options were exercised and converted to ordinary shares at an exercise price of $0.25 each, raising $410,823.

(c) On 4 September 2007 the Company announced a proposed offmarket bid for all shares in Golden West Resources Limited. Shareholders in Golden West will be offered 5 fully paid shares in Fairstar for every share in Golden West. As at the date of this report the bidders statement was being prepared. The proposed offer will be subject to a number of conditions.

22. Notes to the cash flow statement

	2007 $	2006 $
(a) Reconciliation of cash and cash equivalents		
Cash and cash equivalents at the end of the financial year as shown in the cash flow statement is reconciled to the related items in the balance sheet as follows:		
Cash and cash at bank	4,665,478	772,345
	4,665,478	772,345
(b) Reconciliation of loss for the year to net cash flows from operating activities		
Loss for the year	(4,060,592)	(789,090)
Depreciation	92,993	9,677
Share-based payment	1,000,000	151,200
Shares issued – non cash	-	83,614
Changes in assets and liabilities:		
Trade and other receivables	(105,986)	(50,278)
Prepayments	23,902	-
Trade and other payables	19,594	201,676
Provisions	10,925	-
Net cash used in operating activities	(3,019,164)	(393,201)

	2007 $	2006 $
(c) Non-cash financing and investing activities		
(i) Shares issued to director 1,000,000 shares valued at $1,000,000 were issued to K. Robertson for services rendered. See note 24 (b)	1,000,000	-
(ii) Share issue costs were satisfied by the issue of 500,000 shares at $0.15 each.	75,000	-
(iii) Consideration for the acquisition of mining interests were satisfied by the issue of 2,100,000 shares at $0.25 each.	525,000	-

23. Financial instruments

(a) Significant accounting policies

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset, financial liability and equity instrument are disclosed in note 1 to the financial statements.

(b) Foreign currency risk management

The entity does not transact in foreign currencies, hence no exposure to exchange rate fluctuations arise.

(c) Interest rate risk management

Maturity profile of financial instruments

The following table details the entity's exposure to interest rate risk as at 30 June 2007:

2007	Weighted average effective interest rate %	Variable interest rate %	Fixed maturity dates Less than 1 year $	1-5 years $	5+ years $	Non interest bearing $	Total $
Financial assets:							
Cash and cash equivalents	4.5%	-	4,665,478	-	-	-	4,665,478
Trade and other receivables		-	-	-	-	160,826	160,826
		-	4,665,478			160,826	4,826,304
Financial liabilities:							
Trade and other payables		-	-	-	-	221,270	221,270
Interest-bearing borrowings	8.5%	-	-	-	-	48,323	48,323
		-	-	-	-	269,593	269,593

2006	Weighted average effective interest rate %	Variable interest rate %	Fixed maturity dates Less than 1 year $	1.5 years $	5+ years $	Non interest bearing $	Total $
Financial assets:							
Cash and cash equivalents	3.5%	-	772,345	-	-	-	772,345
Trade and other receivables		-	-	-	-	54,840	54,840
		-	772,345	-	-	54,840	827,185
Financial liabilities:							
Trade and other payables		-	-	-	-	201,676	201,676
Interest-bearing borrowings	8.5%	-	-	-	-	57,521	57,521
		-	-	-	-	259,197	259,197

(d) Credit risk management

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the entity. The entity has adopted a policy of only dealing with creditworthy counterparties and obtaining sufficient collateral where appropriate, as a means of mitigating the risk of financial loss from defaults. The entity exposure and the credit ratings of its counterparties are continuously monitored. The entity measures credit risk on a fair value basis. At the date of signing the financial report, the company did not have and material credit risk exposure.

(e) Liquidity risk management

The entity manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

24. Share based payments

(a) Directors Options

The Company provides benefits to employees (including directors) of the Company in the form of share-based payment transactions, whereby options to acquire ordinary shares are issued as an incentive to improve Director and shareholder goal congruence. Options were issued to Directors in May 2006, and have an exercise price of 25 cents. The options granted have an exercise date of prior to 30 August 2009.

Options granted carry no dividend or voting rights. When exercisable, each option is convertible into one ordinary share of the Company with full dividend and voting rights.

Set out below are summaries of the options granted:

	2007		2006	
	Number of options	**Weighted average exercise price cents**	**Number of options**	**Weighted average exercise price cents**
Outstanding at the beginning of the year	4,200,000	25.0	-	-
Granted	-	-	4,200,000	25.0
Forfeited	-	-	-	-
Exercised	-	-	-	-
Expired	-	-	-	-
Outstanding at year-end	4,200,000	25.0	4,200,000	25.0
Exercisable at year-end	4,200,000	25.0	4,200,000	25.0

The weighted average remaining contractual life of share options outstanding at the end of the financial year was 2.17 years (2006 – 3.17 years)

(b) Share Issue to Key Management Personnel

In the year ended 30 June 2006 share based remuneration of $40,000 was paid to K Robertson and $25,000 to N Maund for services rendered to the company. The bonus was satisfied by the issue of shares in the company at an issue price of 8 cents each, being the considered market value of shares at the issue date.

In November 2006 K. Robertson received 1,000,000 shares under the terms of his contract when the price of shares of the company on ASX reached $1.00. The company must issue a further 1,000,000 shares should the company's share price reach $2.00 during the term of his contract.

(c) Option Issue to Consultants

In the year ended 30 June 2007, 500,000 shares at a market value of $0.15 were issued to consultants to satisfy share issue costs.

(d) Expenses arising from share-based payment transactions

Total expenses arising from share-based payment transactions recognised during the period were as follows:

	2007	**2006**
	$	**$**
Options issued to Directors	-	151,200
Shares issued to K Robertson	1,000,000	40,000
Shares issued to N Maund	-	25,000
	1,000,000	216,200

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28 September 2007

Board of Directors
Fairstar Resources Limited
136 Main Street
OSBORNE PARK WA 6917

Dear Directors

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 audit of the financial statements of Fairstar Resources Limited for the year ended 30 June 2007, 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 audit; and

(ii) any applicable code of professional conduct in relation to the audit.

Yours sincerely
STANTONS INTERNATIONAL
(Authorised Audit Company)

J P Van Dieren
Director

Stantons International

ABN 41 103 088 697

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INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF FAIRSTAR RESOURCES LTD

Report on the Financial Report

We have audited the accompanying financial report of Fairstar Resources Ltd, which comprises the balance sheet as at 30 June 2007, 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.

As permitted by the Corporations Regulations 2001, the Company has disclosed the information about the remuneration of directors and executives ("remuneration disclosures"), required by Australian Accounting Standard AASB 124 Related Party Disclosures, under the heading "Remuneration report" page 6 of, the Directors' report and not the financial report. We have audited these remuneration disclosures.

Directors' Responsibility for the Financial Report and the AASB 124 remuneration disclosures contained in the Directors' 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 designing, implementing and maintaining internal control 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. In note 1, the directors also state, in accordance with Australian Accounting Standard AASB 101 Presentation of Financial Statements, that the financial report of the Company, comprising the financial statements and notes, complies with International Financial Reporting Standards.

The directors of the Company are also responsible for the remuneration disclosures contained in the Directors' report.

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. Our responsibility is also to express an opinion that the remuneration disclosures contained in the Directors' report comply with Australian Accounting Standard AASB 124.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report and the remuneration disclosures contained in the Directors' report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report and the remuneration disclosures contained in the Directors' 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 and the remuneration disclosures contained in the Directors' 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 and the remuneration disclosures contained in the Directors' report.

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

Independence

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

Auditor's Opinion

1. In our opinion:

(a) the financial report of Fairstar Resources Ltd is in accordance with the *Corporations Act 2001*, including:

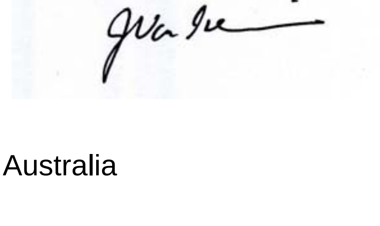
  (i) giving a true and fair view of the company's financial position as at 30 June 2007 and of its performance for the year ended on that date; and

  (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001.

(b) the financial report of the Company also complies with International Financial Reporting Standards as disclosed in note 1.

(c) the remuneration disclosures required by paragraphs Aus 25.4 to Aus 25.7.2 of Australian Accounting Standard AASB 124 Related Party Disclosures that are contained in the Remuneration report in the Directors' report comply with Australian Accounting Standard AASB 124 Related Party Disclosures.

STANTONS INTERNATIONAL
(An Authorised Audit Company)



J P Van Dieren
Director

West Perth, Western Australia
28 September 2007