

Fairstar Resources Limited

ABN: 38 115 157 689

Interim Financial report for the half-year ended
31 December 2009

www.fairstarresources.com

Interim Financial report for the half-year ended 31 December 2009

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Company Directory

DIRECTORS

Kenneth M Allen
(Non-Executive Director, Chairman)

Kevin J Robertson
(Managing Director - Executive)

Harold J Paiker
(Non-Executive Director)

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
West Perth WA 6005

SHARE REGISTRY

Advanced Share Registry Services
150 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 2009. 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

Kenneth M Allen

Vaz Hovanessian Resigned 18 January 2010

Mahendra Pal Resigned 23 October 2009

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 \$964,346 (December 2008 -- Loss of \$3,714,984). This result was arrived at after crediting an amount of \$2,215,207 being a part settlement amount arising from the collapse of Opes Prime Group Ltd.

Review of operations

During the half year Fairstar made progress on a number of matters. Key developments were as follows:-

(a) Tenement Acquisition – Steeple Hill Iron Project (formerly Mahendra's Find) (E28/1672)

In October 2009 Fairstar concluded a new option agreement with Mr Alan Rudd (the beneficial owner of the remaining 50% of E28/1672) to acquire this remaining 50% interest in E28/1672 and to purchase a 100% interest in EL 25/393, another prospective tenement.

Consideration for the grant of the option was the transfer of 1,000,000 shares in Golden West Resources Ltd held by Fairstar, and the issue of 21,000,000 fully paid ordinary shares in Fairstar Resources Ltd to Mr Rudd.

Fairstar subsequently exercised the option to acquire the interest in the tenements for \$1.00. Details of royalty obligations under this agreement are contained in Note 9 to the financial report.

(b) Exploration Activity

Airborne magnetic-radiometric survey of Company's project areas which commenced on 6th June was completed on 15th July 2009 and the results of the investigation were released to the market in October.

Steeple Hill Iron Project (formerly Mahendra's Find)

Geological mapping of Steeple Hill Iron Project completed and the compilation and translation of data has been integrated into the company's database.

During this period a RC drilling program of 21 holes for 1314m into goethite outcrops and silicate magnetite BIF was concluded which returned goethite intercepts up to 18m thick. The company submitted 419 RC samples for analysis. As of current date the full results are awaited. From drill site observations magnetite BIF intercepts up to 70m down-hole in six holes, were recorded, with most holes ending in magnetite mineralisation.

While the results of the drilling were being awaited, the company embarked on a pitting program. The recorded observations showed extensive detrital hematite deposits adjacent to goethite hematite outcrops pitted over nine kilometres and layers of loose iron gravel deposits. Pits, upto 3.50 metres were dug at 1 km intervals along the width of 600-800 m of the target area. Sieving and washing of initial detrital samples has been undertaken, and hematite with minor quartz gravel observed. Analysis results are awaited.

Planning and budgeting of exploration to June 2010 has been completed, to expedite exploration and development of the project as released to the market on 4th January 2010.

In October the Company announced a new iron discovery at its 100% owned Jurangie Hill tenement (E28/1687), located 14 km north of the Steeple Hill Iron Project. The Company believes the discovery has potential similar to Steeple Hill Iron Project. The host BIF is highly folded, weathered, and confined to a major syncline (Steeple Hill Syncline). This is the same structure of the Steeple Hill Iron Project

Other Projects

Planning for a geochemistry sampling (MMI) program at the Mt Padbury Uranium Project to test for uranium, gold and base metals has been undertaken.

Geophysical interpretation was also carried out at the Duchess of York Gold Project and drill and sample targets have been identified

(c) Issue of Options

(i) During the half year 166,805,854 options were issued at 0.1 cents each, exercisable on or before 30 August 2011 at 10 cents per share pursuant to a prospectus dated 14 October 2009. An amount of approximately \$166,000 was raised as a result of the issue.

(ii) 1,000,000 employee options were issued in November 2009, as approved at the Company's Annual General Meeting in 2008.

(iii) Options were issued to Fortrend Securities Pty Ltd as part fee for the issue of shares – (see Note (e) (iii) below).

(d) Shares in Golden West Resources Ltd

As at the date of this report, Fairstar owns 16.3% of the issued capital of Golden West Resources Ltd (GWR) which, based on current ASX prices, is valued at approximately \$20.0 million at 12 March 2010 (\$15.5 million at 31 December 2009). During the half year the value of GWR shares increased by approximately \$5.2 million. Fairstar 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.

(e) Fundraising

During the half-year the Company funded its operations and capital commitments from the following sources:-

(i) Share issues

During the period ended 31 December 2009, the Company issued 20,938,038 shares at an average price of 3.61 cents per share, in order to raise \$755,000 for working capital.

(ii) Loan funding

In July 2009 the Company raised \$640,000 in loan funding from Walthamstow Pty Ltd, an unrelated entity. Security for the loan was the pledging of 6,000,000 shares in Golden West Resources. The balance of the loan at 31 December 2009 was \$590,000 repayable in July 2010.

(iii) Standby agreement subscription

In July 2009 Fairstar executed a \$5 million floating facility which has been arranged through Fortrend Securities Pty Ltd.

Fortrend has agreed to provide up to \$5 million to Fairstar to be drawn down at Fairstar's discretion by the issue of shares to Fortend. Fairstar has the right but not the obligation to use the full facility at any time over the facility's 3 year term. Fairstar can determine the timing and amount of any drawdown within the provisions of the facility agreement. The facility does not preclude any other equity or debt arrangements that Fairstar may decide to use to fund their projects.

Fairstar Resources Limited

In the event of a drawdown, shares will be issued at a 10% discount to the average closing price calculated over a 5 trading day period following a drawdown notice. In addition, Fortrend will receive 1 option for every 4 shares issued. The strike price of the option will be the issue price of the shares to Fortrend. A total of 23,950,945 shares have been issued at an average price of 3.91 cents under this facility during the half-year, raising \$893,000 for working capital. Fortrend are entitled to be issued with 5,987,741 free options with an average exercise price of 3.91 cents with expiry dates ranging between 24 July 2012 to 22 December 2012 as part fee for the facility, valued at \$89,000.

(iv) Short term facility – Ask Funding

In October 2009 Fairstar secured short term funding from Ask Funding Ltd of \$2.1 million. The amount was secured on the estimated receivable from the liquidation of Opes Prime. This facility was substantially repaid from the amount recovered from the liquidators – see below.

(f) Share Purchase Plan

In February 2010 the Board of Fairstar approved the introduction of a Shareholder Share Purchase Plan (Plan). The Plan entitles Eligible Shareholders in the Company, irrespective of the size of their shareholding, to purchase up to \$15,000 in value of ordinary fully paid shares in the Company (Shares).

The Offer will result in the issue of a maximum of 50,000,000 new shares, which would raise a maximum of up to \$2,500,000 via the issue of the appropriate number of Shares at the Purchase Price to satisfy the investment applications being made.

The funds raised under the Plan will be used by the Company to progress the mineral exploration projects, including conducting further drilling at the Company's Steeple Hill Iron Project (formerly Maheudra's Find Iron Ore Project), and for general working capital purposes.

(g) Opes Prime legal matter

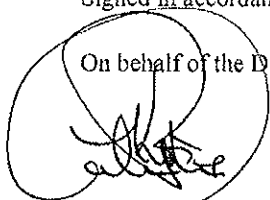
In December 2009 an amount of \$2,215,207 was recovered from the liquidator of Opes Prime Group Ltd in part settlement of claims made by Fairstar related to the collapse of Opes Prime in March 2008. Fairstar estimates a further \$450,000 may be recovered in this matter before 30 June 2010.

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



Kevin J Robertson
Managing Director
15 March 2010

Stantons International

ABN 41 103 088 697

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WEST PERTH WA 6005, AUSTRALIA
PH: 61 8 9481 3188 • FAX: 61 8 9321 1204
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15 March 2010

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 2009, 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

Stantons International

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INDEPENDENT AUDITOR'S REVIEW 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 statement of financial position as at 31 December 2009, and the condensed statement of comprehensive income, statement of changes in equity, and statement of cash flows 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 Fairstar Resources Limited (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 2009 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.

Our review did not involve an analysis of the prudence of business decisions made by the directors or management.

Member of Russell Bedford International



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 15 March 2010.

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:

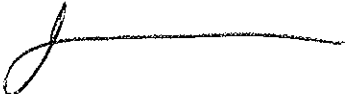
- (a) giving a true and fair view of the Company's financial position as at 31 December 2009 and of its performance for the half-year ended on that date; and
- (b) complying with Accounting Standards AASB 134 Interim Financial Reporting and Corporations Regulations 2001.

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. During the half year ended 31 December 2009 the entity had incurred a loss for the half year of \$964,346. 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.

STANTONS INTERNATIONAL
(An Authorised Audit Company)

Stantons International


John P Van Dieren
Director

West Perth, Western Australia
15 March 2010

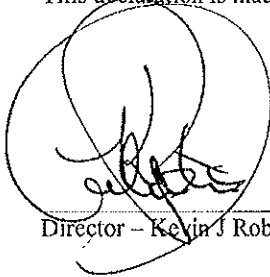
Directors' declaration

The directors of the Company declare that:

1. The financial statements and notes set out on pages 11 to 21 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 2009 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.

A handwritten signature in black ink, appearing to read 'Kevin J Robertson', is written over a horizontal line. The signature is enclosed within a large, hand-drawn circle.

Director – Kevin J Robertson

Date: 15 March 2010

Condensed Statement of Comprehensive Income for the six months ended 31 December 2009

	Note	Half-year ended 31 Dec 2009 \$	Half-year ended 31 Dec 2008 \$
Revenue		4,635	7,099
Employee and contractors expenses		(1,046,607)	(1,007,374)
Occupancy expenses		(87,813)	(75,806)
Administration expenses		(209,893)	(290,683)
Consultants expenses and professional costs		(298,687)	(539,268)
Borrowing expenses		(737,528)	(448,556)
Depreciation		(53,907)	(70,716)
Travel expenses		(58,840)	(55,740)
Capitalised exploration expenditure written off		(64,000)	(179,400)
Other expenses		(8,486)	(80,951)
Exploration and evaluation expenses		(511,611)	(441,139)
Share based payments	2	(78,552)	(532,450)
Reversal of impairment loss on loan receivable		26,736	-
Settlement monies received under legal claim	8(a)	2,215,207	-
Net loss on disposal of shares in listed company	3(b)	(55,000)	-
Profit/(Loss) from continuing operations before income tax expense		(964,346)	(3,714,984)
Income tax expense		-	-
Profit/(Loss) from continuing operations for the period		(964,346)	(3,714,984)
Other comprehensive income			
Gains arising during the period on revaluation of available for sale financial assets		5,242,040	(41,741,631)
Income Tax relating to Other Comprehensive Income		-	-
Other comprehensive income for the period		5,242,040	(41,741,631)
Total comprehensive income for the period		4,277,694	(45,456,615)
Profit/(Loss) per share:			
Basic (cents per share)		(0.22)	(1.00)

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 21.

Condensed Statement of Financial Position as at 31 December 2009

	Note	31 December 2009 \$	30 June 2009 \$
Current assets			
Cash and cash equivalents		248,262	4,705
Trade and other receivables		95,854	98,716
Financial assets	3	15,143,672	10,326,632
Total current assets		15,487,788	10,430,053
Non-current assets			
Other receivables		111,000	58,000
Capitalised exploration expenditure		2,435,922	1,338,601
Property, plant and equipment		458,881	496,076
Total non-current assets		3,005,803	1,892,677
Total assets		18,493,591	12,322,730
Current liabilities			
Trade and other payables		819,923	703,435
Interest-bearing borrowings	4	2,832,070	3,838,517
Provisions		10,000	10,000
Total current liabilities		3,661,993	4,551,952
Non – current liabilities			
Interest-bearing borrowings	4	35,798	51,310
Total non – current liabilities		35,798	51,310
Total liabilities		3,697,791	4,603,262
Net assets		14,795,800	7,719,468
Equity			
Issued capital	5	99,847,303	97,345,097
Reserves		6,120,486	582,014
Accumulated losses		(91,171,989)	(90,207,643)
Total equity		14,795,800	7,719,468

Notes to the financial statements are included on pages 15 to 21.

Interim statement of changes in equity For the half-year ended 31 December 2009

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
<i>Other comprehensive income</i>					
Revaluation of available for sale investments	-	-	(41,741,631)	-	(41,741,631)
Profit/(Loss) for the period	-	-	-	(3,714,984)	(3,714,984)
Total comprehensive income for the period	-	-	(41,741,631)	(3,714,984)	(45,456,615)
<i>Transactions with owners in their capacity as owners:</i>					
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
For the period ended 31 December 2009	Attributable to equity holders				
	Ordinary Shares \$	Option Reserve \$	Available for Sale Investments Revaluation Reserve	Accumulated Losses \$	Total Equity \$
At beginning of period	97,345,097	582,014	-	(90,207,643)	7,719,468
<i>Other comprehensive income</i>					
Revaluation of available for sale investments	-	-	5,242,040	-	5,242,040
Profit/(Loss) for the period	-	-	-	(964,346)	(964,346)
Total comprehensive income for the period	-	-	5,242,040	(964,346)	4,277,694
<i>Transactions with owners in their capacity as owners:</i>					
Issue of shares and options during the period	2,591,206	207,432	-	-	2,798,638
Issue of options to satisfy share issue costs	(89,000)	89,000	-	-	-
At end of period	99,847,303	878,446	5,242,040	(91,171,989)	14,795,800

Notes to the financial statements are included on pages 15 to 21.

Interim statement of Cash flows for the half-year ended 31 December 2009

	Half-year ended 31 Dec 2008 \$	Half-year ended 31 Dec 2008 \$
Cash flows from operating activities		
Payments to suppliers and employees	(2,029,153)	(1,983,258)
Interest received	4,635	7,099
Interest and other cost of finance paid	(559,676)	(380,069)
Net cash used in operating activities	<u>(2,584,194)</u>	<u>(2,356,228)</u>
Cash flows from investing activities		
Payments for investments in associates	-	-
Payment for acquisition of mineral interests	(35,321)	(22,000)
Payments for property, plant and equipment	(16,712)	(16,805)
Net cash used in investing activities	<u>(52,033)</u>	<u>(38,805)</u>
Cash flows from financing activities		
Proceeds from issues of ordinary shares	1,652,605	200,000
Proceeds from issue of convertible notes	-	1,300,000
Proceeds from borrowings	2,629,145	1,602,000
Repayment of hire purchase liability	(11,647)	(10,443)
Proceeds from issue of options	166,481	-
Payment of security bonds	(53,000)	-
Repayment of unsecured loans	(350,000)	(116,500)
Repayment of secured loans	(1,137,417)	(1,875,000)
Net cash provided by financing activities	<u>2,896,167</u>	<u>1,100,057</u>
Net decrease in cash and cash equivalents	259,940	(1,294,976)
Cash and cash equivalents at the beginning of the half-year	(11,678)	1,485,268
Cash and cash equivalents at the end of the half-year	<u>248,262</u>	<u>190,292</u>

Notes to the financial statements are included on pages 15 to 21

Condensed notes to the interim financial statements for the half-year ended 31 December 2009

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 15 March 2010. 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 2009.

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 2009 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. 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.

Changes in Accounting Policy

In the half-year ended 31 December 2009, the Company had reviewed all of the new and revised Standards and Interpretation issued by the AASB that are relevant to its operations and effective for annual reporting periods beginning on or after 1 July 2009.

The accounting policies adopted in the preparation of the half year financial statements are consistent with those set out in the 30 June 2009 annual financial statement except for the adoption of the following new and revised Accounting Standards.

Accounting Standards not previously applied

The Company has adopted the following new and revised Australian Accounting Standards issued by the AASB which are mandatory to apply to the current interim period. Disclosures required by these Standards that are deemed material have been included in this financial report on the basis that they represent a significant change in information from that previously made available.

Presentation of Financial Statements

AASB 101 prescribes the contents and structure of the financial statements. Changes reflected in this financial report include:

- the replacement of income statement with statement of comprehensive income. Items of income and expense not recognised in profit or loss are now disclosed as components of 'other comprehensive income'. In this regard, such items are no longer reflected as equity movements in the statement of changes in equity;
- the adoption of the single statement approach to the presentation of the statement of comprehensive income; and
- other financial statements are renamed in accordance with the Standard.

Condensed notes to the interim financial statements for the half-year ended 31 December 2009 (cont)

Operating Segments

From 1 July 2009, operating segments are identified and segment information disclosed on the basis of internal reports that are regularly provided to, or reviewed by, the Company's chief operating decision maker which, for the company, is the Board of Directors. In this regard, such information is provided using similar measures to those used in preparing the statement of comprehensive income and statement of financial position.

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

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

	31.12.2009	31.12.2008
	\$	\$
Share based payments		
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
Professional fees satisfied by the issue of 1,068,958 at 4.21 cents each	45,000	-
Payment for exploration expenditure satisfied by the issue of 331,641 shares at 12.8 cents each	-	42,450
Issue of employee options	40,952	-
Issue of shares to Director for services rendered	37,600	-
Less: Reversal of June 2009 share based payment accrued	(45,000)	-
	<u>78,552</u>	<u>532,450</u>

3. Financial Assets

	31.12.2009	30.06.2009
	\$	\$
Available-for-sale financial assets		
Shares in listed company – at fair value	9,901,632	10,326,632
Revaluation to market value	5,242,040	-
	<u>15,143,672</u>	<u>10,326,632</u>

(a) The investment in listed Company represents a 16.28% (30 June 2009 – 17.0%) interest in Golden West Resources Ltd (GWR), an ASX listed Company.

(b) Movements for the half-year	No of shares	\$
Opening balance	24,297,958	10,326,632
Disposal of shares in part consideration for tenement acquisition agreement	(1,000,000)	(370,000)
Loss on disposal of shares	-	(55,000)
Revalue to market value as at 31 December 2009	-	5,242,040
	<u>23,297,958</u>	<u>15,143,672</u>

Condensed notes to the interim financial statements for the half-year ended 31 December 2009 (cont)

	31.12.2009 \$	30.06.2009 \$
(c) Market value of listed investment		
As at 31 December 2009 (\$0.65 per share) (30 June 2009 - \$0.425 per share)	<u>15,143,672</u>	<u>10,362,632</u>
As at 12 March 2010 (\$0.86 per share)	<u>20,036,240</u>	
The market value is calculated by reference to the closing price on ASX on the date.		

(d) Security over shares

6,000,000 shares in GWR have been transferred to financier's as security under a share mortgage – refer Note 4(b).

4. Interest Bearing Borrowings		31.12.2009 \$	30.06.2009 \$
Current	Note		
Bank overdraft – unsecured		-	16,383
Secured loans	4(a)	322,583	1,331,000
Secured loan	4(b)	590,000	-
Secured loan – Golden West Resources Ltd	4(c)	1,817,185	1,817,184
Secured loan – unrelated entity	4(d)	-	300,000
Secured loan – Ask Funding		74,490	-
Unsecured loans – related parties		-	300,000
Unsecured loan – unrelated party		-	50,000
Hire purchase contract		27,812	23,950
		<u>2,832,070</u>	<u>3,838,517</u>
Non –current			
Hire purchase contract		<u>35,798</u>	<u>51,310</u>

(a) Loans of \$322,583 at balance date represent the balance of loans arising from the expiry of convertible notes issued in December 2008. Security for the notes is the granting of a fixed and floating charge over all the assets of the Company, although this security has not been taken up by the lenders.

(b) In July 2009 the Company raised \$640,000 in loan funding from an unrelated entity. Security for the loan was the pledging of 6,000,000 shares in Golden West Resources. The loan is repayable in July 2010. As at 31 December 2009, the balance of the loan was \$590,000.

Condensed notes to the interim financial statements for the half-year ended 31 December 2009 (cont)

4. Interest Bearing Borrowings (cont)

(c) The secured loans represent a loan from Golden West Resources Ltd. There are no set terms for repayment. Security for the loan is a fixed and floating charge over all the assets of the Company, with the exception of shares held by Fairstar in Golden West Resources Ltd and Fairstar's interest in the oil and gas project in Victoria, known as PEP165.

(d) The loan is from Austock Pty Ltd, an unrelated party. Security for the loan was the transfer of 2,000,000 shares in Golden West Resources Ltd. The loan was repaid and the shares were returned to Fairstar in August 2009.

5. Issued Capital

Movements in share capital during the six months to 31 December 2009 were as follows:

		Issue Price	Fully Paid Ordinary Shares	\$
01/07/09	Opening balance		410,463,136	97,345,097
01/07/09 to 31/12/09	Shares issued for working capital	\$0.0361	20,938,038	755,002
03/08/09	Shares issued for services rendered	\$0.0421	1,068,958	45,000
04/08/09	Conversion of loans to shares	\$0.0429	2,330,857	100,000
01/07/09 to 31/12/09	Shares issued under standby subscription agreement	\$0.0373	23,950,965	893,133
01/07/09 to 31/12/09	Options conversion	\$0.2500	17,885	4,471
01/10/09	Shares issued as consideration for tenement acquisition	\$0.0360	21,000,000	756,000
01/10/09	Shares issued to director	\$0.0376	1,000,000	37,600
01/07/09 to 31/12/09	Share issue costs – standby subscription agreement		-	(89,000)
31/12/09	Closing balance		480,769,839	99,847,303

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 2009 is estimated at \$3,345 (2008 - \$250,000).

Condensed notes to the interim financial statements for the half-year ended 31 December 2009 (cont)

7. Contingent Liabilities

(a) 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. Fairstar has since been granted full ownership of PEP 165. Approximately \$1,400,000 has been expended by Fairstar but Knight Industries Pty Ltd has lodged a further claim for approximately \$1,060,000 in respect of amounts owed under the joint venture agreement. Fairstar disputes the claim by Knight Industries Pty Ltd and 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 mediation 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.

(b) Other Claim by Consultant

The directors are aware of a potential claim of approximately \$800,000 made by an unrelated Company, Fortune Springs Capital Ltd, against the Company in relation to a consultancy fee agreement. The Company is currently assessing the merits of the claim and accordingly cannot quantify the amount payable under the agreement, if any, at this time. No recovery action has been taken by the claimant in relation to the matter.

(c) Claim by former Director

A claim has been made by Mr Mahendra Pal, a former Director, in respect of benefits and amounts allegedly owed to him in relation to his employment with the Company. Fairstar is defending the claim, and is unable to qualify the effect, if any, of any liability in respect to this matter at the date of this report.

8. Contingent Assets

(a) Opes Prime Group Ltd (Opes Prime)

As a result of a Scheme of Arrangement approved by the creditors of Opes Prime on 4 August 2009, Fairstar received a part settlement sum of \$2,215,207 and estimates a further \$450,000 will be recoverable in relation to this matter in full satisfaction of all its claims related to the unauthorised disposal of 10,000,000 shares held by Fairstar in GWR in April 2008.

The amount recovered of \$2,215,207 is shown in the Income Statement for the half-year. Any balance recovered will be shown in the Statement of Comprehensive Income in the period it is received.

Condensed notes to the interim financial statements for the half-year ended 31 December 2009 (cont)

(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 \$4,000,000. Security for the facility was the pledging of 5,000,000 shares held by Fairstar in Golden West Resources Ltd. Prior to any monies being advanced on the facility the financier defaulted on their agreement disposing of 1,854,730 shares pledged to them as security. Fairstar has taken 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 US\$2.2 million, being the proceeds from the unlawful disposal. Judgement has been awarded to Fairstar. An amount of A\$945,958 has been recovered in relation to this matter to 30 June 2009. Fairstar continues to pursue recovery of the balance, now estimated at US\$2.2 million, including costs and interest.

9. Royalty and Capital Commitments

(a) 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) Royalty Commitment – PR Gianni

During the year ended 30 June 2009 Fairstar executed an agreement with Mr Peter Gianni to acquire 50% of the iron ore rights on E28/1672 and to purchase 100% interests in other prospective tenements, being E28/1561 and E28/1696.

As part of the agreement, Fairstar granted to Mr Gianni:

- (i) a perpetual royalty equal to 0.75% of the Gross Revenue derived from the Tenements;
- (ii) the right to receive further payments in the amount of \$0.50 per wet metric tonne multiplied by the defined JORC compliant Inferred Resources of Iron Ore Minerals on the Tenements.

(c) Convertible notes – Royalty Commitment

The Company has a royalty obligation to former holders of convertible notes, as issued in December 2008, totalling 65 cents per tonne of iron ore produced by or on behalf of the Company from mining conducted in, on or under the “Mahendra’s Find” Tenements and shipped on board.

(d) Royalty Commitment - AP Rudd

In October 2009 Fairstar executed an agreement with Mr Alan Rudd to acquire 50% of the iron ore rights on E28/1672 and to purchase a 100% interest in another prospective tenement, being EL 25/393.

As part of the agreement, Fairstar granted to Mr Rudd:

- (i) a perpetual royalty equal to 0.75% of the Gross Revenue derived from the Tenements;
- (ii) the right to receive further payments in the amount of \$0.50 per wet metric tonne multiplied by the defined JORC compliant Inferred Resources of Iron Ore Minerals on the Tenements.

Condensed notes to the interim financial statements for the half-year ended 31 December 2009 (cont)

10. Subsequent events

(a) Share Purchase Plan

In February 2010 the Board of Fairstar approved the introduction of a Shareholder Share Purchase Plan (Plan). The Plan entitles Eligible Shareholders in the Company, irrespective of the size of their shareholding, to purchase up to \$15,000 in value of ordinary fully paid shares in the Company (Shares).

The Offer will result in the issue of a maximum of 50,000,000 new shares, which would raise a maximum of up to \$2,500,000 via the issue of the appropriate number of Shares at the Purchase Price to satisfy the investment applications being made.

(b) Subsequent to the end of the half-year, the company has issued a total of 8,922,648 shares at an average of 5.0 cents per share, raising \$450,000 for working capital. A further 1,003,994 shares have been issued to satisfy the payment of professional fees.

There are no other matters or circumstances that have arisen since 31 December 2009 that have or may significantly affect the operations, results, or state of affairs of the Company in future financial periods.