Fairstar Resources Limited

ABN: 38 115 157 689

Interim Financial report for the half-year ended
31 December 2011

www.fairstarresources.com

Interim Financial report for the half-year ended 31 December 2011

Company Directory

DIRECTORS

Kevin J Robertson
(Managing Director - Executive)

Harold J Paiker
(Non-Executive Director)

Constantino Markopoulos
(Non-Executive Director)

COMPANY SECRETARY

Alan Thomas

PRINCIPAL OFFICE

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

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OSBORNE PARK WA 6017

AUDITORS

Stantons International Audit and Consulting Pty Ltd
Level 2, 1 Walker Avenue
West Perth WA 6005

SHARE REGISTRY

Advanced Share Registry Services
150 Stirling Highway
NEDLANDS WA 6009
Telephone: (08) 9389 8033
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STOCK EXCHANGE LISTING

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

Directors' report

The directors of Fairstar Resources Ltd ("Fairstar") submit herewith the financial report for the half-year ended 31 December 2011. 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	
Kevin J Robertson	
Harold J Paiker	
Constantino Markopoulos	
Gary Lyons	Resigned 9 February 2012

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 $4,889,944 (December 2010 – Loss of $3,991,006).

Review of operations

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

(a) Steeple Hill Iron Project (E28/1672)

- **Native Title Agreement**

Fairstar announced on November 14 that it had signed a Native Title Agreement covering its 100% owned Steeple Hill Iron Project ("SHIP").

The Company entered a native title mining agreement with the Central East Goldfields Peoples Native Title Claimant Group (Central East group) for on-going exploration and production at the flagship SHIP deposit.

The Board announced it was very pleased the major focus of the agreement is on working with the Central East group's strategic plan for developing sustainable and long lasting relationships to deliver better outcomes for their community for many years to come.

- **Mining Lease M28/373**

Mining Lease M28/373 over the Company's 100% owned SHIP tenements was announced to the market on November 17, less than a week after announcing the Native Title Agreement.

- **Topographic Maps and Contours produced**

The whole SHIP proposed mining area, including the area of newly acquired iron ore rights, was flown by Fugro AeroSpatial to provide detailed colour aerial photography. This was combined with surveyed locations of prominent ground features to produce detailed topographic maps of the whole proposed mining area.

The contours in the mining area are at half metre intervals, while at the proposed process plant and along the proposed rail spur line, the contour interval was 0.25metre.

This will allow detailed mine planning to commence within the area of the Indicated Resource, and planning of the placement of the process plant equipment, and the exact rail spur alignment.

- **Encouraging Scrubbing Test Results - Higher Fe Grades**

The results of further scrubbing tests by McLanahan Corp in Newcastle, NSW, have indicated that part of the external coating was removed, resulting in higher Fe grades for the hematite product. Using feed with Fe grades of 58.4%Fe, the scrubber was able to upgrade this to as high as 59.6%Fe. Additional testwork is planned to determine the most effective scrubbing duration to raise the grade to the optimum. Each extra 1%Fe grade increase, results in a higher price.

- **Dry Separation Analyses Received - Potential for Less Water Usage**

The dry air jig was tested with the coarse (+1mm) alluvial ore, to determine if the lighter non iron materials could be separated from the heavy hematite, and reduce the throughput to the remainder of the plant, which could be reduced in size, with less water used. The test showed a nearly complete separation of the hematite into the lower heavy layer. Analyses indicate that the less dense upper layer contained only 4.3% hematite while the lower more dense layer had 74.8% hematite at a grade of 58.85%Fe. This simple separation using the dry air jig provides a remarkable concentration of the hematite granules. This instructs the Company that this process permits a reduction of the material to be processed with associated reduction in water requirements. This was an initial test, and performances could be improved by altering the airflow and other settings.

Testwork is continuing to optimise dry methods of separation to reduce the quantity of water required in the processing plant.

- **Groundwater Search**

The search for fresh to brackish groundwater has been extended to include the western side the Eucla Basin some 250km distant. Data for this area has been reviewed.

A Section 26 D Licence has been submitted and approved by the Department of Water to drill and construct production bores in this area.

- **New Iron Ore Tenement with Substantial Mineralisation Potential**

Another significant development in the Company's SHIP strategy during the period was the announcement that Fairstar had entered into an agreement with Renaissance WA Pty Ltd to acquire the iron ore rights to a major new tenement immediately adjacent and to the north-east of SHIP.

Aerial photography indicates SHIP's hematite rich gravels continue for up to seven kilometres into the 108 Sq Km new tenement.

The Company believes the possible extension of SHIP's hematite rich mineralisation into the new tenement meant there was a very strong chance it could significantly boost SHIP's present indicated resource.

Drilling in the north-east perimeter of the SHIP tenement, immediately adjacent the new North SHIP tenement, revealed good mineralisation up to five metres deep, and leading the Company's geologists to conclude it could continue in a north-easterly direction into the new SHIP tenement.

(b) Other Exploration Activity

Kurnalpi Gold Projects
Colour Dam North
This tenement is immediately east of the Colour Dam tenement, which hosts a small open cut pit, situated in sheared basalt, and volcanics with minor quartz veins, and adjacent metasediments. These rocks continue north into the Colour Dam North tenement area where mapping has located extensive zones of metasediments with abundant sulphide pits. Rock chip sampling has produced some anomalous levels of gold and base metals. These are associated with outcropping quartz veins and adjacent alteration areas respectively.

In the east, limited outcrop with extensive transported sand was mapped, and lines of old drillholes found, which enabled basement geology to be identified. This eastern area is regarded as being the least prospective, and due to the requirement to reduce the size of the tenement, two graticular blocks from this area were surrendered.

Hampton Hill Gold Project
This area lies about 60km east of Kalgoorlie, and the tenement is elongated to the north, and contains the Avoca Shear for about a 15km strike length. The Avoca Shear and splays from it are associated with a number of gold prospects and gold mines to the north and south of the tenement.

Preliminary mapping has identified extensive shallow cover over the tenement, and so a systematic program of augering to base of cover and sampling and analysis of the same soil horizon is planned. Any soil anomalies for gold, silver or base metals will be followed up with infill auger soil sampling, and then RC drilling.

Mt Padbury Uranium and Gold Project
Detailed exploration planning for a program of mapping, soil and rock chip sampling, aircore drilling of mapped calcretes, and drilling of gold targets identified from mapping and geochemistry has been undertaken. The aircore drilling for uranium will step out from the known high grade uranium occurrences in two pits, and target calcrete which hosts the uranium in this area. The gold occurs in quartz veins and shear zones with a northerly orientation, similar to the gold field adjacent to the west. RC drilling of any identified gold targets will be undertaken.

Killara Uranium and Copper Prospect
Two new areas adjacent to the existing tenements were identified during the period, and exploration licences have been applied for over both areas. One area has existing anomalous uranium rock chip samples, while the second larger area has extensive areas of outcropping calcrete in a valley. This calcrete area is considered to be highly prospective for uranium, as downstream the same drainage has areas of calcrete which host uranium deposits; these have been drilled to delineate uranium resources.

Detailed exploration planning has been undertaken for the existing four tenements, with mapping, soil and rock chip sampling, aircore drilling of calcretes, and RC drilling of copper anomalies and potential roll front uranium deposits in sandstone with drainage from the adjacent hot granite.

(c) Shares in Golden West Resources Ltd

As at the date of this report, Fairstar owns approximately 12.1% of the issued capital of Golden West Resources Ltd, an ASX listed company, valued at approximately $9.2 million.

The Board considers its holding in Golden West Resources Ltd as a strategic holding but is able to dispose of them or pledge them as security for borrowings as required. As at 31 December 2011 the majority of the shareholding has been pledged as security (Refer to Note 3(d) to the financial statements).

(d) 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 2011, the Company issued 1,499,569 shares at an average price of 3.3 cents per share, in order to raise $50,000 (net of costs) for working capital; 35,794,613 shares at an average price of 5.0 cents to raise $1,800,000 pursuant to a standby subscription agreement with Gurney Capital Nominees Pty Ltd; and 71,644,839 shares in satisfaction of payment of various payables, consulting fees, and unsecured loans.

(ii) Unsecured loans

The Company received loan funding of $2,050,000 during the period to assist with working capital requirements. Details of loans payable at balance date are contained in Note 4 to the financial statements.

(iii) Conditional funding

The Company announced on 24 October 2011 that it had secured conditional approval for a $A300 million facility to unlock SHIP and move the Company into production.

The facility will be repayable over 10 years from first drawdown with iron ore.

The $A300 million facility will be used to commence construction and commission the SHIP plant in Western Australia's Yilgarn region, fund infrastructure, provide further working capital and retire debt.

Key features of the Innovative Debt Instrument include:

- Initial cash drawdown upon the facility becoming unconditional with further draw downs over the following 15 months based on agreed budget and milestones.
- Debt repayable by the delivery of iron ore over a 10 year term.
- Security is a mortgage over the SHIP mining tenements only.

The Company announced the funding was contingent on successfully negotiating Native Title agreement, obtaining the Mining Lease, and concluding off-take agreements for a substantial part of the ore to be derived from the SHIP tenements.

Fairstar was able to satisfy two of these key conditions during the period.

The funding is also conditional on the lender completing final due diligence and obtaining regulatory approvals.

(iv) In February 2012 the Company issued a convertible note with a face value of $1,000,000. The note is repayable by 31 January 2013, unless converted to ordinary shares at a price of $0.07 per share. The interest rate is 12.5% per annum.

(v) On 3 February 2012 the Company issued 200,356,119 options at $0.001 each to ordinary shareholders and holders of options which expired in August 2011.

Options are exercisable at $0.10 each, with an expiry date of 31 August 2014. Through this issue, the Company raised $200,356 for working capital.

(vi) Since 31 December 2011, the Company has issued 22,012,592 shares at an average price of 3.2 cents to raise $700,000 to assist with working capital and exploration commitments.

The information within this report as it relates to geology and mineral resources was compiled by Mr Sheldon Coates. He has sufficient experience which is relevant to the style of mineralisation and the type of deposit under consideration to qualify as a Competent Person as defined in the 2004 Edition of the "Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves, the JORC Code" Mr Coates consents to the inclusion in the report of matters based on information in the form and context which it appears.

Auditor's independence declaration

The auditor's independence declaration is included on page 8 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
13 March 2012

Stantons International Audit and Consulting Pty Ltd
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13 March 2012

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 period ended 31 December 2011, 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 faithfully

STANTONS INTERNATIONAL AUDIT AND CONSULTING PTY LIMITED
(Trading as Stantons International)
(An Authorised Audit Company)

Martin Michalik
Director

Stantons International Audit and Consulting Pty Ltd
trading as
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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 2011, the condensed statement of comprehensive income, statement of changes in equity, and statement of cash flows for the half-year ended on that date, condensed notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration.

Directors' Responsibility for the Half-Year Financial Report

The directors of Fairstar Resources Limited are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the half-year financial report that is free from material misstatement, whether due to fraud or error.

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 a Financial Report 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 2011 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.

Whilst we considered the effectiveness of management's internal controls over financial reporting when determining the nature and extent of our procedures, our review was not designed to provide assurance on internal controls.

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

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 13 March 2012.

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 2011 and of its performance for the half-year ended on that date; and

(b) complying with Accounting Standard AASB 134 Interim Financial Reporting and Corporations Regulations 2001.

Inherent Uncertainty Regarding Going Concern

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

As referred to in Note 1(a) to the financial statements, the financial statements have been prepared on a going concern basis. As at 31 December 2011 the Company has cash and cash equivalents of $2,127 and has a working capital deficiencies of $7,469,975. The net loss for the half year ended 31 December 2011 was $4,889,944. 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 (which at 31 December 2011 was valued at $7,461,347). 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.

STANTONS INTERNATIONAL AUDIT AND CONSULTING PTY LTD
(Trading as Stantons International)
(An Authorised Audit Company)
Stantons International Audit & Consulting Pty Ltd

Martin Michalik

Martin Michalik
Director

West Perth, Western Australia
13 March 2012

Directors' declaration

The directors of the Company declare that:

1. The financial statements and notes set out on pages 12 to 20 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 2011 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.

Kevin J Robertson
Director
13 March 2012

Condensed Statement of Comprehensive Income for the six months ended 31 December 2011

	Note	Half-year ended 31 Dec 2011 $	Half-year ended 31 Dec 2010 $
Revenue		8,647	44,713
Employee and contractors expenses		(1,276,068)	(1,418,296)
Occupancy expenses		(78,271)	(77,246)
Administration expenses		(223,856)	(259,867)
Consultants expenses and professional costs		(1,089,620)	(268,444)
Borrowing expenses		(1,053,365)	(351,708)
Depreciation		(41,755)	(55,377)
Travel expenses		(143,043)	(71,945)
Capitalised exploration expenditure written off		(6,000)	(24,000)
Exploration and evaluation expenses		(851,450)	(1,602,461)
Share based payments	2	(282,843)	(220,000)
Reversal of impairment loss on loan receivable		-	18,264
Settlement monies received under legal claim		147,680	295,361
Profit/(Loss) from continuing operations before income tax expense		(4,889,944)	(3,991,006)
Income tax expense		-	-
Profit/(Loss) from continuing operations for the period		(4,889,944)	(3,991,006)
Other comprehensive income			
Gain/(Loss) arising during the period on revaluation of available for sale financial assets	3	(5,362,842)	1,980,326
Income Tax relating to Other Comprehensive Income		-	-
Other comprehensive income for the period		(5,362,842)	1,980,326
Total comprehensive income for the period		(10,252,786)	(2,010,680)
Profit/(Loss) per share:			
Basic (cents per share)		(0.68)	(0.69)

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 16 to 20.

Condensed Statement of Financial Position as at 31 December 2011

	Note	31 December 2011 $	30 June 2011 $
Current assets			
Cash and cash equivalents		2,127	81,486
Trade and other receivables		148,814	156,993
Total current assets		150,941	238,479
Non-current assets			
Other receivables		163,600	163,600
Capitalised exploration expenditure		3,283,522	3,089,522
Property, plant and equipment		817,363	859,118
Financial assets	3	7,461,347	12,824,189
Total non-current assets		11,725,832	16,936,429
Total assets		11,876,773	17,174,908
Current liabilities			
Trade and other payables		1,859,272	2,544,242
Interest-bearing borrowings	4	5,751,644	4,223,925
Provisions		10,000	10,000
Total current liabilities		7,620,916	6,778,167
Non – current liabilities			
Interest-bearing borrowings	4	33,173	47,255
Total non – current liabilities		33,173	47,255
Total liabilities		7,654,089	6,825,422
Net assets		4,222,684	10,349,486
Equity			
Issued capital	5	114,033,354	109,907,370
Reserves		(1,513,037)	3,849,805
Accumulated losses		(108,297,633)	(103,407,689)
Total equity		4,222,684	10,349,486

Notes to the financial statements are included on pages 16 to 20.

Interim statement of changes in equity
For the half-year ended 31 December 2011

For the period ended 31 December 2010	Attributable to equity holders				
	Ordinary Shares $	Option Reserve $	Available for Sale Investments Revaluation Reserve	Accumulated Losses $	Total Equity $
At beginning of period	104,233,011	905,511	6,872,898	(94,737,071)	17,274,349
Other comprehensive income					
Revaluation of available for sale investments	-	-	1,980,326	-	1,980,326
Profit/(Loss) for the period	-	-	-	(3,991,006)	(3,991,006)
Total comprehensive income for the period	-	-	1,980,326	(3,991,006)	(2,010,680)
Transactions with owners in their capacity as owners:					
Issue of shares and options during the period	3,007,111	33,737	-	-	3,040,848
Share issue costs	(188,737)	-	-	-	(188,737)
At end of period	107,051,385	939,248	8,853,224	(98,728,077)	18,115,780

For the period ended 31 December 2011	Attributable to equity holders				
	Ordinary Shares $	Option Reserve $	Available for Sale Investments Revaluation Reserve	Accumulated Losses $	Total Equity $
At beginning of period	109,907,370	942,248	2,907,557	(103,407,689)	10,349,486
Other comprehensive income					
Revaluation of available for sale investments	-	-	(5,362,842)	-	(5,362,842)
Profit/(Loss) for the period	-	-	-	(4,889,944)	(4,889,944)
Total comprehensive income for the period	-	-	(5,362,842)	(4,889,944)	(10,252,786)
Transactions with owners in their capacity as owners:					
Issue of shares and options during the period	4,125,984	-	-	-	4,125,984
Share issue costs	-	-	-	-	-
At end of period	114,033,354	942,248	(2,455,285)	(108,297,633)	4,222,684

Notes to the financial statements are included on pages 16 to 20.

Interim statement of Cash flows for the half-year ended 31 December 2011

	Note	Half-year ended 31 Dec 2011 $	Half-year ended 31 Dec 2010 $
Cash flows from operating activities			
Payments to suppliers and employees		(3,275,384)	(3,196,441)
Interest received		7,837	5,526
Interest and other cost of finance paid		(223,379)	(33,334)
Net cash used in operating activities		(3,490,926)	(3,224,249)
Cash flows from investing activities			
Proceeds from part repayment of unsecured loan		-	18,264
Payments for property, plant and equipment		-	(315,974)
Settlement monies received under legal claim		147,680	295,361
Payment for acquisition of exploration interests		(200,000)	-
Net cash used in investing activities		(52,320)	(2,349)
Cash flows from financing activities			
Proceeds from issues of ordinary shares		2,089,019	2,386,774
Proceeds from issue of convertible notes		-	450,000
Proceeds from borrowings		2,050,000	-
Repayment of hire purchase liability		(25,132)	(24,934)
Payment of security bonds		(450,000)	(52,600)
Repayment of unsecured loans		(200,000)	-
Net cash provided by financing activities		3,463,887	2,759,240
Net decrease in cash and cash equivalents		(79,359)	(467,358)
Cash and cash equivalents at the beginning of the half-year		81,486	501,361
Cash and cash equivalents at the end of the half-year		2,127	34,003

Notes to the financial statements are included on pages 16 to 20.

Condensed notes to the interim financial statements for the half-year ended 31 December 2011

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 13 March 2012. 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 2011.

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 2011 in accordance with the continuous disclosure obligations arising under the Corporations Act 2001.

The Group has adopted all of the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board (the AASB) that are relevant to their operations and effective for the current reporting period.

New and revised Standards and amendments thereof and Interpretations effective for the current reporting period that are relevant to the Group include:

- Amendments to AASB 5, 8, 101, 107, 117, 118, 136 and 139 as a consequence of AASB 2009-5 *Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project*

(a) Going Concern

As at 31 December the Company has a shortfall of working capital (being current assets less current liabilities) of $7,469,975. The net loss for the half year ended 31 December 2011 was $4,889,944.

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.

As at the date of this report the Directors have a number of options available to them, and therefore believe it is appropriate to prepare the financial statements on a going concern basis. The following factors have been considered -

- Fairstar has entered into a non exclusive standby subscription agreement with Gurney Capital Nominees Pty Ltd. The total facility, of which drawdowns can be made subject to certain terms and conditions, is $15 million. A total of approximately $6.1m has been drawn down pursuant to this facility in the period to 31 December. The Company is confident the facility will continue to be made available as required.
- The Company announced on 24 October 2011 that it had secured conditional approval for a $A300 million facility to unlock SHIP and move the Company into production. The $A300 million facility will be used to commence construction and commission the SHIP plant in Western Australia's Yilgarn region, fund infrastructure, provide further working capital and retire debt. As at the date of this report, the Company is still awaiting completion of regulatory approvals and final due diligence by the lenders. Fairstar is also required to negotiate the completion of an off-take agreement for the sale of the ore. It is confident these conditions will be achieved shortly.
- The Company's interest in Golden West Resources Ltd has been pledged as security for borrowings (as detailed in Note 3 to the financial statements). These shares could be disposed of if required in order to repay secured loans and use the balance to meet its working capital requirements.

In the event that the company is unsuccessful with the above, and cannot raise any further equity , 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. The Directors are confident the above measures will be successful or further capital could be raised if required.

Condensed notes to the interim financial statements for the half-year ended 31 December 2011 (cont)

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

The following expense items are relevant in explaining the financial performance for the interim period:

	31.12.2011	31.12.2010
Share based payments	$	$
Professional fees satisfied by the issue of 4,379,626 at 3.88 cents each (2010: 4,124,999 at 5.33 cents each)	170,000	220,000
Payment of interest on convertible notes	112,843	-
	282,843	220,000

3. Financial Assets

	31.12.2011	30.06.2011
	$	$
Available-for-sale financial assets		
Shares in listed company – at fair value	7,461,347	12,824,189

(a) The investment in listed Company represents a 12.1 % (30 June 2011 – 12.1%) interest in Golden West Resources Ltd, an ASX listed Company.

(b) Movements for the half-year	No of shares	$
Opening balance	23,316,708	12,824,189
Revalue to market value as at 31 December 2011	-	(5,362,842)
Closing Balance	23,316,708	7,461,347

(c) Market value of listed investment	31.12.2011 $	30.06.2011 $
As at 31 December 2011 ($0.32 per share) (30 June 2011 - $0.55 per share)	7,461,347	12,824,189
As at 9 March 2012 ($0.395 per share)	9,210,100	

The market value is calculated by reference to the closing price on ASX on the date.

(d) As at 31 December 2011 a total of 22,000,000 shares in Golden West Resources Ltd (valued at $7,040,000) have been pledged as security for borrowings totalling $4,466,247– refer Note 4(a).

Condensed notes to the interim financial statements for the half-year ended 31 December 2011 (cont)

4. Interest Bearing Borrowings

	Note	31.12.2011 $	30.06.2011 $
Current			
Unsecured loans		100,000	-
Secured loans	4(a)	4,466,247	1,620,000
Convertible notes	4(b)	1,150,000	1,600,000
Unsecured loans (former convertible noteholders)		-	457,477
Unsecured loans – unrelated party		-	500,000
Hire purchase contracts		35,397	46,448
		5,751,644	4,223,925
Non –current			
Hire purchase contract		33,173	47,255

(a) The secured loans represent loans from unrelated entities. The combined security for the loans was the transfer of 22,000,000 shares held by Fairstar in Golden West Resources Ltd. Refer Note 9(e) on details of Royalty Commitments in relation to secured borrowings.

(b) Convertible notes are repayable on 1 April 2012, together with an annual interest rate of 20%, unless the noteholder elects to convert to ordinary shares at $0.10 each.

5. Issued Capital

Movements in share capital during the six months to 31 December 2011 were as follows:

		Issue Price	Fully Paid Ordinary Shares	$
1 July 2011	Opening balance		676,538,085	109,907,370
July – September 2011	Options conversion	$0.10	40,186	4,019
September – November 2011	Shares issued for services rendered	$0.039	4,379,626	170,000
September – November 2011	Shares issued for repayment of unsecured loans and payables	$0.04	41,269,864	1,739,122
September – December 2011	Shares issued for working capital purposes (net of costs)	$0.034	60,992,485	2,100,000
September – December 2011	Shares issued as consideration for interest on convertible notes	$0.05	2,256,860	112,843
31 December 2011	Closing balance		785,477,106	114,033,354

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. The operations in Western Australia relate to exploration for gold, base metals, uranium, and iron.

Condensed notes to the interim financial statements for the half-year ended 31 December 2011 (cont)

7. Contingent Liabilities

(a) 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 totalling $120,000. Fairstar is defending the claim, and is unable to quantify the effect, if any, of any liability in respect to this matter at the date of this report.

8. Contingent Assets

(a) 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$946,958 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. No amounts have been recovered in the period ended 31 December 2011.

9. Royalty and Capital Commitments

(a) Royalty Commitment – E28/1672

During the year ended 30 June 2009 Fairstar concluded a new option 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.

In October 2009 Fairstar executed an agreement with Mr Alan Rudd to acquire the remaining 50% of the iron ore rights on E28/1672 and to purchase a 100% interest in another prospective tenement being EL25/393.

Fairstar has since exercised the options by payment of $2.00 to acquire the interests in the tenements.

The royalties payable in respect of these agreements is as follows:

(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 $1.50 per dry metric tonne ($3.00 in respect of E28/1672) of iron ore sold from the Tenements.

Furthermore, in the event that commercial production has not commenced from the Tenements on 1 April 2010, Fairstar shall pay to Rudd and Gianni by way of prepayment of the Royalty the sum of $600,000 ($300,000 each) per annum. Once commercial production commences from the Tenements, the prepaid Royalty shall be taken into account. Commercial production shall mean production of not less than 500,000 metric tonnes of iron ore minerals from E28/1672. The first prepayment of $600,000, due 1 April 2011, has been paid.

(b) 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 Steeple Hill Iron Project Tenements and shipped on board.

Condensed notes to the interim financial statements for the half-year ended 31 December 2011 (cont)

(c) Royalty Commitments

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

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

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

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

(d) Option Agreements – AP Rudd

The company has the rights to explore for and extract gold and silver and a first to last rights of refusal to acquire the rights in relation to other minerals on Prospecting Licences 25/1836, 1856, 1857 and 1858. In addition the Company has a royalty obligation equal to $5.00 per ounce of gold extracted from these tenements.

(e) Royalty and Capital Commitments

In August 2011 the Company secured borrowings of $2,000,000 from an unrelated entity. In consideration for execution of the loan, Fairstar has granted to the borrower the right to receive royalties of the first $1,500,000 of the proceeds of ore shipped from Steeple Hill Iron Project.

10. Subsequent events

(a) On 3 February 2012 the Company issued 200,356,119 options at $0.001 each to ordinary shareholders and holders of options which expired in August 2011.

Options are exercisable at $0.10 each, with an expiry date of 31 August 2014. Through this issue, the Company raised $200,356 for working capital.

(b) In February 2012 the Company issued a convertible note with a face value of $1,000,000. The note is repayable by 31 January 2013, unless converted to ordinary shares at a price of $0.07 per share. The interest rate is 12.5% per annum.

(c) Since 31 December 2011, the Company has issued 22,012,592 shares at an average price of 3.2 cents to raise $700,000 to assist with working capital and exploration commitments.

There are no other matters or circumstances that have arisen since 31 December 2011 that have or may significantly affect the operations, results, or state of affairs of the Company in future financial periods.