

27 July 2007

A.B.N. 38 115 157 689

## Dear Shareholder

The past quarter has been the most exciting and positive in our short history.

As we continue to move forward and progressively explore the potential of our tenement holdings in Western Australia, we are convinced we have three world class exploration projects.

Our focus is on maintaining exploration impetus to continually underpin your confidence and provide you with results that, we believe, will continue to grow your value.

Overall planned exploration work remains broadly on schedule, however, the shortage of technical staff and equipment availability, which is evident across the resources industry, has and will impact on exploration costs and schedules.

At **Kurnalpi** we are of the view that the potential exists for a discovery of greater than one million ounces of gold. We are currently working on a second drilling program at Halfway Hill which we believe will substantiate our belief and give us a greater geologic understanding of the project, allowing us to move forward to drilling a defined resource. We hope to complete this in the December quarter.

We continue to evaluate Spinifex Well and are moving towards a drilling program to define a resource. Again, we have the opinion that Spinifex Well has the potential of hosting a major resource to the extent of being a company maker in its own right.

**Mt Padbury – Uranium.** As stated in a recent ASX market release we have discovered a further area of uranium potential which has increased the target area way beyond our earlier expectations. We were proceeding towards an extensive drilling program at the original discovery site, but have moved that back as we now develop a better geologic understanding of the huge potential that exists for a major uranium discovery.

Whilst seeking new opportunities to accelerate the growth of your company, Fairstar were given the opportunity to investigate the potential of a Joint Venture with Knight Industries. Knight Industries are heavily involved in oil exploration both in Australia and overseas.

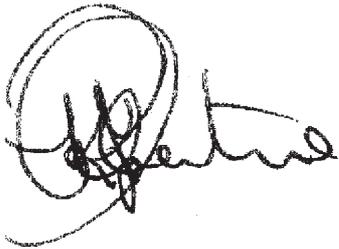
We believe the discovery of oil in the Murray Basin in Northern Victoria is a real possibility which could lead to Fairstar potentially earning many hundreds of millions of dollars.

After conducting and concluding our own due diligence, we agreed to sign a Joint Venture (Farmin Agreement) as released to the market on the 3rd July, 2007.

With the resignation of Mr Nigel Maund, Director Technical, your Company has employed two experienced high calibre geologists (Exploration Advisor/Technical and Project geologist), to meet the exploration challenges. With the new team, exploration progress in the quarter ahead should increase significantly.

I take this opportunity to thank you, our shareholders, for your support and look forward to sharing with you what I believe will be continued massive growth as we move forward through 2007 and beyond.

Yours sincerely



**Kevin J Robertson**  
Managing Director

## Contact Details

Unit 3, 136 Main Street,  
Osborne Park WA 6017  
PO Box 1520  
Osborne Park WA 6916

**T:** 08 9242 5111

**F:** 08 9242 5677

**E:** admin@fairstarresources.com

**W:** www.fairstarresources.com

ABN 38 115 157 689

## Capital Structure

29 June 2007

**Ordinary Shares on issue:** 102 M

**Options on issue:** 47 M

**Share price:** \$ 0.73

**Options price:** \$ 0.50

**Fully diluted market  
capitalisation:** \$97.96 M

## Board Directors

**Harold J Paiker**

B.Juris LLB LLM

Chairman Non Executive

**Kevin J Robertson**

Managing Director Executive

**Alan Rudd**

B.App.Sc

Director Non Executive

**Ken Allen**

B.Bus.PNA FNTAA FTIA

Director Non Executive

Company Secretary

This report covers Fairstar's exploration related activities for the quarter ended 30 June 2007. Unless otherwise stated, Company's interest in the tenements referred to in this report is 100 per cent and references to schedules are based on the financial year.

## Quarterly Highlights

- Due diligence study on a possible JV for oil exploration in the Murray Basin, Victoria Australia
- Identification of uranium (carnotite) mineralisation, in addition to calccrete – silcrete, in biotite monzogranite in E51/1147
- Identification of a sequence of quartz arenite/sandstone interbedded with shale and siltstone unconformably overlying the granite - suggesting possibility of unconformity and sandstone related uranium mineralisation in E51/1147
- Appointment of senior technical staff
- Grant of tenements
- Completion of Kurnalpi database

## Possible JV for Oil Exploration – Due Diligence Study

During the report period Fairstar Resources Ltd was approached by Knight Industries Pty Ltd of 677 Lyne Street, Lavington/Albury – NSW, Australia for a possible Joint Venture (JV) over its oil-gas exploration permit (PEP 165) in the Victorian part of Murray Basin, Australia.

### Background

Fairstar Management strongly believes that diversification is the most effective vehicle for managing any financial risk and exploration is no exception. The approach by Knight Industry for participation in oil-gas exploration fitted very well with the Company philosophy of diversification.

### Project Location and Geology

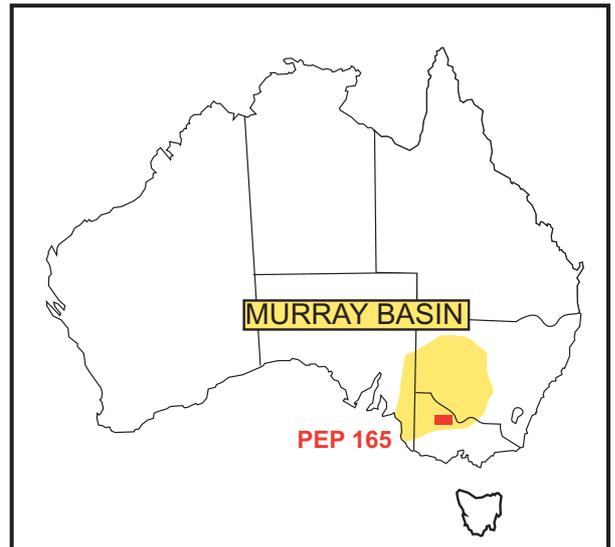
The area of interest (PEP165) lies in the Murray Basin, which covers parts of three Australian states, vis-à-vis, the southwest of New South Wales extending west and south into South Australia and Victoria respectively (Figures 1 and 2).

The Basin contains a number of basement depressions which contain Palaeozoic and Mesozoic sediments. These depressions and their geology are camouflaged by the Cainozoic consolidated and unconsolidated sediments. However, it is these sediments which are protected in these depressions that are likely to contain the potential oil-gas resource(s) and thus are the targets for exploration.

The Murray Basin unconformably overlies and onlaps the Proterozoic sequences of Willyama and Broken Hill Blocks in the northwest, unconformably overlies meta-sediments of the Kanmantoo Fold Belt in the west, overlies a strongly folded and partially metamorphosed Ordovician to Devonian Lachlan Fold Belt sequence in the east, and onlaps slightly deformed Cambrian to Lower Carboniferous Lachlan Fold Belt sediments in the south. To the north the Cainozoic Murray Basin sequence overlies the Palaeozoic Darling Basin and its infrabasins. The Murray Basin sequence forms a thin but extensive platform cover succession with its main depocentre located in the western part of the basin.

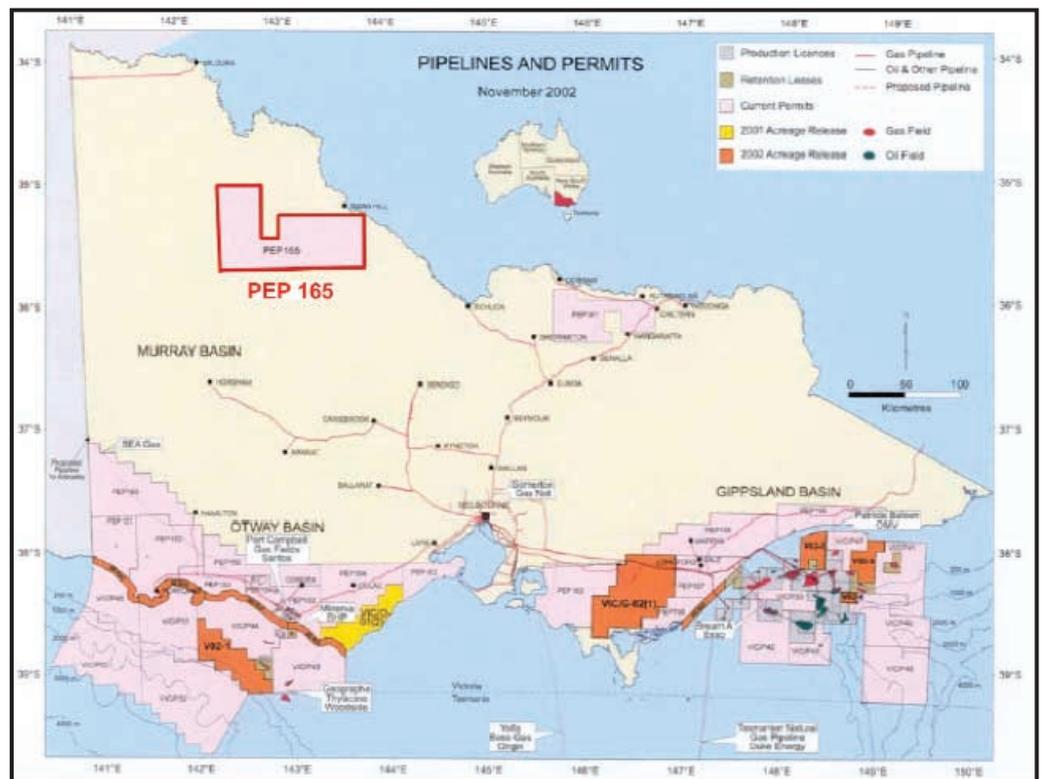
Based on Bouguer gravity, a number of concealed 'troughs' have been recognised for a long time in the Murray Basin. The existence of these structures has been confirmed in many cases by drilling. The troughs in the west and north of the basin in New South Wales and in western Victoria (such as the NNW trending Netherby Trough) generally contain Devonian to Early Carboniferous sequences resembling those of the Darling Basin to the north.

The troughs in the east generally contain Late Carboniferous to Triassic sediments, most notably the NNW trending Ovens Graben, which contains a thick Permian Coorabin



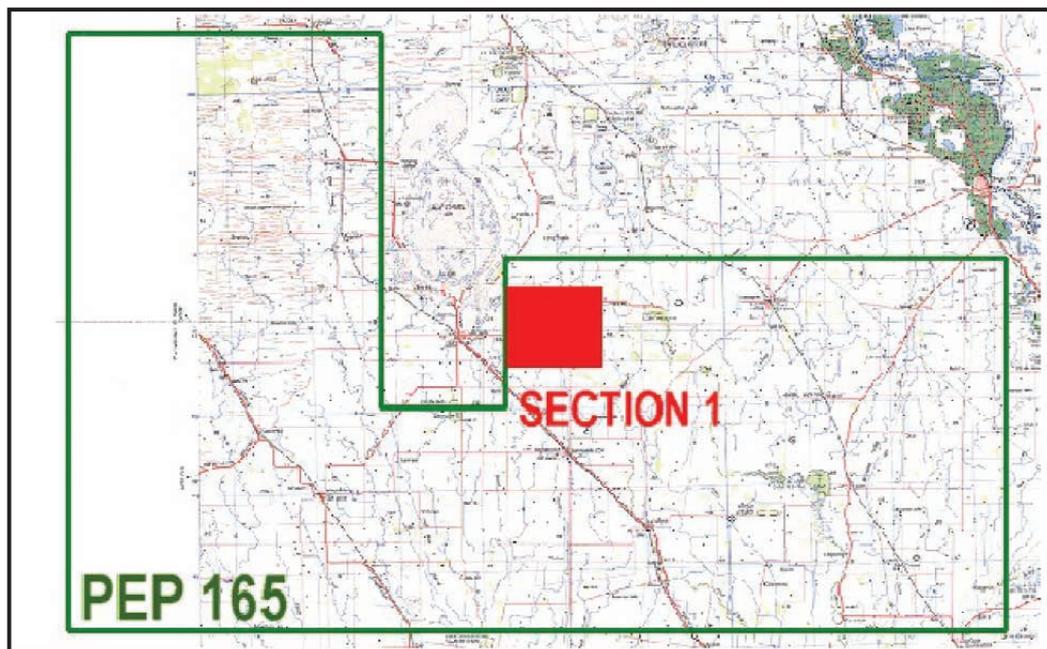
Source: Knight Industries

Figure 1: Location of Murray Basin and PEP 165



Source: Knight Industries

Figure 2: Location of PEP 165



Source: Knight Industries

Figure 3: Location of Section 1 in PEP 165

Coal Measures sequence that has not been intersected elsewhere outside of this graben. The 'troughs' lying beneath the Murray Basin appear to be mainly a mixture of deep grabens and half grabens, and shallower gentle basement down warps.

### Project - PEP 165

The PEP 165 is located on the Victorian side of the Murray Basin at ~80 km south of the town of Robinvale (Figure 2) in a gravity low that extends southwards from the concealed NE trending Balaranald trough beneath the Murray Basin.

Knight Industry's technical team, based on its study, have considered Section 1 (Figure 3) as a priority area. Section 1 in turn encompasses the following three target areas (Figure 4) for oil-gas exploration which are the subject of this likely JV. The target areas in the order priority are as follows:

#### Priority I – Sea Lake Prospect

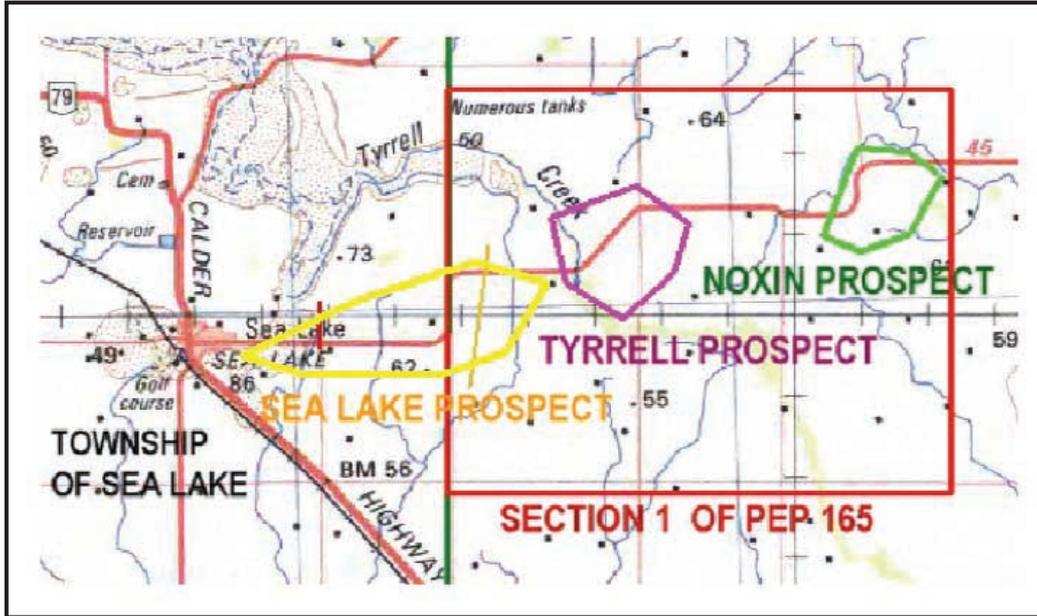
This prospect is the western most of the three target areas (Figure 4). The technical studies suggest the presence of twin reservoirs of an aerial extent of a minimum of 910 hectares with total oil pay ranging from 142m to 191m in thickness (av. 159m). The study suggests the reservoirs are trapped in a faulted anticline at relatively shallow depth.

#### Priority II– Tyrrell Prospect

This prospect is situated in the centre of Section 1 (Figure 4). The lithological frame work of this prospect is pending. However, preliminary work suggests a minimum aerial extent of 450 hectares with single pay zone ranging from 94m to 164m in thickness. It is considered that this prospect might contain up to 68 million barrels of crude.

#### Priority III– Noxin Prospect

This is the eastern most of the three prospects (Figure 4). The lithological frame work of this prospect is pending. However, preliminary work suggests the presence of a twin reservoir in this prospect with a minimum aerial extent of 310 hectares. On this prospect only one pay zone measurement has been taken. This measurement suggests pay zone thickness of 92m and 58m for each of the two reservoirs respectively.



Source: Knight Industries

Figure 4: Location of prospects within Section 1 in PEP 165

(Section 1 of PEP 165 is designated:  
NW corner 35° 27' 00" 142° 55' 00"  
NE corner 35° 27' 00" 143° 02' 50"  
SW corner 35° 32' 00" 142° 55' 00"  
SE corner 35° 32' 00" 143° 02' 50")

Fairstar Management are anticipating concluding this study and if considered viable, reporting to ASX on 3 July 2007.

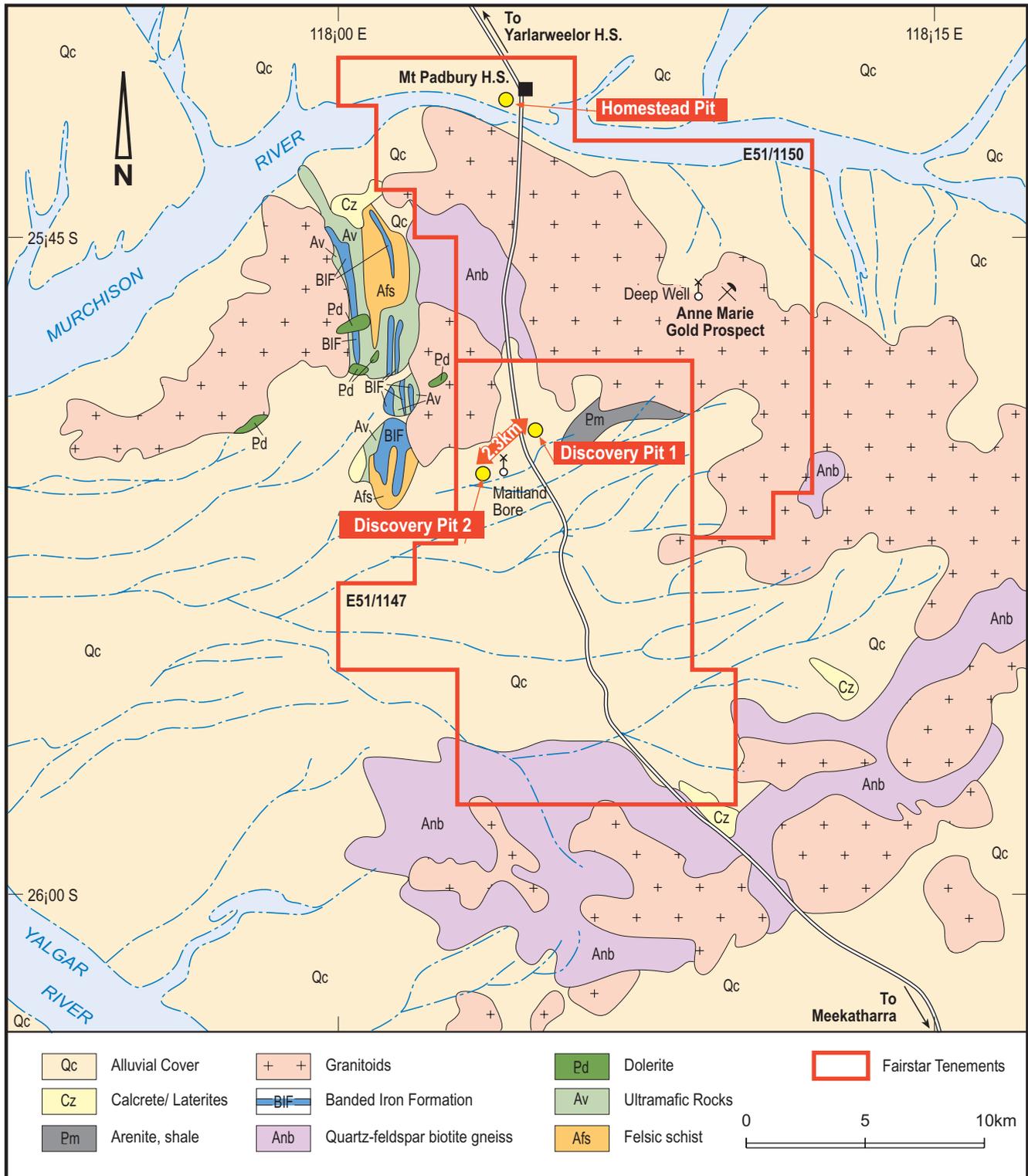
## Mount Padbury – Uranium

At Mt Padbury the geological examination has identified an additional area of uranium potential (Discovery Pit 2, Figures 5 and 6), which has widened the target area way beyond the Company's earlier expectations. Additionally, in the northeastern part of E51/1147 a sequence of quartz arenite/sandstone interbedded with shale and siltstone unconformably overlying the granite – has been located. This geological setting suggests possibility of unconformity and sandstone related uranium mineralisation in E51/1147. As a result of these observations, for a while, the earlier planned (around the Discovery Pit 1) drilling programme has been postponed and exploration efforts are now being directed towards better geologic understanding of the tenements and environs.



Source: FAS

Figure 5: Discovery Pit 2 eastern wall showing uranium (carnotite) mineralisation along joints filled with calcareous veins (white colour)



Source: FAS (modified from DOIR publications)

Figure 6: Geological map showing tenements and discovery areas

## Work Programme - Q1 07/08

With the appointment of new Project Geologist commencing 23rd July 2007, the Company has planned to carry out the following exploration work in the Mt. Padbury tenements:

- Geological mapping
- Ground radiometric surveying using hand held radiometric detector (GR –135 G Plus)
- Study of information and planning of trenching work for understanding mineralisation pattern (Figure 6)
- Heritage work – land clearance for disturbance and selection of contractors
- Trenching to expose mineralisation pattern (Figure 6), mapping of trench walls, sampling and assaying for uranium, gold, arsenic, vanadium, etc.

With this knowledge, the Company will then develop and implement a befitting evaluation programme over selected areas to begin to prove Fairstar’s assumptions of a uranium resource.

## Tenements Granted

During the quarter in the Murchison Mineral Field the Company has been granted exploration licences E51/1148 and E51/1149 with the following details (Table 1):

**Table 1: Tenement details**

Tenement	Locality	Location	Area (km <sup>2</sup> )	Shire
E51/1148	Yanganoo	65km East of Meekatharra	214.77	Meekatharra
E51/1149	Frustration Bore	76km west of Wiluna	214.95	Meekatharra

## Tenement Geology

Geologically the tenements cover the Yerrida Group of rocks as shown in Table 2, but visibly major part of the tenements is covered by Tertiary and Quaternary sediments. Presence of minor outcrops of calcrete/silcrete from the area is also reported.

**Table 2: Stratigraphy of the tenements and environs**

Group	Subgroup	Formation	Rock type
Yerrida Group	Mooloogool Subgroup	Maraloou	Black shale, siltstone, carbonate
		Killara	Aphyric mafic lavas and intrusives
		Doolgunna	Arkosic sandstone, siltstone, shale, quartz wacke
		Thaduna	Lithic wacke, siltstone, shale, minor arkose
	Windplain Subgroup	Johnson Cairn	Siltstone, shale, carbonate, minor lithic wacke
		Juderina (bubble well and Finlayson member)	Arenite, conglomerate, minor carbonate (silicified carbonate with evaporates, and arenite, respectively)

~~~~~Unconformity on Yilgarn Craton~~~~~

## Exploration Potential

Previous explorers have identified zinc values of 2830 ppm and 2230 ppm from a gossan and an alteration zone at the contact of carbonaceous shale and a mafic intrusive respectively. Additionally, geochemical sampling by WAGS geologists suggests tenements' potential for base metal and uranium exploration in the Maraloou Formation.

## Exploration Programme – Year 1

- Data acquisition from Western Australia Department of Industry and Resources (DOIR) has been initiated
- Data review, digitisation, data collation and processing
- Data acquisition and processing of recent multi-client airborne geophysical data to aid target selection for follow up exploration.
- Acquisition of airborne colour ortho-photographs
- Combined geological and regolith mapping along with geochemical sampling using - Mobile Metal Ion technique

## Kurnalpi Prospects

Due to serious health problems with the Consultant involved in the preparation of technical reports on drilling carried out at Half Way Hill and Colour Dam prospects the reports are delayed and are now anticipated to be at hand by the end of July.

## Work Programme - Q1 07/08

- \* The observations made in the logging of drill cuttings from Halfway Hill suggest that the Prospect could have a significant hydrothermal gold system at depth beneath the known gold mineralisation. To test this concept, during the coming Quarter, the Company is planning to drill a series of RC deep holes (> 200m) in its Halfway Hill Prospect.
- \* Additionally, bulk density (BD) determinations for all mineralised and some waste intersections for both Halfway Hill and Colour Dam prospects will be carried out. The BD information is essential and will be used for estimating the gold resources of the prospects.

## KURNALPI DATABASE

The Company has completed researching and collating all previous pre existing exploration data from the 1970's to present drilling programmes for the Kurnalpi project area. The data has been digitally captured from previous data files and reports and compiled in a company database using Micromine exploration software. The data will require future refining and implementation in due course.

## Technical Appointments

During the report period the following exploration positions were created and appointments made:

### Exploration Adviser/Technical

With effect from 1st May 2007, Mr Mahendra Pal was appointed to the position of Exploration Adviser/ Technical. Mr. Pal is an experienced geologist and has held senior operational, management and advisory roles within Australia [ESSO Australia Ltd, Rio Tinto PLC (erstwhile CRA)] and overseas (Exploration Supervisor on behalf of HATCH Canada in Iran, Technical Advisor to Rio Tinto Orissa Mining, Orissa - India, Exploration Adviser to Oswal Brasil Refinaria de Petróleo, Brazil).

Mr. Pal is a highly versatile geologist and has experience in the exploration, evaluation, valuation and mining of copper, lead, zinc, uranium, gold, iron ore, oil shale, etc.

He is a Fellow of the Australasian Institute of Mining Metallurgy (AusIMM), Australia; Member of the Advisory Board: Centre for Exploration Targeting, the University of Western Australia; AusIMM Representative to the Standards Australia – Iron Ore Committee; Committee Member of Geoconferences (WA) Inc.; and Member of the Society of Geoscientists and Allied Technologists, India

### Project Geologist

Mr. John William Johnson was appointed to the position of Project Geologist. Mr. Johnson brings 30 plus years of very broad geological experience to Fairstar. Over that time he has been exposed to a wide range of commodities including uranium, base metals, iron ore and gold. During his career he has run projects ranging from grassroots exploration through to feasibility studies. In addition, to the exploration experience he has extensive exposure to mining, grade control, ore body modelling and evaluation. His desire for hands on experience in computing has kept him in touch with the rapid changes happened and happening in computing and modelling skills required in the modern geological environment.

Mr. Johnson is scheduled to join FairStar Resources on 23rd July 2007.

## Miscellaneous

In addition to the above during the quarter the following were attended to:

- Literature search on areas of Company interest continued
- Preparation and writing of Annual Report (Morelands Find –M25/152) for DOIR submission
- Field visit to Mt. Padbury project tenements

*The information reported herein is based on observations made in field and information compiled by Mr. Mahendra Pal who is a Fellow of the Australasian Institution of Mining and Metallurgy, Australia and a Member of the Society of Geoscientists and Allied Technologists, India. Mr. Pal is an employee (Exploration Adviser/Technical) of Fairstar Resources and has sufficient experience relevant to the style of mineralisation and deposit type under consideration, and to the activity which he is undertaking to qualify as a Competent Person as defined in the 2004 Edition of the "Australian Code for the Reporting of Exploration Results, Mineral Resources and Ore Reserves". Mr. Pal consents to the inclusion of this report of the matters based on his observations in the form and context in which it appears.*