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ABN 38 115 157 689

Capital Structure

28th July 2011

Ordinary Shares on issue: 676 M

Share price: \$0.057

Estimated market

capitalisation: \$ 39 M

Board Directors

Kevin J Robertson MAICD
Managing Director

Harold J Paiker
B.Juris LLB LLM
Director Non Executive

Con Markopoulos
Director Non Executive

Gary Lyons
Director Non Executive

Alan Thomas
Company Secretary

Highlights Quarter

Substantial progress in selecting investor to fast track development of SHIP, including:

- Advanced negotiations with a number of groups comprising Chinese and European investors, no concluded agreement in place yet.
- SHIP Resource update, database updated with analyses and surveys from last round of drilling of hematite gravels passed to AMC Consultants results attached.
- Negotiations at advanced stage with native title holders for agreement to mine.
- Review of drilling and analysis data has indicated need for further step out drilling to south west.
- Highly encouraging results received from initial tests to upgrade hematite product, potentially up to 59.5% Fe.
- Water bore drilling of 35 holes intersected significant flows of saline water within 20km of proposed plant, meaning more than sufficient water at site to meet plant needs.
- Encouraging results of dry separation, with efficient removal of ultrafine waste material.
- Substantial progress on process plant design, plant will now incorporate initial dry separation to save water.
- New mine rail spur route selected in preference to haul road to connect to existing multiuser railway line, reducing capital and operational expenditure.
- Detailed topographic survey undertaken of process plant and rail spur areas.
- Copper and lead anomalies evident in soil samples from Killara base metal prospect.



Steeple Hill Iron Project (E28/1672 and E28/1766)

FairStar has rigorously evaluated a number of international investor proposals to make sure it achieves the best value proposition for shareholders.

The board wishes to reiterate that its over-riding priority has always been to ensure it gets the best deal for FairStar shareholders.

For that reason FairStar is continuing negotiations with Chinese and European investors so it can strike a deal that's favourable to shareholders while fast track developing the SHIP project.

FairStar's over-riding objective over many months of detailed discussions has always been to balance shareholder value with getting the company's iron ore to market.

FairStar will update the market on the outcome of negotiations.

Substantial operational and planning work continued during the Quarter as part of FairStar Resource's commitment to fast track SHIP to production, with particular emphasis on Resource update, upgrading hematite product and transport infrastructure.

FairStar's SHIP Database was updated with recoveries of heavy hematite fraction and associated analyses and drillhole collar surveys to produce updated cross sections with new holes, plotted with geology and analyses. Different stratigraphic domains of sand, gravel, clay and basement were identified and digitised as strings to form layers.

This data was passed to AMC consultants, who have produced an updated block model of the hematite rich alluvials to produce an updated resource estimate in accordance with the JORC code. These calculations are complete, and a new Indicated Resource is attached. This shows an increase of 5 Million Tonnes of hematite rich alluvials mainly in the high hematite recovery sand and gravel.

Examination of the new cross sections indicated a need for additional drilling at the south end of the deposit, to the west and southwest, to close off the mineralisation.

A further program of 110 aircore holes is planned to further delineate the hematite mineralisation in this area.

Upgrading Hematite product by Bacterial and Fungal Leaching

Testwork was undertaken in South Africa on upgrading a sample of hematite product by leaching separately with bacteria and fungus to remove part of the silica and alumina. A fungal leaching option is being further explored that has the potential to upgrade hematite to 59.5% Fe with minimal loss of iron. The bacteria leaching was conducted at room temperature (30 degrees centigrade) for five and 10 days, and successfully removed part of the silica and alumina. However, the increase in grade from 58.6% Fe to 59.6% Fe after five days and to 59.95% Fe after 10 days was accompanied by an unacceptable loss of iron into ultrafines and liquid. This would clearly make the bacterial process uneconomic. Attention will now focus on the fungal leaching option.

Water Bore Drilling

The initial water boring program of 25 high priority holes was undertaken in mid June 2011, but was delayed by very wet weather.

Significant water flows of up to 148 tonnes per day were recorded from five holes that were only 133mm in diameter and 100m deep. The water came from depths greater than 50m and not from shallow aquifers. Larger flows are expected from larger diameter production bores, which would also be drilled deeper. Water samples were sent for analysis.



Quarterly Report for period ending 30 June 2011



Additional holes were drilled in the salt Lake Yindarlgooda to test the lake sediments and deeper channels for water, and encountered minor flows of salty water.

A second round of water exploration holes is being planned and expected to add to the quantity of water discovered.



Photographs: water boring program in June 2011 yielding significant flows.

Dry Separation of ultrafine Alluvials

Testwork has shown that little hematite occurs in the fine fraction of the alluvials, but it is difficult to recover water for recycling from the fine fraction if wet treated in the process plant. Three different machines were used to dry separate the -250micron fraction of the alluvials, and all proved very successful in efficiently separating these ultrafines. FairStar will install these machines in the process plant, significantly reducing water consumption.

Progress on the Process Plant Design

Substantial progress has been made with the process plant design, with the flowsheet modified to include dry separation of the ultrafines near the front of the processing. The ultrafines generated will be passed over a belt magnet to recover part of the limited hematite in this fraction. The overall plant is a simple washing and screening design, with fines to spirals and coarse material to dense media separation. A pilot plant flowsheet has been designed for a pilot plant to test the process and hematite recoveries.

Rail Spur to be constructed to hematite stockpile.

After comprehensive technical and financial reviews, the original proposal for a 23 km haul road to a siding beside the Trans Australia railway line has been replaced by a rail spur along the same route to a balloon loop adjacent the hematite stockpile. The route follows a low ridge and will be flood free. The rail line will be operationally more economical in the long term and more efficient.

Detailed Topographic Survey

Surveyors have been engaged to carry out a detailed topographic survey of the proposed plant area on a low hill immediately adjacent the hematite rich gravels. They will also conduct a survey of the rail loop and train loading area further to the east. This is required for detailed planning of the infrastructure. Detailed topographic survey work is also required over the proposed mine area. Mine scheduling has been undertaken and FairStar plans to start mining in the high grade area adjacent the process plant, with minimal trucking distances to keep mining costs low.

Updated Resource Estimate for SHIP

- New Indicated Resource estimate of 136Mt at 5% recovery cutoff, with average 15% recovery of hematite product at grade of 58%Fe, 7.2% SiO₂, 5.9%Al₂O₃, 0.01%P, and 1.7%LOI.
- Surface sandy layer has increased by 5Mt at same 14% recovery, and similar grade of hematite product.
- Main gravel layer has increased by 10Mt at slight decrease in average recovery of 18%, and similar grade of hematite product.
- The less mineralised basal clay layer has decreased to 26Mt, at 7% hematite recovery, and similar grade of hematite product. The decrease was due to new analyses being lower than previously interpolated values for unanalysed samples from drillholes. The former unanalysed samples were clay with less visible recoverable hematite. The clay ore is harder to treat, for less return.
- The hematite recoveries above are for the plus 0.6mm to 6mm fraction, and additional hematite will be recovered from the very fine -0.6mm fraction by treating with spirals.
- Many of the additional 216 holes were drilled at the edges of the alluvial deposit to close off the mineralisation, or in shallow tributaries to the east to delineate the hematite mineralisation there in order to allow planning of infrastructure around it.
- The low Loss on Ignition (LOI) at 1.7% and very low free moisture levels at 0.6% by weight are highly beneficial, as when the fines are sintered by heating at about 1000 degrees Centigrade, less mass of hematite ore is lost by evaporation of moisture and volatiles than for most competitors. The total loss of only 2.3% means a very high sinter yield of 97.7%, whereas some competitors have combined moisture and volatiles losses as high as 18%.
- The very low phosphorous levels in the hematite are also beneficial, as low phosphorous steel is less brittle. Low phosphorous ores are highly sought after by steel makers, and these ores are rapidly being depleted in the Pilbara.
- The hematite rich alluvials at SHIP have no overburden, only 10cm of topsoil which needs to be removed and stockpiled for use in rehabilitation. The lack of overburden and minimal internal waste blocks means that the resource should have a very high conversion ratio into reserve status, probably over 90% conversion. This lack of overburden will also reduce mining costs, in an already low cost, free digging alluvial mining operation with short haul distances to the processing plant on the adjacent creek bank.
- **The economics of this low cost operation, at a time of high iron ore prices, appear very robust.**

Negotiations with Native Title Claimants.

Negotiations have reached an advanced stage and are expected to be finalised next quarter. This will be a major step towards the granting of a Mining Lease over the hematite rich alluvials. Other regulatory approvals, which are well progressed, will cascade from this.

Other Projects

Jones Find and Duchess of York Gold Projects

Both projects have Mining Leases pending, and both are targeted for drilling in the near future, with holes pegged at Duchess of York. The reverse circulation (RC) drilling rig deployed in water bore drilling will be used to drill these holes as soon as the water bore program is complete.

Hampton Hill Gold Project

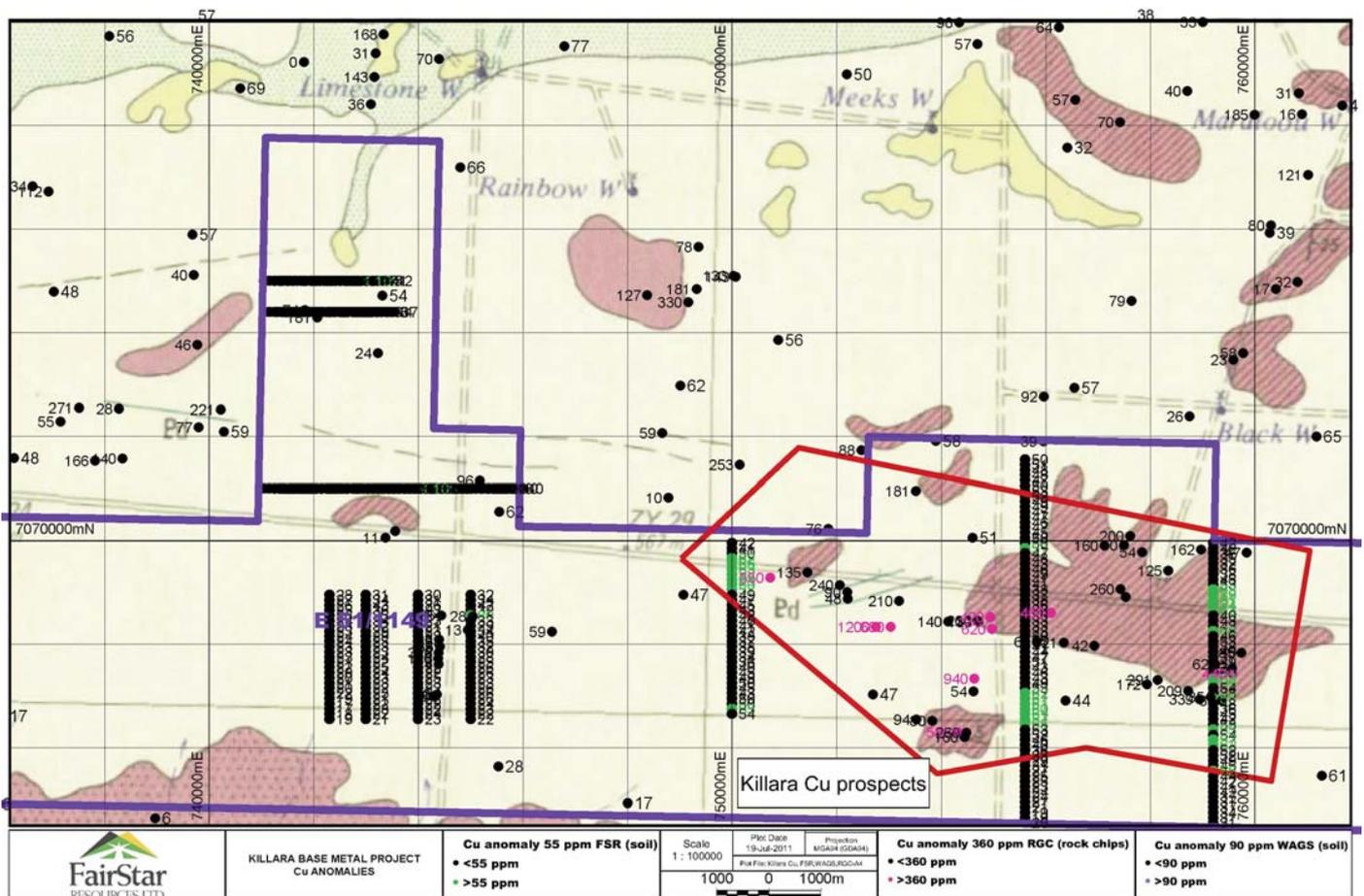
This newly acquired project was assessed for initial reconnaissance to gain an understanding of the geology, and access for exploration, and to determine the best methods of exploration. Deep soil cover over much of the area means that auger drilling

to obtain soil samples will likely be conducted, especially over the highly prospective Randall Shear which transects the area.

Killara Base Metal and Uranium Project

Analysis of remnants of soil samples which had anomalous MMI soil analyses was undertaken using traditional chemical digest soil analysis. These showed a marked difference to the pattern of anomalous results from MMI analysis. The new results showed a significant copper anomaly in the east of the lease area, with a minor coincident lead anomaly. This area is planned to be soil sampled on infill lines to delineate the copper and lead anomaly more closely, along with a mapping and rock chipping program to discover the source and host rocks for the mineralisation.

The radiometric aerial survey flown by FairStar Resources has been examined and uranium indications will be followed up by rock chip sampling and shallow drilling. The notes accompanying the regional map indicates uranium in calcrete to the south and southwest of our lease, and calcretes in our lease area will be targeted for sampling and analysis.



ENDS

About FairStar Resources

Background, FairStar - A New Horizon:

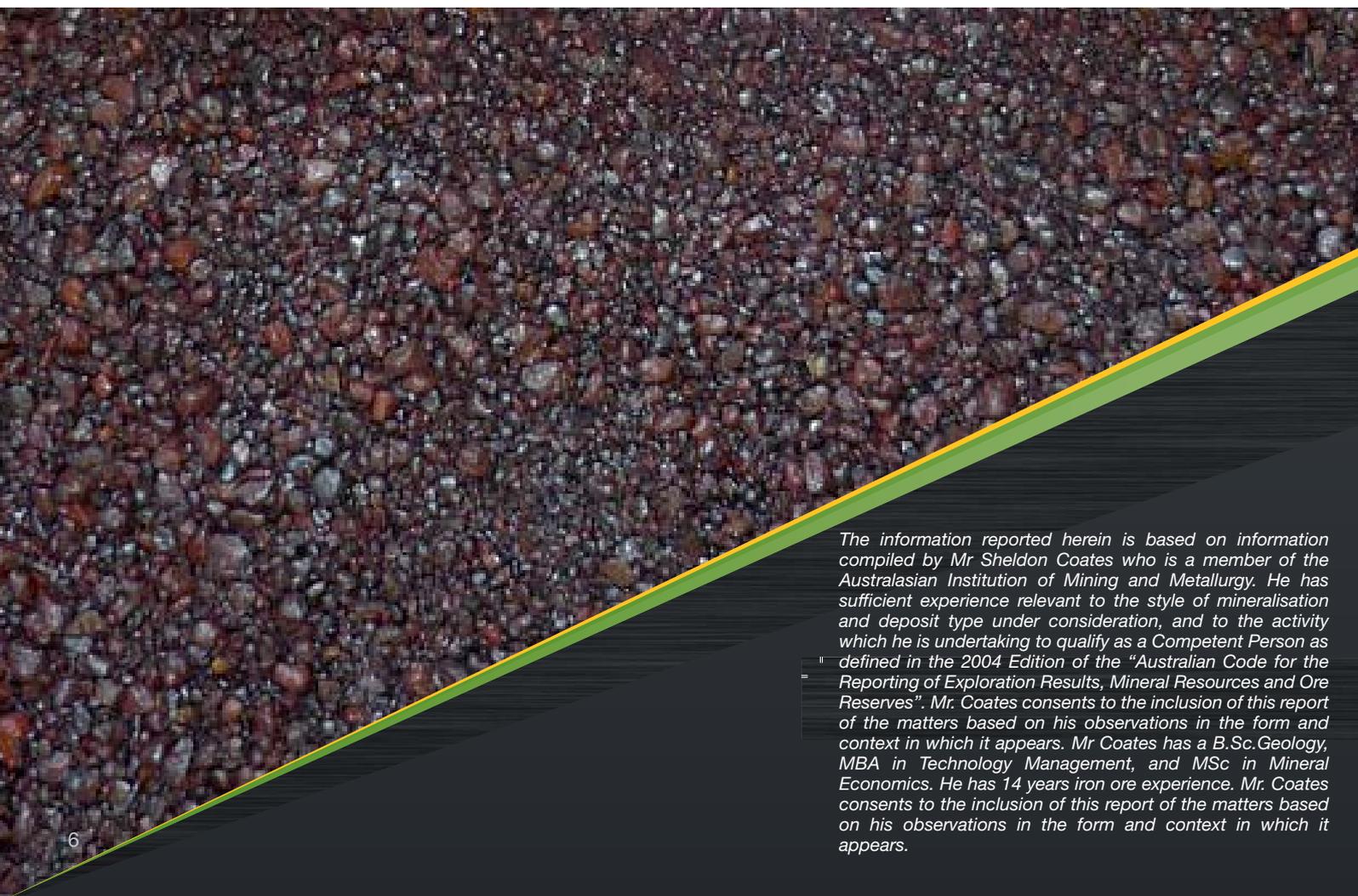
FairStar was listed in October 2006 and is a unique Perth-based uranium and gold producer; and upon discovering Iron mineralisation at Lindsay's Dam commenced with its major project (SHIP) that is strategically located near existing transport infra-structure with a clear and unencumbered path to production for relatively low capital expenditure.

FairStar will fast track development and production of its high-value Steeple Hill iron ore project with significant Indicated Resource estimate of hematite rich gravels, which produces a hematite fraction of Direct Shipping Ore to deliver immediate and substantial cash flows.

Significantly, FairStar believes it will be cash flow positive from its first year of production at SHIP.

This will be used to increase shareholder value and fund further high-value projects such as the gold tenements at Jones Find Gold Prospect and Duchess of York - Hickmans Find.

FairStar has an extensive portfolio of projects straddling 1167 Km² and remains committed to an aggressive expansion campaign to bolster its resource inventory and quickly transition the company from a junior explorer to a highly competitive producer of iron ore, gold and uranium.



The information reported herein is based on information compiled by Mr Sheldon Coates who is a member of the Australasian Institution of Mining and Metallurgy. He 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. Coates consents to the inclusion of this report of the matters based on his observations in the form and context in which it appears. Mr Coates has a B.Sc. Geology, MBA in Technology Management, and MSc in Mineral Economics. He has 14 years iron ore experience. Mr. Coates consents to the inclusion of this report of the matters based on his observations in the form and context in which it appears.