

ASX Code: FAS

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ABN 38 115 157 689

Capital Structure

30th January 2012

Ordinary Shares on issue: 793 M

Share price: \$0.033

Estimated market

capitalisation: \$26 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 for the Quarter:

- Substantial corporate activity to fast track Steeple Hill Iron Project (SHIP) Resource and generate positive cash flow to develop other Company projects.
- **Significant progress in strategy to transition Company from explorer to producer.**
- **Company secures conditional approval for \$A300 million facility to fast track Steeple Hill Iron Project (SHIP) contingent on a number of conditions.**
- **Key conditions completed and satisfied.**
 - Native Title agreement signed.
 - Mining Lease M28/373 over Company's 100% owned SHIP project granted.
 - Sustained progress on finalising off-take agreement.
- **FairStar acquires major new iron ore tenement adjacent SHIP with substantial mineralisation potential.**
- Planning undertaken for exploration at the Killara uranium and base metal prospect. Two adjacent prospective areas were identified and exploration licences have been applied for and are pending.
- Planning undertaken for auger soil sampling at the Hampton Hill tenement, which contains part of the Avoca Shear and is prospective for gold.

Photograph: Final product for shipping.



Once again, there was significant activity across the business to secure funding on highly beneficial terms to shareholders to transition FairStar Resources from an explorer to producer of iron ore with additional projects in gold and uranium.

Steeple Hill Iron Project

Conditional Funding.

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

Significantly, the facility will be repayable over ten 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 and getting a Mining Lease granted.

FairStar was able to satisfy these key conditions during the period.

Native Title Agreement.

FairStar announced on November 14 that it had signed a Native Title Agreement covering its 100% owned SHIP project.

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.

As previously outlined, this fulfilled a key condition towards securing an innovative \$A300 million debt funding instrument and moved the Company closer to fulfilling a second key condition - obtaining a mining lease.

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.

This fulfilled a further critical condition towards gaining unconditional approval of the \$A300 million funding facility.

New Iron Ore Tenement with Substantial Mineralisation Potential.

Another significant development in the Company's SHIP strategy during the December quarter 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.

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.

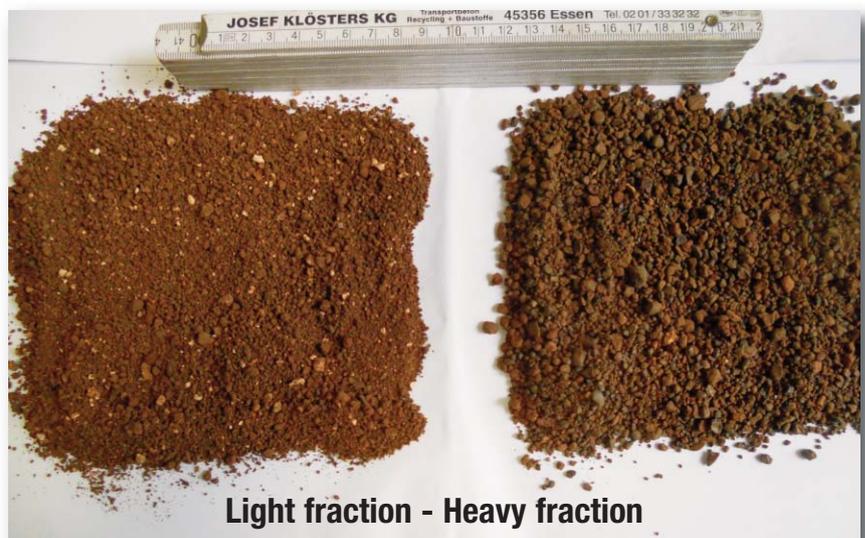
This will allow detailed mine planning to commence within the area of the Indicated Resource, and planning of the placement of the process plant equipment, and the exact rail spur alignment.

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.



Photograph: Separation fractions.

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.

Photograph: Groundwater drilling.



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.



Photograph: Colour Dam North

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.



Photograph: Old drill hole at Hampton Hill

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 quarter, 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.

Competent Persons Statement

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 and 8 years gold 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.

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, Kurnalpi 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.