FAIRSTAR RESOURCES LTD

ABN 38 115 157 689

Financial report for the year ended 30 June 2014

Financial report
for the financial year ended 30 June 2014

Directors' report

The directors of FairStar Resources Ltd ("FairStar" or "the Company") submit herewith the financial report of the Company for the financial year ended 30 June 2014. In order to comply with the provisions of the Corporations Act 2001, the directors report as follows:

Directors

The names of the directors in office at any time during or since the end of the year are:

Name of Director	Period as Director
K J Robertson	
C Markopoulos	
W Wan	Resigned 28 November 2013
T M Symons	Appointed 14 August 2013, Resigned 26 March 2014
J-P Reifler	Appointed 26 March 2014
D A Rossiter	Appointed 2 April 2014

Kevin J Robertson	—	Managing Director (Executive)
Qualifications	—	Certified quarry manager
Experience	—	Kevin Robertson has 42 years extensive operational and management experience in large and small scale mining projects from development through to successful production. He has considerable understanding of Western Australian and Tasmanian mining operations which commenced in 1969 at Tasmania's Savage River Iron Ore Operation. His depth of knowledge is in the setup, commencement and operation of an iron ore mine and has additional expertise which includes drilling and blasting. The proficiency of work allocation, safe deployment of staff and allotment of responsibilities are further qualities Kevin brings to FairStar. Mr Robertson is also a member of the Australian Institute of Company Directors. He is well qualified to take FairStar Resources from junior explorer to producer. Kevin is moving FairStar forward with his intense passion, vision and commitment in order to lift FairStar to a producer of, initially iron ore, in the Australian mining industry. His vision extends to the considerable gold, uranium and base metal prospects held by FairStar.
Interest in Shares and Options	—	3,490,600 ordinary shares
Directorships held in other listed entities during the past 3 years.	—	None

Constantino Markopoulos	—	Director (Non-executive)
Qualifications	—	Cartographer
Experience	—	Mr Markopoulos is a tactical business manager with extensive networks and over 30 years experience in the global mining and natural resources industry. He has significant international business experience gained in large and complex global and national industrial, mining and retail businesses. He has substantial experience in the resource industry and expert knowledge of Project Analysis and Management, Strategic Procurement of goods and services and Raw Material Purchasing. Mr Markopoulos was previously the Chairman and CEO for Golden West Resources, was previously a Non-Executive Director of Ironstone Resources Limited and is a Member of the Australian Institute of Company Directors.
Interest in Shares and Options	—	136,500 Ordinary Shares
Directorships held in other listed entities during the past 3 years.	—	None

Wayne Yiu-Wing Wan	—	Director (Non-executive), Resigned 28 November 2013
Experience	—	Mr. Wan has significant experience in trading commodities and, in particular, with iron ore. Strategically and commercially, Wayne brings significant experience to the table with extensive mining and oil and gas industry backgrounds. Operationally Wayne has been involved with running LNG gas trains plus Storage & Loading facilities as well as undertaking practical hands-on underground mining. Wayne also brings technical expertise in plant operations and corresponding safety and environmental compliance in processes and systems that will, in future, be important for FairStar. His private endeavors include running his own business and project management of associated initiatives. He is credited with a host of valuable contacts in the Hong Kong and China iron and steel industry as well strong overseas networks within the finance and investment sector.
Interest in Shares and Options	—	785,250 ordinary shares
Directorships held in other listed entities during the past 3 years.	—	None
Timothy M Symons	—	Director (Non-executive), Resigned 26 March 2014
Experience	—	Mr Symons has 25 years of executive management experience in landside logistics sector. He has extensive experience in rail operations management for both private and government sectors in Western Australia, New South Wales, South Australia and Victoria; as well as a determined focus on construction and establishment of Greenfield heavy haul railways for bulk commodities in the Pilbara region as well as acquisition of rolling stock. Tim has had considerable experience in managing rail operations with Fortescue Metals Group and developing an integrated logistics system recognised as a model by rail industry peers.
Interest in Shares and Options		Nil
Directorships held in other listed entities during the past 3 years.	—	None
John-Pierre Reifler	—	Chairman; Director (Non-executive), Appointed 26 March 2014
Experience	—	Mr Reifler is a person of high integrity and morals. He is well versed in the creation, implementation and direction of vision and corporate strategy. He brings to FairStar a fresh view, uncluttered with any commercial allegiances, dedicated to strict corporate governance, and an unwavering will to ensure the execution of a vision to safeguard the rights of the shareholders. The directors of FairStar welcome John and look forward to working together as a cohesive team for the benefit of the Company.
Interest in Shares and Options		500,000 ordinary shares
Directorships held in other listed entities during the past 3 years.	—	None
David Allan Rossiter	—	Director (Non-executive), Appointed 2 April 2014
Experience	—	Mr Rossiter is a Civil Engineer with extensive rail experience as well as detailed capability in engineering construction and geotechnical areas. He is currently completing a degree in commercial law. The Board welcomes David and looks to his support in the rail strategy as well as plant construction and engineering.
Interest in Shares and Options		Nil
Directorships held in other listed entities during the past 3 years.	—	None

Company Secretary

The Company Secretary is Mr Madhukar Bhalla. Madhu was appointed on 30 April 2013 and is the Commercial Manager at FairStar. He has extensive management and accounting experience gained in a variety of businesses in Australia and overseas. He is a member of the Institute of Chartered Secretaries and Administrators and Chartered Secretaries of Australia as well as a member of the Institute of Company Directors.

Principal Activities

The principal activity of FairStar Resources Ltd is exploring for gold, uranium, iron ore and base metals.

Operating Result

The loss of the company after taxation for the financial year ended 30 June 2014 was $6,632,786 (2013 - $15,105,040).

Dividends Paid or Recommended

No dividends were paid during the year and no recommendation is made as to dividends.

Review of Operations

Exploration Activity

The company's exploration activities over the past year have included:

- Iron ore rights over SHIP North tenement converted to full Company ownership
- Discussions with process plant engineers and laboratory regarding the pilot plant test of up to 100t of SHIP ore
- Areas identified from where 100t of SHIP ore for pilot test will be sourced
- Continued negotiations with pastoralist at SHIP in regards to applications for the various Miscellaneous Licences for roads and camp facilities
- Extension of Term Application submitted to the Department of Mines and Petroleum for SHIP tenement E28/1766 and has been granted for a further five years
- Continued progress on immediate SHIP requirements once funding is achieved
- Mapping, costeaning and sampling program conducted at Kurnalpi South to follow up on previous high grade sample results
- Previously submitted Extension of Term Application for tenement E28/1749 has been granted by the Department of Mines and Petroleum for a further five years. This tenement contains the Kurnalpi prospects of Halfway Hill, Area 9, Area 7 and Hacketts Well
- Further entry into and validation of the Company's extensive data base, particularly on the Kurnalpi Project, Halfway Hill and Area 9 historic data
- Complete and submit all necessary tenement disturbance data for the Department's Mine Rehabilitation Fund (MRF)
- Strategic review of Company tenements carried out. E51/1150 (Mt Padbury northern tenement) and E37/894 (Music Well) surrendered
- Review and interpretation of historic data for the Duchess of York Project. This work has enabled a new exploration program to be created, aimed at extending known mineralisation in the area
- Subsequent to balance date, a valuation of the Steeple Hill Iron Project, consisting of tenements E28/1672, E28/1766, E28/1997 and M28/373 was undertaken by Al Maynard & Associates Pty Ltd. This report concludes that the current cash value of the project is ascribed at $382 million. The Empirical Method was selected as the basis for the valuation. The AMC Indicated Estimates by stratigraphical units were used and insitu values per tonne ranging from $1.00 to $4.00 were applied.

Project Funding

(a) CSR Ziyang Co. Ltd

On March 3 2014, FairStar announced it had secured vendor financing with CSR Ziyang Co. Ltd of up to US$176 million for SHIP's rolling stock and associated rail infrastructure requirements.

The agreement with CSR Ziyang is on competitive commercial terms and provides a five year repayment term with a two year holiday. This reduces pressure on FairStar's cash flow as the Company gears up to commence production and generates cash flow and revenue.

Under the agreement, FairStar is to provide a 15% deposit to commence manufacture; the Company can confirm discussions are underway with a range of interested financiers.

FairStar will be in a position to make this contract unconditional upon securing full funding through the efforts of Creafin & Associates.

(b) Creafin & Associates

On 12 June 2014, FairStar announced that it had executed a non-exclusive mandate with Creafin & Associates (Creafin); which will enable Creafin & Associates to seek a new USD400 million fixed term loan facility to meet funding requirements for the Company's Steeple Hill Iron ore Project (SHIP)

Since that time, Creafin has assisted in negotiating the Convertible Note Agreement which was entered into on the 21 October 2014 with I-World International Group Limited.

Creafin & Associates have reassured the Directors that their other negotiations to source the full amount of the USD400 million for the Steeple Hill Iron Project are progressing. They have reported that they have more than one interested party with whom they are in consultation to provide the required funds. Creafin have communicated to the company that the lenders that they are in communication with have given assurances that their due diligence has been completed and as they work through the mechanics of making loan funds available to FairStar they have indicated that they are hopeful of a positive outcome in the very near future. Under the mandate, if Creafin secures funding for the facility on terms acceptable to the company, Creafin will be entitled to a cash fee of 5% of the loan amount received by the Company and subject to shareholder approval, Creafin will have the right to subscribe for shares in the Company at 1 cent per share up to a maximum of 19.90% of the Company's fully diluted share capital.

(c) Other

FairStar is also in discussions with a range of other potential funders to ensure the Company secures the best possible terms and outcomes in a competitive process.

Short Term Financing

During year ended 30 June 2014, whilst attempting to secure long term project funding, the Company financed its operations mainly by the issue of shares to unrelated parties and pursuant to a Standby Subscription facility with Gurney Capital Nominees Pty Ltd.

As at the date of this report, the following short term financing facilities are payable:

Description	Approx amount payable
Loan secured by PPSA Security interest	$2,380,000
Loan secured by mortgage over mining lease	$3,325,000
Unsecured loans (former Convertible Notes)	$1,100,000
Other unsecured loan	$1,190,000
	$7,995,000

In October 2014, the Company entered into a Convertible Note Agreement with I-World International Group Limited for $10 million. FairStar will immediately commence drawdowns on this facility in order to fund its current operations and satisfy its immediate creditor obligations (refer below).

The Company is currently also in negotiations with a number of parties regarding its short term and long term financing requirements. In the meantime, FairStar will continue to negotiate with its lenders and utilise the Gurney Capital Nominees standby subscription agreement as required.

Significant Changes in the State of Affairs

There were no significant changes in the state of affairs of the company during the financial year other than as detailed above.

Future Developments

The Company, in general, will continue with various activities on the Steeple Hill Iron Project, including further exploration, and infrastructure planning.

FairStar is currently in negotiations to secure either a long term financier or investor to assist with both working capital requirements and funding the development of the Steeple Hill Iron Project.

Further likely developments in the operations of the Company and the expected results of those operations in future financial years have not been included in this report, as the inclusion of such information is likely to result in unreasonable prejudice to the Company.

Matters subsequent to the end of the financial year

Subsequent to balance date, the Company has:

(a) Issued the following shares:
   i. In July 2014, 50,473,542 shares to raise $150,000 for working capital.
   ii. In August 2014, 14,062,500 shares to raise $45,000 for working capital.

(b) On 31 August 2014, 278,221,152 options exercisable at 10 cents each expired without exercise.

(c) On 21 October 2014, the Company entered into a Convertible Note Agreement to raise $10 million with I-World International Group Limited. The major terms are:
- Secured by PPSA interest granted by FairStar
- Term – 36 months
- 5% pa interest rate
- 12 month voluntary escrow period will apply to shares issued under the note
- Notes to be issued in aggregates of $1 million
- Conversion of shares is subject to shareholder approval
- Funds to be advanced to the Company at the rate of not more than $500,000 per 5 working days
- The notes are to be converted at the note holders option at the rate of 1.6 cents for the first $5 million and 2.0 cents for the second $5 million
- An initial advance of $150,000 was made under this facility in October 2014

This facility will assist the Company to fund its current operations and satisfy its immediate creditor obligations.

(d) Received $100,000 an unsecured loan from an unrelated party to assist it to meet creditor obligations. The loan is repayable within 30 days. Interest of $50,000 will be charged on this loan. The Company has not met this repayment and is therefore in default.

(e) In October 2014, the Company entered into a Deed of Settlement and payment arrangement with a creditor. Under the arrangement, payments of $25,000 per month are to be made with 10% p.a. interest accruing.

No other matter or circumstance has arisen since 30 June 2014 that has affected, or may significantly affect the Company's operations, the results of those operations or the Company's state of affairs in future financial years.

Environmental regulations

The Company is aware of its environmental obligations and acts to ensure its environmental commitments are met. The Directors are not aware of any environmental regulation which has not been complied with.

Directors' meetings

The following table sets out the number of directors' meetings (including meetings of committees of directors) held during the financial year and the number of meetings attended by each director (while they were a director or committee member). During the financial year, 8 full board meetings were held (including 2 circular resolutions passed by Directors). Audit and remuneration committees were formed during the year ended 30 June 2010. The remuneration committee did not meet during the year, and its functions were carried out by the Full Board from February 2012.

	Board of Directors		Audit Committee	
Directors	**A**	**B**	**A**	**B**
Kevin Robertson	10	10	-	-
Con Markopoulos	10	10	-	-
Wayne Wan	4	1	-	-
Timothy Symons	5	5	-	-
John-Pierre Reifler	3	3	-	-
David Rossiter	2	2	-	-

Notes

A - Number of meetings eligible to attend.

B - Number of meetings attended.

Shares under Option

There are no unissued ordinary shares of FairStar Resources Limited under option at the date of this report.

Remuneration Report - Audited

The information provided in this remuneration report has been audited as required by Section 308(3C) of the Corporations Act 2001.

(a) Principles used to determine the nature and amount of remuneration

The remuneration policy of FairStar Resources Limited has been designed to align director and executive objectives with shareholder and business objectives by providing a fixed remuneration component and offering specific long-term incentives (where appropriate) based on key performance areas affecting the company's financial results. The board of FairStar Resources Limited believes the remuneration policy to be appropriate and effective in its ability to attract and retain the best executives and directors to run and manage the company.

The board's policy for determining the nature and amount of remuneration for board members and senior executives of the company is as follows:

The remuneration policy, setting the terms and conditions for the executive directors and other senior executives, was developed by the board. All executives receive a base salary (which is based on factors such as length of service and experience) and superannuation. The board reviews executive packages annually by reference to the company's performance, executive performance and comparable information from industry sectors and other listed companies in similar industries.

Remuneration Report - Audited (cont'd)

(a) Principles used to determine the nature and amount of remuneration (cont'd)

The board may exercise discretion in relation to approving incentives, bonuses and options. The policy is designed to attract the highest calibre of executives and reward them for performance that results in long-term growth in shareholder wealth. Executives are also entitled to participate in the employee share and option arrangements.

The directors and executives receive a superannuation guarantee contribution required by the government, which is currently 9.25% (9.5% from 1 July 2014). Some individuals have chosen to sacrifice part of their salary to increase payments towards superannuation.

All remuneration paid to directors and executives is valued at the cost to the company and expensed. Shares given to directors and executives are valued as the difference between the market price of those shares and the amount paid by the director or executive. Options are valued using the Black-Scholes or Binomial methodologies.

The board policy is to remunerate non-executive directors at market rates for comparable companies for time, commitment and responsibilities. The board determines payments to the non-executive directors and reviews their remuneration annually based on market practice, duties and accountability. Independent external advice is sought when required. The maximum aggregate amount of fees that can be paid to non-executive directors is subject to approval by shareholders at the annual general meeting (currently $350,000) Fees for non-executive directors are not linked to the performance of the economic entity. However, to align directors' interests with shareholder interests, the directors are encouraged to hold shares in the company and are able to participate in employee option plans.

The objective of the Company's executive reward framework is set to attract and retain the most qualified and experienced directors and senior executives. The board ensures that executive reward satisfies the following criteria for good reward governance practices:

- Competitiveness
- Acceptability to shareholders
- Performance linkage
- Capital management

Role of the Remuneration Committee

The function of the Remuneration Committee is to assist the Board in fulfilling its corporate governance responsibilities with respect to remuneration by reviewing and making appropriate recommendations on:

(a) remuneration packages of Executive Directors, Non-Executive Directors and Senior Executives; and
(b) employee incentive and equity-based plans including the appropriateness of performance hurdles and total payments proposed.

Directors' fees

A director may be paid fees or other amounts as the directors determine where a director performs special duties or otherwise performs services outside the scope of the ordinary duties of a director. A director may also be reimbursed for out of pocket expenses incurred as a result of their directorship or any special duties.

Performance based remuneration

The company currently has no performance based remuneration component built into director and executive remuneration packages.

Company performance, shareholder wealth and directors' and executives' remuneration

The remuneration policy has been tailored to increase goal congruence between shareholders and directors and executives. Although no current arrangements exist, the Board will at the appropriate time facilitate this through the issue of options to the majority of directors and executives to encourage the alignment of personal and shareholder interests. The company believes this policy will be effective in increasing shareholder wealth. At commencement of mine production, performance based bonuses based on key performance indicators are expected to be introduced.

Remuneration Report - Audited (cont'd)

(b) Compensation of Key Management Personnel

The key management personnel of the Company during the year were as follows:

Directors
Kevin J Robertson
Con Markopoulos
Wayne Wan
Timothy Symons
John-Pierre Reifler
David Rossiter

The emoluments for each director and key management personnel of the Company are as follows:

Year ended 30 June 2014	**Short-term**			**Post employment**	**Share-based payments**		**Total**
	*Salary & Fees***	*Consulting*	*Non Cash*	*Superannuation***	*Options*	*Shares*	
Directors							
K J Robertson***	435,456	-	3,881	-	-	-	439,337
C Markopoulos *	80,000	161,808	3,881	19,130	-	-	264,819
W Wan	28,767	-	3,880	2,661	-	-	35,308
T Symons	61,370	-	3,881	2,154	-	-	67,405
J-P Reifler	29,233	-	3,881	2,704	-	-	35,818
D Rossiter	19,726	-	3,881	1,825	-	-	25,432
	654,552	161,808	23,285	28,474	-	-	868,119

*** Mr Robertson was also entitled to four weeks annual leave per year. The value of annual leave not taken including on costs, at 30 June 2014 was $161,000 (2013: 125,615)

** As at 30 June 2014, the following emoluments, which are included in the totals above, remain unpaid:

Directors	*Salary & Fees*	*Superannuation*	*Total*
K J Robertson	291,835	-	291,835
C Markopoulos *	206,810	19,130	225,940
W Wan	28,767	2,661	31,428
T Symons	61,370	2,154	63,524
J-P Reifler	29,233	2,704	31,937
D Rossiter	19,726	1,825	21,551
	637,741	28,474	666,215

Year ended 30 June 2013	**Short-term**			**Post employment**	**Share-based payments**		**Total**
	Salary & Fees	*Consulting*	*Non Cash*	*Superannuation*	*Options*	*Shares*	
Directors							
K J Robertson	435,456	-	7,734	-	-	-	443,190
C Markopoulos *	70,000	300,000	7,733	33,300	-	-	411,033
W Wan	70,000	-	7,733	-	-	-	77,733
	575,456	300,000	23,200	33,300	-	-	931,956

* In addition to his duties as a Non-executive Director, Mr Markopoulos was employed by the Company to provide specialist services. This agreement was terminated in January 2014. Refer to Section (h) for further details.

(c) Option holdings of Key Management Personnel

2014	Opening balance No.	Balance held at appoint-ment No.	Options issued at $0.001 No.	Options expired No.	Balance @ 30/06/14 No.	Bal. vested and exercisable @ 30/06/14 No.	Options vested during year No.
Directors							
KJ Robertson	3,944,757	-	-	-	3,944,757	3,944,757	-
C Markopoulos	-	-	-	-	-	-	-
W Wan	-	-	-	-	- *	-	-
T Symons	-	-	-	-	- *	-	-
J-P Reifler	-	71,429	-	-	71,429	71,429	-
D Rossiter	-	-	-	-	-	-	-
	3,944,757	71,429	-	-	4,016,186	4,016,186	-

In August 2014 all options expired without being exercised.

2013	Opening balance No.	Balance held at appoint-ment No.	Options issued at $0.001 No.	Options expired No.	Balance @ 30/06/13 No.	Bal. vested and exercisable @ 30/06/13 No.	Options vested during year No.
Directors							
KJ Robertson	3,944,757	-	-	-	3,944,757	3,944,757	-
C Markopoulos	-	-	-	-	-	-	-
W Wan	-	-	-	-	-	-	-
	3,944,757	-	-	-	3,944,757	3,944,757	-

During the financial year, there were no amounts granted as remuneration, and no options vested.

* Represents balance held at date of resignation.

(d) Shareholdings of Key Management Personnel

2014	Opening Balance No.	Purchases No.	Balance held at appointment No.	Share based payments No.	Disposals	Balance@ 30/6/14 No.
Directors						
KJ Robertson	3,412,600	-	-	-	-	3,412,600
C Markopoulos	136,500	-	-	-	-	136,500
W Wan	785,250	-	-	-	-	785,250 *
T Symons	-	-	-	-	-	- *
J-P Reifler	-	-	500,000	-	-	500,000
D Rossiter	-	-	-	-	-	-
	4,334,350	-	500,000	-	-	4,834,350

2013	Opening Balance No.	Purchases No.	Balance held at appointment No.	Share based payments No.	Disposals	Balance@ 30/6/13 No.
Directors						
KJ Robertson	3,412,600	-	-	-	-	3,412,600
C Markopoulos	136,500	-	-	-	-	136,500
W Wan	785,250	-	-	-	-	785,250
	4,334,350	-	-	-	-	4,334,350

* Represents balance held at date of resignation.

(e) Other transactions with director related entities

Transactions with other/additional director related entities are on commercial terms no more favourable than those available to other persons unless otherwise stated.

	2014 $	2013 $
(i) Salaries paid and share based payments to related parties (as defined in AASB124) of Kevin Robertson, being employees of FairStar Resources Ltd.	539,995	619,827

(f) Aggregate amount payable to directors and their director related entities at balance date

	2014 $	2013 $
Current liabilities		
Trade payables and accruals	1,299,450	815,374
Accrued Interest	-	-
Borrowings	10,000	-
	1,309,450	815,374

(g) Share-Based Compensation

There was no share based compensation granted to Directors or other Key Management Personnel in years ended 30 June 2013 or 30 June 2014, and no options were exercised.

(h) Service agreements

The agreements related to remuneration are set out below

Kevin Robertson, Managing Director
* Term of agreement – 3 years commencing 30 October 2006, which expired on 30 October 2009. This contract has been mutually extended on a monthly basis.
* Base remuneration, being payable to Byko Investments Pty Ltd, a company controlled by Mr Robertson – $410,500. This amount is inclusive of any superannuation entitlements and motor vehicle allowance.
* Payment of termination benefit on early termination by the company, other than by gross misconduct, equal to 3 months remuneration.

Con Markopoulos, Non-Executive Director (Agreement terminated January 2014)
Con Markopoulos has been engaged to provide corporate advisory services in addition to his role as Non-Executive Director to FairStar on a short term basis.
* Term of agreement – 3 months commencing 1 April 2010. Base remuneration, exclusive of superannuation entitlements- $30,833 per month, including a $3,000 per month car allowance.
* This contract has been extended on a monthly basis pending a review by the Board, but was terminated in January 2014.
* No termination benefits are payable.
* As this contract has been terminated, Con is only entitled to receive the Non-Executive directors remuneration with effect from January 2014

Non-Executive Directors
* On appointment, the Non-Executive Directors enter into a letter agreement with the Company. The agreement provides for a remuneration package containing the following key elements:

- Primary benefits – directors fees of $80,000 per annum ($110,000 per annum for the Chairman) paid monthly plus statutory superannuation; and
- Equity – share options, although no options have been granted to Non-Executive Directors since 2006.
- In addition, the Chairman and Non-Executive Directors are remunerated on an hourly rate of $200 per hour for services provided in excess of their roles as Non-Executive Directors.

Indemnification of Officers and Auditors

During the financial year, the Company paid a premium in respect of a contract of insurance insuring the directors and officers of the Company against certain liabilities specified in the contract. The contract prohibits disclosure of the nature of the liabilities insured and the amount of the premium.

The Company has not otherwise, during or since the financial year, indemnified or agreed to indemnify an officer or auditor of the Company against a liability incurred as such an officer or auditor.

Non-Audit Services

The auditor has not provided any non-audit services during the year.

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 is included in this Financial Report.

Details of amounts paid or payable to the auditor, Stantons International, for audit services provided during the year are set out in note 4 to the financial statements.

Proceedings on Behalf of the Company

No person has applied for leave of Court to bring proceedings on behalf of the Company or intervene in any proceedings to which the Company is party for the purpose of taking responsibility on behalf of the Company for all or part of those proceedings.

The Company was not a party to any such proceedings during the year.

Signed in accordance with a resolution of the directors made pursuant to s.298(2) of the Corporations Act 2001.

On behalf of the Directors

Kevin J Robertson
Managing Director

Perth, 10 November 2014

Directors' declaration

The directors declare that:

(a) In the directors' opinion, having regard to the factors detailed in Note 1(u) to the financial statements, there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable;

(b) In the directors' opinion, the attached financial statements and notes thereto are in accordance with the Corporations Act 2001, including:
(i) compliance with Accounting Standards (including International Financial Reporting Standards), the Corporations Regulations 2001 and other mandatory professional reporting requirements; and
(ii) giving a true and fair view of the financial position at 30 June 2014 and performance of the company for the financial year ended on that date; and

(c) The directors have been given the declarations required by s.295A of the Corporations Act for the financial year ended 30 June 2014; and

(d) The remuneration disclosures set out in the Directors' Report (as part of the Remuneration Report) for the year ended 30 June 2014, comply with Section 300A of the Corporations Act 2001.

Signed in accordance with a resolution of the directors made pursuant to s.295(5) of the Corporations Act 2001.

On behalf of the Directors

Kevin J Robertson
Director

Perth, 10 November 2014

Statement of profit or loss and other comprehensive income for the year ended 30 June 2014

	Note	1 July 2013 to 30 June 2014 $	1 July 2012 to 30 June 2013 $
Revenue	2(a)	16,606	6,389
Settlement monies received under legal claim	2(d)	36,920	36,920
Other income	2(b)	-	288,340
Finance costs	2(c)	(1,684,614)	(2,191,420)
Consultancy expenses and professional costs		(451,384)	(546,139)
Depreciation	2(c)	(57,706)	(77,776)
Employment and contractor expenses		(2,071,310)	(2,334,907)
Exploration expenses		(1,458,759)	(1,603,887)
Occupancy expenses		(175,937)	(169,934)
Share based payments	23(e)	(208,808)	(803,964)
Travel expenses		(136,977)	(68,620)
Administration expenses		(366,375)	(301,101)
Capitalised exploration expenditure written off		(50,000)	(200,000)
Loss on disposal of financial assets	7(c)	(11,597)	(6,147,500)
Impairment loss on property, plant and equipment		-	(448,480)
Loss on disposal of property, plant and equipment		(12,845)	-
Net loss on revaluation of shares in listed company		-	(542,961)
(Loss) before income tax expense		(6,632,786)	(15,105,040)
Income tax expense	3	-	-
(Loss) attributable to members	15	(6,632,786)	(15,105,040)
Other comprehensive income/(loss)			
Items that will not be reclassified to profit or loss			
Items that may be reclassified to profit or loss			
(Loss)/Gains arising during the year on revaluation of available for sale financial assets	14(b)	4,751	2,455,286
Income tax relating to other comprehensive income	3	-	-
Other comprehensive income for the year		4,751	2,455,286
Total comprehensive (loss) for the year		(6,628,035)	(12,649,754)
Loss per share:			
Basic (cents per share)	16	(0.422)	(1.39)

Diluted earnings per share have not been included as it results in a more favorable earnings per share figure than basic earnings per share.

The accompanying notes form part of this financial report.

Statement of Financial Position as at 30 June 2014

	Note	2014 $	2013 $
Current assets			
Cash and cash equivalents	21(a)	25,654	154,572
Trade and other receivables	5	1,922	1,922
Other	6	632	868
Total current assets		28,208	157,362
Non-current assets			
Other receivables	5	189,810	176,600
Financial assets	7	45,923	236,171
Property, plant and equipment	8	223,540	302,091
Capitalised exploration expenditure	9	3,247,522	3,297,522
Total non-current assets		3,706,795	4,012,384
Total assets		3,735,003	4,169,746
Current liabilities			
Trade and other payables	10	5,193,938	4,243,035
Interest Bearing Borrowings	11	7,223,002	7,113,683
Provisions	12	10,000	10,000
Total current liabilities		12,426,940	11,366,718
Non-current liabilities			
Borrowings	11	-	17,538
Total non-current liabilities		-	17,538
Total liabilities		12,426,940	11,384,256
(Net asset deficiency)		(8,691,937)	(7,214,510)
Equity			
Issued capital	13	125,307,454	120,156,846
Reserves	14	1,218,206	1,213,455
Accumulated losses	15	(135,217,597)	(128,584,811)
Total (deficiency) equity		(8,691,937)	(7,214,510)

The accompanying notes form part of this financial report.

Statement of Changes in Equity for the year ended 30 June 2014

	Attributable to equity holders				
	Ordinary Shares	**Option Reserve**	**Available-for-sale investments revaluation reserve**	**Accumulated Losses**	**Total Equity**
	$	**$**	**$**	**$**	**$**
For the year ended 30 June 2013					
Balance at 1 July 2012	116,644,804	1,201,734	(2,455,286)	(113,479,771)	1,911,481
Total comprehensive income/(loss) for the year	-	-	2,455,286	(15,105,040)	(12,649,754)
Shares and options issued during the year, net of costs	3,512,042	11,721	-	-	3,523,763
Balance as at 30 June 2013	120,156,846	1,213,455	-	(128,584,811)	(7,214,510)

	Attributable to equity holders				
	Ordinary Shares	**Option Reserve**	**Available-for-sale investments revaluation reserve**	**Accumulated Losses**	**Total Equity**
	$	**$**	**$**	**$**	**$**
For the year ended 30 June 2014					
Balance at 1 July 2013	120,156,846	1,213,455	-	(128,584,811)	(7,214,510)
Total comprehensive income/(loss) for the year	-	-	4,751	(6,632,786)	(6,628,035)
Shares and options issued during the year, net of costs	5,150,608	-	-	-	5,150,608
Balance as at 30 June 2014	125,307,454	1,213,455	4,751	(135,217,597)	(8,691,937)

The accompanying notes form part of this financial report.

Cash Flow Statement
for the year ended 30 June 2014

	Note	2014 $	2013 $
Cash flows from operating activities			
Payments to suppliers and employees		(3,323,294)	(2,724,867)
Interest received		16,606	6,389
Interest and other costs of finance paid		(226,942)	(279,518)
Net cash flows (used in) operating activities	21(b)	(3,533,630)	(2,997,996)
Cash flows from investing activities			
Payment for acquisition of exploration interests		(310,000)	-
Settlement monies received under legal claim		36,920	-
Proceeds received from sale of property, plant and equipment		8,000	-
Net cash flows provided by/ (used in) investing activities		(265,080)	-
Cash flows from financing activities			
Repayment of unsecured loans		(550,208)	-
Repayment of convertible notes		(50,000)	(100,000)
Proceeds from unsecured loans		10,000	200,000
Repayment of secured loans		(525,000)	(270,000)
Proceeds from secured loan		-	1,000,000
Proceeds from issues of ordinary shares (net of costs)		4,841,800	2,353,078
Option issue proceeds		-	11,720
Payment of security bond		(13,210)	(13,000)
Repayment of hire purchase contracts		(43,590)	(41,979)
Net cash flows provided by financing activities		3,669,792	3,139,819
Net increase / (decrease) in cash and cash equivalents		(128,918)	141,823
Cash and cash equivalents at the beginning of the financial year		154,572	12,749
Cash and cash equivalents at the end of the financial year	21(a)	25,654	154,572

The accompanying notes form part of this financial report.

Notes to the Financial Statements

1. Summary of accounting policies

Statement of compliance

The financial report is a general purpose financial report which has been prepared in accordance with the Corporations Act 2001, Accounting Standards and Interpretations, and complies with other requirements of the law. Accounting Standards include Australian equivalents to International Financial Reporting Standards (‘A-IFRS’). Compliance with the A-IFRS ensures that the financial statements comply with International Financial Reporting Standards (‘IFRS’).

The financial statements were authorised for issue by the directors on 10 November 2014.

Basis of preparation

The financial report has been prepared on the basis of historical cost, modified where applicable for the measurement at fair value of selected non-current assets, financial assets and financial liabilities. Cost is based on the fair values of the consideration given in exchange for assets.

In the application of A-IFRS management is required to make judgments, estimates and assumptions about carrying values of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstance, the results of which form the basis of making the judgments. Actual results may differ from these estimates.

None of the new standards and amendments to standards that are mandatory for the first time for the financial year beginning 1 July 2013 affected any of the amounts recognised in the current period or any prior period and are not likely to affect future periods.

Accounting policies are selected and applied in a manner which ensures that the resulting financial information satisfies the concepts of relevance and reliability, thereby ensuring that the substance of the underlying transactions or other events is reported.

The following significant accounting policies have been adopted in the preparation and presentation of the financial report:

(a) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, cash in banks and investments in money market instruments.

(b) Employee benefits

Provision is made for benefits accruing to employees in respect of wages and salaries, annual leave, and sick leave when it is probable that settlement will be required and they are capable of being measured reliably.

Provisions made in respect of employee benefits expected to be settled within 12 months, are measured at their nominal values using the remuneration rate expected to apply at the time of settlement.

Provisions made in respect of employee benefits which are not expected to be settled within 12 months are measured as the present value of the estimated future cash outflows to be made by the entity in respect of services provided by employees up to reporting date.

(c) Financial assets

Investments are recognised and derecognised on trade date where purchase or sale of an investment is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned, and are initially measured at fair value, net of transaction costs.

1. Summary of accounting policies (cont'd)

(c) Financial assets (cont'd)

Subsequent to initial recognition, investments in subsidiaries are measured at cost.

Other financial assets are classified into the following specified categories: financial assets 'at fair value through profit or loss', 'available-for-sale' financial assets, and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Available-for-sale financial assets

Shares and options held by the company are classified as being available-for-sale and are stated at fair value. Gains and losses arising from changes in fair value are recognised directly in the available-for-sale revaluation reserve, until the investment is disposed of or is determined to be impaired, at which time the cumulative gain or loss previously recognised in the available-for-sale revaluation reserve is included in profit or loss for the period.

Loans and receivables

Trade receivables, loans, and other receivables are recorded at amortised cost less impairment.

(d) Financial instruments issued by the company

Debt and equity instruments

Debt and equity instruments are classified as either liabilities or as equity in accordance with the substance of the contractual arrangement.

Transaction costs on the issue of equity instruments

Transaction costs arising on the issue of equity instruments are recognised directly in equity as a reduction of the proceeds of the equity instruments to which the costs relate. Transaction costs are the costs that are incurred directly in connection with the issue of those equity instruments and which would not have been incurred had those instruments not been issued.

(e) Goods and services tax

Revenues, expenses and assets are recognised net of the amount of goods and services tax (GST), except:

i. where the amount of GST incurred is not recoverable from the taxation authority, it is recognised as part of the cost of acquisition of an asset or as part of an item of expense; or

ii. for receivables and payables which are recognised inclusive of GST;

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables.

Cash flows are included in the cash flow statement on a gross basis. The GST component of cash flows arising from investing and financing activities which is recoverable from, or payable to, the taxation authority is classified as operating cash flows.

(f) Impairment of assets

At each reporting date, the Company reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the company estimates the recoverable amount of the cash-generating unit to which the asset belongs.

1. Summary of accounting policies (cont'd)

(f) Impairment of assets (cont'd)

The Company assesses at each balance date whether there is objective evidence that a financial asset or group of financial assets is impaired. In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of a security below its cost is considered as an indicator that the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in the income statement. Impairment losses recognised in the income statement on equity instruments classified as available-for-sale are not reversed through the income statement.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment annually and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised in the profit or loss immediately, unless the relevant asset is carried at fair value, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but only to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised in profit or loss immediately, unless the relevant asset is carried at fair value, in which case the reversal of the impairment loss is treated as a revaluation increase.

(g) Income tax

Current tax
Current tax is calculated by reference to the amount of income tax payable or recoverable in respect of the taxable profit or tax loss for the period. It is calculated using tax rates and tax laws that have been enacted or substantively enacted by reporting date. Current tax for current and prior periods is recognised as a liability (or asset) to the extent that it is unpaid (or refundable).

Deferred tax
Deferred tax is accounted for using the comprehensive balance sheet liability method in respect of temporary differences arising from differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax base of those items.

In principle, deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised to the extent that it is probable that sufficient taxable amounts will be available against which deductible temporary differences or unused tax losses and tax offsets can be utilised. However, deferred tax assets and liabilities are not recognised if the temporary differences giving rise to them arise from the initial recognition of assets and liabilities (other than as a result of a business combination) which affects neither taxable income nor accounting profit. Furthermore, a deferred tax liability is not recognised in relation to taxable temporary differences arising from goodwill.

1. Summary of accounting policies (cont'd)

(g) Income tax (cont'd)

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, branches, associates and joint ventures except where the entity is able to control the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with these investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period(s) when the asset and liability giving rise to them are realised or settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by reporting date. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the entity expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the entity intends to settle its current tax assets and liabilities on a net basis.

<u>Current and deferred tax for the period</u>
Current and deferred tax is recognised as an expense or income in the income statement, except when it relates to items credited or debited directly to equity, in which case the deferred tax is also recognised directly in equity, or where it arises from the initial accounting for a business combination, in which case it is taken into account in the determination of goodwill or excess.

(h) Intangible assets

<u>Exploration and Evaluation Expenditure</u>
Exploration and evaluation costs are expensed as incurred. Acquisition costs are accumulated in respect of each separate area of interest. Acquisition costs are carried forward where right of tenure of the area of interest is current and they are expected to be recouped through sale or successful development and exploitation of the area of interest or, where exploration and evaluation activities in the area of interest have not yet reached a stage that permits reasonable assessment of the existence of economically recoverable reserves. When an area of interest is abandoned or the Directors decide that it is not commercial, any accumulated acquisition costs in respect of that area are written off in the financial period the decision is made. Each area of interest is also reviewed at the end of each accounting period and accumulated acquisition costs written off to the extent that they will not be recoverable in the future. Amortisation is not charged on acquisition costs carried forward in respect of areas of interest in the development phase until production commences.

(i) Operating cycle

The operating cycle of the entity coincides with the annual reporting cycle.

(j) Payables

Trade payables and other accounts payable are recognised when the entity becomes obliged to make future payments resulting from the purchase of goods and services.

(k) Presentation currency

The entity operates entirely within Australia and the presentation currency is Australian dollars.

1. Summary of accounting policies (cont'd)

(l) Plant and equipment

Each class of property, plant and equipment is carried at cost or fair value less, where applicable, any accumulated depreciation. The carrying amount of plant and equipment is reviewed annually by directors to ensure it is not in excess of the recoverable amount from these assets.

Depreciation
The depreciable amount of all fixed assets is depreciated on a diminishing value basis over their useful lives to the Company commencing from the time the asset is held ready for use. The depreciation rates used for each class of depreciable assets are:

Plant, furniture and equipment	6.67% to 66.67%
Motor vehicle	18.75% to 40.00%
Leasehold improvements	18.75% to 33.33%
General pool	15.00% to 37.50%

(m) Provisions

Provisions are recognised when the company has a present obligation, the future sacrifice of economic benefits is probable, and the amount of the provision can be measured reliably.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at reporting date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cashflows estimated to settle the present obligation, its carrying amount is the present value of those cashflows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognised as an asset if it is virtually certain that recovery will be received and the amount of the receivable can be measured reliably.

(n) Revenue recognition

Interest revenue
Interest revenue is recognised on a time proportionate basis that takes into account the effective yield on the financial asset.

(o) Equity based compensation

The Company expenses equity based compensation such as share and option issues after ascribing a fair value to the shares and/or options issued. If options vest at date of grant, the expense is taken up at date of grant and a corresponding Option Reserve is credited.

(p) Issued Capital

Issued capital is recognised at the fair value of the consideration received by the Company. Any transaction costs on the issue of shares are recognised directly in equity as a reduction of the share proceeds received.

1. Summary of accounting policies (cont'd)

(q) Leases

Leases of fixed assets where substantially all the risks and benefits incidental to the ownership of the asset, but not the legal ownership that it transferred to the company, are classified as finance leases.

Finance leases are capitalised by recording an asset and a liability at the lower of the amounts equal to the fair value of the leased property or the present value of the minimum lease payments, including any guaranteed residual values. Lease payments are allocated between the reduction of the lease liability and the lease interest expense for the period.

Leased assets are depreciated on a straight-line basis over the shorter of their estimated useful lives or the lease term.

Lease payments for operating leases, where substantially all the risks and benefits remain with the lessor, are charged as expenses in the periods in which they are incurred.

Lease incentives under operating leases are recognised as a liability and amortised on a straight-line basis over the life of the lease term.

(r) Earnings per share

Basic earnings per share is calculated as a net profit attributable to members, adjusted to exclude any costs of servicing equity (other than dividends) and preference share dividends, divided by the weighted average number of ordinary shares, adjusted for any bonus element.

Diluted earnings per share is calculated as net profit attributable to members, adjusted for:
- costs of servicing equity (other than dividends) and preference share dividends;
- the after tax effect of dividends and interest associated with dilutive potential ordinary shares that have been recognised as expenses; and
- other non-discretionary changes in revenues or expenses during the period that would result from the dilution of potential ordinary shares; divided by the weighted average number of ordinary shares and dilutive potential ordinary shares, adjusted for any bonus element.

(s) Investments in Associates

The Company's investments in associates are accounted for using the equity method of accounting in the financial statements. The associate is an entity in which the Company has significant influence and which is neither a subsidiary nor a joint venture.

Significant influence exists when the Company holds 20% or more of the voting power of the investee, unless in the Company's opinion, significant influence is not present.

The existence of significant influence is evidenced in one or more of the following ways:

(i) representation on the board of directors or equivalent governing body of the investee;
(ii) participation in policy-making processes, including participation in decisions about dividends or other distributions;
(iii) material transactions between the investor and the investee;
(iv) interchange of managerial personnel; or
(v) provision of essential technical information.

Under the equity method, the investment in the associate is carried in the balance sheet at cost plus post acquisition changes in the Company's share of net assets of the associate. Goodwill relating to an associate is included in the carrying amount of the investment and is not amortised. After application of the equity method, the Company determines whether it is necessary to recognise any additional impairment loss with respect to the Company's net investment in the associate. The income statement reflects the Company's share of the results of operation of the associate.

1. Summary of accounting policies (cont'd)

(s) Investments in Associates (cont'd)

Where there has been a change recognised directly in the associate's equity, the Company recognises its share of any changes and discloses this in the consolidated statement of recognised income and expense.

Unrealised gains on transactions between the Company and its associates are eliminated to the extent of the Company's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

(t) Critical accounting judgements, estimates and assumptions

The preparation of financial statements in conformity with AIFRS required the use of certain critical estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are:

Share based payment transactions
The Company measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined by an internal valuation using a Black-Scholes option pricing model.

Exploration and evaluation costs
Exploration and evaluation costs are written off in the year they are incurred apart from acquisition costs which are carried forward where right of tenure of the area of interest is current.
These costs are carried forward in respect of an area that has not at balance sheet date reached a stage that permits reasonable assessment of the existence of economically recoverable reserves.

Impairment of available-for-sale financial assets
In the 2009 financial report, the Company made significant judgement about the impairment of its available-for-sale asset.

The Company follows the guidance of AASB 139 *Financial Instruments: Recognition and Measurement* on determining when an available-for-sale financial asset is impaired. This determination requires significant judgement. In making this judgement, the Company evaluates, among other factors, the duration and extent to which the fair value of an investment is less than its cost and the financial health of and near term business outlook for the investee, including factors such as industry and sector performance, changes in technology and operational and financing cash flows.

(u) Going Concern

As at balance date the Company is in a net asset deficiency position (liabilities exceed its assets) amounting to $8,691,937 and has a shortfall of working capital (being current assets less current liabilities) of $12,398,732. The net loss for the year ended 30 June 2014 was $6,632,786.

The financial statements have been prepared on a going concern basis which requires the company to extinguish its debts as and when they fall due. 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.

The Board is aware of the significant net asset deficiency, the significant shortfall of working capital and the challenges facing the Company. However, the Board is confident the going concern basis of preparation remains appropriate for the following reasons:

- On 21 October 2014, Fairstar entered into a convertible note agreement with I-World International Group Limited. Under the agreement, an amount up to $10 million can be drawn down at a rate not exceeding $500,000 per 5 working days. FairStar will immediately commence drawdowns on this facility in order to fund its current operations and satisfy its immediate creditor obligations. Full details of the facility are contained in Note 25.

1. Summary of accounting policies (cont'd)

(u) Going Concern (cont'd)

- FairStar has in place a non exclusive standby subscription agreement with Gurney Capital Nominees Pty Ltd. The Company is confident the facility will continue to be made available as required and have in place an agreement for a new facility.
- On 12 June 2014, FairStar announced that it had executed a non-exclusive mandate with Creafin & Associates (Creafin); which will enable Creafin & Associates to seek a new USD400 million fixed term loan facility to meet the previously outlined funding requirements for the company's Steeple Hill Iron ore Project (SHIP)

  Since that time, Creafin has assisted in negotiating the Convertible Note Agreement which was entered into on the 21 October 2014 with I-World International Group Limited.

  Creafin & Associates have reassured the Directors that their other negotiations to source the full amount of the USD400 million for the Steeple Hill Iron Project are progressing. They have reported that they have more than one interested party with whom they are in consultation to provide the required funds. Creafin have communicated to the company that the lenders that they are in communication with have given assurances that their due diligence has been completed and as they work through the mechanics of making loan funds available to FairStar they have indicated that they are hopeful of a positive outcome in the very near future.
- Consultations have continued with CSR Ziyang in regards to a Vendor Financing Agreement announced on 3rd March 2014. This Agreement is for the manufacture and supply of required rolling stock and associated infrastructure of up to the value of US$176 million.

  Discussions are progressing well with CSR, who are still fully committed to assisting FairStar achieve the required goals and putting the Steeple Hill Iron Project into production.
- As at 31 October 2014, loan facilities totalling approximately $8.0 million are due to be repaid (being borrowings as at 30 June 2014 of $7,223,002 – refer Note 11 – plus interest accrued since that date). The Company is confident that these facilities can be either extended, funds will be available from the Gurney Capital or convertible note facilities, or alternatively funds will be available from new funding facilities.
- The Company has the option of raising further capital from shareholders by way of a rights issue if required.
- The Company continues to receive ongoing support from its creditors and lenders and believe this support will continue to be made available.

In the event that the Company is unsuccessful with the above, and cannot raise any further equity, there exists a material uncertainty that may cast significant doubt on the Company's ability to continue as a going concern and therefore that it may be unable to realise its assets and discharge its liabilities in the normal course of business.

(v) Adoption of New and Revised Accounting Standards

Certain new accounting standards and interpretations have been published that are mandatory for 30 June 2014 reporting periods. The Company's assessment of the impact of these new standards and interpretations is set out below.

- *AASB 10 Consolidated Financial Statements*

  AASB 10 provides a revised definition of 'control' which states that control exists when the reporting entity is exposed, or has the rights, to variable returns from its involvement with another entity and has the ability to affect those returns through its 'power' over that other entity. A reporting entity has power when it has rights that give it the current ability to direct the activities that significantly affect the investee's returns. The Company not only has to consider its holdings and rights but also the holdings and rights of other shareholders in order to determine whether it has the necessary power for consolidation purposes. This standard is not expected to significantly impact the Company's financial statements.

  The standard has not significantly impacted the Company's financial statements.

1. Summary of accounting policies (cont'd)

(v) Adoption of New and Revised Accounting Standards (cont'd)

- *AASB 11 Joint Arrangements*

  The Company has applied AASB 11 from 1 July 2013. The standard defines which entities qualify as joint arrangements and removes the option to account for joint ventures using proportional consolidation. Joint ventures, where the parties to the agreement have the rights to the net assets are accounted for using the equity method. Joint operations, where the parties to the agreements have the rights to the assets and obligations for the liabilities, will account for its share of the assets, liabilities, revenues and expenses separately under the appropriate classifications.

  The standard has not significantly impacted the Company's financial statements.

- *AASB 12 Disclosure of Interests in Other Entities*

  The standard contains the entire disclosure requirement associated with other entities, being subsidiaries, associates, joint arrangements (joint operations and joint ventures) and unconsolidated structured entities. The disclosure requirements have been significantly enhanced when compared to the disclosures previously located in AASB 127 'Consolidated and Separate Financial Statements', AASB 128 'Investments in Associates', AASB 131 'Interests in Joint Ventures' and Interpretation 112 'Consolidation - Special Purpose Entities'.

  The standard has not significantly impacted the Company's financial statements.

- *AASB 13 Fair Value Measurement and AASB 2011-8 Amendments to Australian Accounting Standards arising from AASB 13*

  The standard provides a single robust measurement framework, with clear measurement objectives, for measuring fair value using the 'exit price' and provides guidance on measuring fair value when a market becomes less active. The 'highest and best use' approach is used to measure non-financial assets whereas liabilities are based on transfer value. The standard requires increased disclosures where fair value is used.

  The standards have not significantly impacted the amounts recognised in the Company's financial statements.

- *AASB 119 Employee Benefits (September 2011) and AASB 2011-10 Amendments to Australian Accounting Standards arising from AASB 119 (September 2011)*

  The standard eliminates the corridor approach for the deferral of gains and losses; streamlines the presentation of changes in assets and liabilities arising from defined benefit plans, including requiring re-measurements to be presented in other comprehensive income; and enhances the disclosure requirements for defined benefit plans. The standard also changed the definition of short-term employee benefits, from 'due to' to 'expected to' be settled within 12 months. Annual leave that is not expected to be wholly settled within 12 months is now discounted allowing for expected salary levels in the future period when the leave is expected to be taken.

  The Company does not have any defined benefit plans and thus changes to the standard are not relevant.

- *AASB 127 Separate Financial Statements (Revised), AASB 128 Investments in Associates and Joint Ventures (Reissued) and AASB 2011-7 Amendments to Australian Accounting Standards arising from the Consolidation and Joint Arrangements Standards*

  AASB 127 and AASB 128 have been modified to remove specific guidance that is now contained in AASB 10, AASB 11 and AASB 12 and AASB 2011-7 makes numerous consequential changes to a range of Australian Accounting Standards and Interpretations. AASB 128 has also been amended to include the application of the equity method to investments in joint ventures.

  The standards have not significantly impacted the Company's financial statements.

1. Summary of accounting policies (cont'd)

(v) Adoption of New and Revised Accounting Standards (cont'd)

- *AASB 2012-2 Amendments to Australian Accounting Standards - Disclosures - Offsetting Financial Assets and Financial Liabilities*

  The amendments enhance AASB 7 'Financial Instruments: Disclosures' and requires disclosure of information about rights of set-off and related arrangements, such as collateral agreements. The amendments apply to recognised financial instruments that are subject to an enforceable master netting arrangement or similar agreement.

  The standard has not significantly impacted the Company's financial statements

- *AASB 2012-5 Amendments to Australian Accounting Standards arising from Annual Improvements 2009-2011 Cycle*

  The amendments affect five Australian Accounting Standards as follows: Confirmation that repeat application of AASB 1 'First-time Adoption of Australian Accounting Standards' is permitted; Clarification of borrowing cost exemption in AASB 1; Clarification of the comparative information requirements when an entity provides an optional third column or is required to present a third statement of financial position in accordance with AASB 101 'Presentation of Financial Statements'; Clarification that servicing of equipment is covered by AASB 116 'Property, Plant and Equipment', if such equipment is used for more than one period; clarification that the tax effect of distributions to holders of equity instruments and equity transaction costs in AASB 132 'Financial Instruments: Presentation' should be accounted for in accordance with AASB 112 'Income Taxes'; and clarification of the financial reporting requirements in AASB 134 'Interim Financial Reporting' and the disclosure requirements of segment assets and liabilities.

  The standard has not significantly impacted the Company's financial statements.

- *AASB 2012-10 Amendments to Australian Accounting Standards - Transition Guidance and Other Amendments*

  The standard amends AASB 10 and related standards for the transition guidance relevant to the initial application of those standards. The amendments clarify the circumstances in which adjustments to an entity's previous accounting for its involvement with other entities are required and the timing of such adjustments.

- *Interpretation 20 Stripping Costs in the Production Phase of a Surface Mine and AASB 2011-12 Amendments to Australian Accounting Standards arising from Interpretation 20*

  The Interpretation clarifies when production stripping costs should lead to the recognition of an asset and how that asset should be initially and subsequently measured. The Interpretation only deals with waste removal costs that are incurred in surface mining activities during the production phase of the mine.

  The interpretation has not significantly impacted the Company's financial statements.

- *AASB 2011-4 Amendments to Australian Accounting Standards to Remove Individual Key Management Personnel Disclosure Requirement*

  The Company has applied 2011-4 from 1 July 2013, which amends AASB 124 'Related Party Disclosures' by removing the disclosure requirements for individual key management personnel ('KMP'). Corporations and Related Legislation Amendment Regulations 2013 and Corporations and Australian Securities and Investments Commission Amendment Regulation 2013 (No.1) now specify the KMP disclosure requirements to be included within the directors' report.

(w) New Accounting Standards and Interpretations not yet mandatory or early adopted

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet mandatory, have not been early adopted by the Company for the annual reporting period ended 30 June 2014. The Company's assessment of the impact of these new or amended Accounting Standards and Interpretations, most relevant to the Company, are set out below.

1. Summary of accounting policies (cont'd)

(w) New Accounting Standards and Interpretations not yet mandatory or early adopted (cont'd)

- *AASB 9 Financial Instruments and its consequential amendments*

  This standard and its consequential amendments are applicable to annual reporting periods beginning on or after 1 January 2017 and completes phases I and III of the IASB's project to replace IAS 39 (AASB 139) 'Financial Instruments: Recognition and Measurement'. This standard introduces new classification and measurement models for financial assets, using a single approach to determine whether a financial asset is measured at amortised cost or fair value. The accounting for financial liabilities continues to be classified and measured in accordance with AASB 139, with one exception, being that the portion of a change of fair value relating to the entity's own credit risk is to be presented in other comprehensive income unless it would create an accounting mismatch. Chapter 6 'Hedge Accounting' supersedes the general hedge accounting requirements in AASB 139 and provides a new simpler approach to hedge accounting that is intended to more closely align with risk management activities undertaken by entities when hedging financial and non-financial risks. The adoption of this standard and the amendments from 1 July 2017 will not have a material impact on the Company.

- *AASB 2012-3 Amendments to Australian Accounting Standards - Offsetting Financial Assets and Financial Liabilities*

  The amendments are applicable to annual reporting periods beginning on or after 1 January 2014. The amendments add application guidance to address inconsistencies in the application of the offsetting criteria in AASB 132 'Financial Instruments: Presentation', by clarifying the meaning of 'currently has a legally enforceable right of set-off'; and clarifies that some gross settlement systems may be considered to be equivalent to net settlement. The adoption of the amendments from 1 July 2014 will not have a material impact on the Company.

- *AASB 2013-3 Amendments to AASB 136 - Recoverable Amount Disclosures for Non-Financial Assets*

  These amendments are applicable to annual reporting periods beginning on or after 1 January 2014. The disclosure requirements of AASB 136 'Impairment of Assets' have been enhanced to require additional information about the fair value measurement when the recoverable amount of impaired assets is based on fair value less costs of disposals. Additionally, if measured using a present value technique, the discount rate is required to be disclosed. The adoption of these amendments from 1 July 2014 may increase the disclosures by the Company.

- *AASB 2013-4 Amendments to Australian Accounting Standards - Novation of Derivatives and Continuation of Hedge Accounting*

  These amendments are applicable to annual reporting periods beginning on or after 1 January 2014 and amends AASB 139 'Financial Instruments: Recognition and Measurement' to permit continuation of hedge accounting in circumstances where a derivative (designated as hedging instrument) is novated from one counter party to a central counterparty as a consequence of laws or regulations. The adoption of these amendments from 1 July 2014 will not have a material impact on the Company.

- *AASB 2013-5 Amendments to Australian Accounting Standards - Investment Entities*

  These amendments are applicable to annual reporting periods beginning on or after 1 January 2014 and allow entities that meet the definition of an 'investment entity' to account for their investments at fair value through profit or loss. An investment entity is not required to consolidate investments in entities it controls, or apply AASB 3 'Business Combinations' when it obtains control of another entity, nor is it required to equity account or proportionately consolidate associates and joint ventures if it meets the criteria for exemption in the standard. The adoption of these amendments from 1 July 2014 will have no impact on the Company.

1. Summary of accounting policies (cont'd)

(w) New Accounting Standards and Interpretations not yet mandatory or early adopted (cont'd)

- *Annual Improvements to IFRSs 2010-2012 Cycle*

  These amendments are applicable to annual reporting periods beginning on or after 1 July 2014 and affects several Accounting Standards as follows: Amends the definition of 'vesting conditions' and 'market condition' and adds definitions for 'performance condition' and 'service condition' in AASB 2 'Share-based Payment'; Amends AASB 3 'Business Combinations' to clarify that contingent consideration that is classified as an asset or liability shall be measured at fair value at each reporting date; Amends AASB 8 'Operating Segments' to require entities to disclose the judgements made by management in applying the aggregation criteria; Clarifies that AASB 8 only requires a reconciliation of the total reportable segments assets to the entity's assets, if the segment assets are reported regularly; Clarifies that the issuance of AASB 13 'Fair Value Measurement' and the amending of AASB 139 'Financial Instruments: Recognition and Measurement' and AASB 9 'Financial Instruments' did not remove the ability to measure short-term receivables and payables with no stated interest rate at their invoice amount, if the effect of discounting is immaterial; Clarifies that in AASB 116 'Property, Plant and Equipment' and AASB 138 'Intangible Assets', when an asset is revalued the gross carrying amount is adjusted in a manner that is consistent with the revaluation of the carrying amount (i.e. proportional restatement of accumulated amortisation); and Amends AASB 124 'Related Party Disclosures' to clarify that an entity providing key management personnel services to the reporting entity or to the parent of the reporting entity is a 'related party' of the reporting entity. The adoption of these amendments from 1 July 2014 will not have a material impact on the Company.

- *Annual Improvements to IFRSs 2011-2013 Cycle*

  These amendments are applicable to annual reporting periods beginning on or after 1 July 2014 and affects four Accounting Standards as follows: Clarifies the 'meaning of effective IFRSs' in AASB 1 'First-time Adoption of Australian Accounting Standards'; Clarifies that AASB 3 'Business Combination' excludes from its scope the accounting for the formation of a joint arrangement in the financial statements of the joint arrangement itself; Clarifies that the scope of the portfolio exemption in AASB 13 'Fair Value Measurement' includes all contracts accounted for within the scope of AASB 139 'Financial Instruments: Recognition and Measurement' or AASB 9 'Financial Instruments', regardless of whether they meet the definitions of financial assets or financial liabilities as defined in AASB 132 'Financial Instruments: Presentation'; and Clarifies that determining whether a specific transaction meets the definition of both a business combination as defined in AASB 3 'Business Combinations' and investment property as defined in AASB 140 'Investment Property' requires the separate application of both standards independently of each other. The adoption of these amendments from 1 July 2014 will not have a material impact on the Company.

	2014 $	2013 $
2. Loss before income tax		
(a) Revenue		
Interest revenue	16,606	6,389
(b) Other Income		
Rental Recovery	-	50,000
Sale of gold and samples	-	24,340
Profit on disposal of tenement	-	214,000
	-	288,340
(c) Expenses		
The loss before income tax has been arrived at after charging the following specific expenses:		
Finance costs:*		
Borrowing costs	-	242,336
Interest paid	1,679,884	1,938,050
Hire purchase charges	4,730	11,034
	1,684,614	2,191,420
* Excluded from the above amounts are finance costs included in share based payments as follows:		
Interest on convertible notes	21,808	185,273
Borrowing costs	-	310,000
	21,808	495,273
Depreciation of plant & equipment	57,706	77,776
Operating lease rental expenses:		
Minimum lease payments	158,268	156,463
(d) Significant Revenue and Expenses		
(i) Significant income		
Settlement monies received under legal claim	36,920	36,920

3. Income taxes

	2014 $	2013 $
(a) **Income tax recognised in profit or loss**		
Tax expense/(income) comprises:		
Current tax expense/(income)	-	-
Deferred tax expense/(income) relating to the origination and reversal of temporary differences	-	-
Total tax expense/(income)	-	-

3. Income taxes (cont'd)

	2014 $	2013 $
(b) The prima facie income tax expense on pre-tax accounting loss from operations reconciles to the income tax expense in the financial statements as follows:		
Loss from operations	(6,632,786)	(15,105,040)
Income tax benefit calculated at 30%	(1,989,836)	(4,531,512)
Tax effect of:		
- Non deductible items	72,989	164,896
- Non deductible share based payments	92,642	233,689
- Provision for impairment of property, plant and equipment	-	134,544
- Other provisions and accruals	42,977	65,922
- Capital losses	-	-
- Capitalised acquisition expenses	15,000	85,800
- Section 40-880 deduction	(45,123)	(45,123)
- Available assets for sale	-	162,888
- Loss on disposal of investments	3,479	1,844,250
- Tax effect of current year revenue losses for which no deferred tax asset has been recognised	1,807,872	1,884,646
Income Tax Expense	-	-
(c) **Unrecognised deferred tax balances**		
The following deferred tax assets (at 30%) have not been brought to account :		
Unrecognised deferred tax asset - tax losses	17,632,922	15,522,746
Unrecognised deferred tax asset - capital losses (realised)	10,480,758	7,390,595
Unrecognised deferred tax asset – capital losses (unrealised)	-	14,465,102
Unrecognised deferred tax asset - Sec 40-880	61,682	106,805
Unrecognised deferred tax asset - other temporary differences	171,908	128,932
Unrecognised deferred tax liability – Capitalised acquisition expenses claimed for tax purposes	(974,257)	(989,257)
Net deferred tax assets	27,373,013	36,624,923

The net deferred tax assets not brought into account will only be of a benefit to the Company if future assessable income is derived of a nature and amount sufficient to enable the benefits to be realised, the conditions for deductibility imposed by the tax legislation continue to be complied with and the Company are able to meet the continuity of ownership and/or continuity of business tests.

4. Remuneration of auditors

	2014 $	2013 $
Audit or review of the financial report	52,400	64,484
Other assurance services	-	-
Total remuneration for assurance services	52,400	64,484

No other fees were payable to the Auditor for any non-assurance services.

	2014 $	2013 $
5. Current Trade and other receivables		
Current		
Other debtors	1,922	1,922
Amount due under settlement agreement (note 19(a))	1,179,202	1,216,122
Less provision for impairment	(1,179,202)	(1,216,122)
	1,922	1,922
Non-Current		
Security bonds	189,810	176,600

Normal trading terms are on a 30 day basis. No trade and other receivables are considered past due or impaired.

6. Other Current Assets

Prepayments	632	868

7. Financial Assets

Available-for-sale financial assets		
Shares in listed company	45,923	236,171

	2014 $	2013 $
(a) Market value of listed investment		
As at balance date	45,923	236,171
As at 7 November 2014 ($0.12 per share)	38,005	281,589

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

(b) Refer to Note 11 for information on non-current assets pledged as security by the Company.

(c) Loss on disposal of shares

During the year ended 30 June 2014, 1,500,000 shares in a listed company were disposed of by financiers. The proceeds were used to partly repay secured loan obligations.

	2014 $	2013 $
The loss is calculated as follows:		
Proceeds from disposal of shares	183,403	2,990,000
Less: Cost Price	(195,000)	(9,137,500)
Loss on disposal of shares	(11,597)	(6,147,500) *

* Included within the above loss on disposal of shares is an amount of $2,257,500 transferred from the available for sale investment revaluation reserve upon disposal.

8. Property, plant and equipment

	Leasehold Improvements $	Motor Vehicles $	Plant and Equipment $	Total $
Year ended 30 June 2014				
Opening net book value	40,343	169,514	92,234	302,091
Additions	-	-	-	-
Disposals	-	(8,000)	-	(8,000)
Profit/(loss) on sale	-	(12,845)	-	(12,845)
Depreciation charge for the year	(8,411)	(37,700)	(11,595)	(57,706)
Closing net book value	31,932	110,969	80,639	223,540
At 30 June 2014				
Cost or fair value	183,573	541,241	298,090	1,022,904
Adjustments to cost or fair value	-	(95,283)	-	(95,283)
Accumulated depreciation	(151,641)	(334,989)	(217,451)	(704,081)
Net book value	31,932	110,969	80,639	223,540
Year ended 30 June 2013				
Opening net book value	51,072	221,861	561,014	833,947
Additions	-	-	-	-
Disposals	-	-	-	-
Adjustments to cost or fair value	-	-	(5,600)	(5,600)
Provision for impairment	-	-	(448,480)	(448,480)
Profit/(loss) on sale	-	-	-	-
Depreciation charge for the year	(10,729)	(52,347)	(14,700)	(77,776)
Closing net book value	40,343	169,514	92,234	302,091
At 30 June 2013				
Cost or fair value	183,573	541,241	752,170	1,476,984
Adjustments to cost or fair value	-	-	(5,600)	(5,600)
Accumulated depreciation	(143,230)	(371,727)	(205,856)	(720,813)
Provision for impairment	-	-	(448,480)	(448,480)
Net book value	40,343	169,514	92,234	302,091

(a) Refer to Note 11 for information on non –current assets pledged as security by the Company**.**

9. Capitalised Exploration Expenditure

	2014 $	2013 $
Balance at beginning of the financial year	3,297,522	3,583,522
Acquisition of interests during the financial year	-	-
Costs of interests disposed during the year	-	(86,000)
Writedown of interests during the financial year	(50,000)	(200,000)
Closing balance	3,247,522	3,297,522

(a) The ultimate recoupment of tenement acquisition costs carried forward for exploration and evaluation phases is dependent on the successful development and commercial exploration or sale of the respective mining areas.
(b) Refer to Note 11 for information on non-current assets pledged as security by the Company.

10. Current trade and other payables

	2014 $	2013 $
Trade payables and accruals (i)	3,367,743	2,765,037
Accrued interest	354,384	253,425
Employee entitlements	229,972	178,081
Royalty prepayments payable (refer Note 17(f))	1,158,682	600,000
Amounts owing for tenement acquisition costs	40,000	350,000
Goods and Services Tax (GST) payable	43,157	96,492
	5,193,938	4,243,035

(i) Trade payables are normally settled on 30 day terms. Trade payables are currently being settled on 60-90 day terms. The amount of payables at balance date exceeding normal trading terms is $3,061,407.

11. Interest Bearing Borrowings

	Note	2014 $	2013 $
Current			
Unsecured loans		-	569,821
Secured loan	11(c)	3,123,826	2,499,231
Loan	11(a)	1,192,597	1,422,000
Secured loan	11(b)	2,179,041	1,729,041
Unsecured loans (former convertible note holders)	11(d)	700,000	850,000
Hire purchase contracts		17,538	43,590
Other related party		10,000	-
		7,223,002	7,113,683
Non –current			
Hire purchase contract		-	17,538

(a) The loan represents a loan from an unrelated entity. The security for the loan was the transfer of 1,500,000 shares held by FairStar in a listed company. During the year ended 30 June 2014, these shares were sold as part repayment of the loan. Interest on this loan was calculated at $9,000 per week.

(b) The loan is secured by a charge under PPSA. The company has granted PPSA Security interest over all PPSA personal property and a fixed charge over all other property. Interest on this loan is calculated at 60% pa.

(c) The secured loan represents a loan from an unrelated entity. Security granted is the mortgage over ML 28/373. Interest on this loan is calculated at 27.5% pa.

(d) The loan represents the outstanding balance from former convertible note holders. Interest on this loan is calculated at 20% pa.

11. Interest Bearing Borrowings (cont'd)

	Note	2014 $	2013 $

(e) Assets pledged as security.
The carrying amount of assets pledged as security at 30 June 2014 for current interest bearing liabilities are:

	2014 $	2013 $
Current – Security under PPSA	28,208	157,362
	28,208	157,362
Non-current – Security under PPSA	916,837	973,188
Non-current – Hire purchase contract	32,436	86,674
Non-current – Mortgage over shares	-	195,000
Non-current – Mortgage over mining lease	2,757,522	2,757,522
	3,706,795	4,012,384
Total assets pledged as security	3,735,003	4,169,746

12. Provisions

	2014 $	2013 $
Other	10,000	10,000
	10,000	10,000

13. Issued capital

1,839,221,168 (2013 – 1,342,146,877) fully paid ordinary shares	125,307,454	120,156,846
	125,307,454	120,156,846

(a) Movements in issued capital:

	Note	Issue Price (average) $	No of Shares	$
Year ended 30 June 2014				
Balance as at 1 July 2013			1,342,146,877	120,156,846
July - June 2014 shares issued for working capital (net of costs)		0.0106	456,651,958	4,841,800
July - June 2014 shares issued for services rendered		0.0081	23,021,161	187,000
July – June 2014 shares issued as consideration for interest on convertible notes		0.007	3,115,434	21,808
July – June 2014 shares issued for repayment of unsecured loan (former convertible note)		0.007	14,285,738	100,000
Balance at 30 June 2014			1,839,221,168	125,307,454

13. Issued capital (cont'd)

	Note	Issue Price (average) $	No of Shares	$
Year ended 30 June 2013				
Balance as at 1 July 2012			901,535,050	116,644,804
July – June 13 shares issued for working capital (net of costs)		0.007	327,998,162	2,350,326
July – June 13 shares issued for services rendered		0.01	42,823,124	308,691
July – June 13 option conversion		0.10	27,525	2,752
July – June 13 shares issued for borrowing costs		0.017	25,500,000	360,000
July – June 13 shares issued as consideration for interest on convertible notes		0.006	21,665,833	135,273
July – June 13 shares issued for repayment of unsecured loans and payables.		0.016	22,597,183	355,000
Balance at 30 June 2013			1,342,146,877	120,156,846

(b) Fully paid ordinary shares carry one vote per share and carry the right to dividends.

(c) Options on Issue

	2014 Listed	2011 Listed	Employee Options	Fortrend	Unlisted Options
Exercise price	$0.10	$0.10	$0.15	$0.0372	$0.10
Expiry date	31/08/14	30/08/11	30/11/11	31/07/12 – 09/09/12	29/08/11
Opening balance 1 July 2012	278,248,677	-	-	5,987,741	-
Exercised during the year - 2013	(27,525)	-	-	-	-
Expired during the year - 2013	-	-	-	(5,987,741)	-
Closing balance 30 June 2013	278,221,152	-	-	-	-
Opening balance 1 July 2013	278,221,152	-	-	-	-
Exercised during the year - 2014	-	-	-	-	-
Expired during the year – 2014	-	-	-	-	-
Closing balance 30 June 2014	278,221,152	-	-	-	-

(d) FairStar has in place a standby subscription agreement with Gurney Capital Nominees Pty Ltd. Shares are issued at a price representing 80% of the 5 day VWAP for the period immediately prior to the issue of a drawdown notice to Gurney. As at 30 June 2014 the estimated remaining facility available to FairStar is approximately $14.6 million

14. Reserves

	2014 $	2013 $
Available – for-sale investments revaluation reserve	4,751	-
Option reserve	1,213,455	1,213,455
	1,218,206	1,213,455

(a) Option reserve

	2014 $	2013 $
Balance at beginning of financial year	1,213,455	1,201,734
Options funds received - adjustment	-	11,721
Balance at end of financial year	1,213,455	1,213,455

This option issue reserve is used to recognise both the fair value or issue price of options issued.

14. Reserves (cont'd)

	2014 $	2013 $
(b) Available–for-sale investments revaluation reserve		
Opening Balance	-	(2,455,286)
Revaluation of shares in listed company	4,751	2,455,286
Balance at end of financial year	4,751	-

The available-for-sale investment revaluation reserve is used to recognise unrealised variations in the market value of financial assets.

15. Accumulated losses

	2014 $	2013 $
Balance at beginning of financial year	(128,584,811)	(113,479,771)
Loss attributable to members	(6,632,786)	(15,105,040)
Balance at end of financial year	(135,217,597)	(128,584,811)

16. Loss per share

	2014 Cents Per Share	2013 Cents Per share
Basic loss per share:	(0.422)	(1.39)

The loss for the period and the weighted average number of ordinary shares used in the calculation of basic loss per share are as follows:

	2014 $	2013 $
Loss for the period after income tax	(6,632,786)	(15,105,040)

	2014 No.	2013 No.
Weighted average number of ordinary shares for the purposes of basic earnings per share	1,573,382,134	1,090,034,600

17. Commitments for expenditure

	2014 $	2013 $
(a) Operating lease commitments		
Not longer than 1 year	121,888	78,000
Longer than 1 year and not longer than 5 years	274,411	208,000
	396,299	286,000
(b) Hire purchase contracts		
Not longer than 1 year	18,638	48,320
Longer than 1 year and not longer than 5 years	-	18,638
	18,638	66,958

17. Commitments for expenditure (cont'd)

	2014 $	2013 $
(c) Exploration commitments		
The company has certain commitments to meet minimum expenditure requirements on the mineral exploration assets it has an interest in. Outstanding exploration commitments are estimated as follows:		
Not later than 1 year	1,152,100	1,349,769
Later than 1 year and not later than 2 years	1,192,100	1,349,769
Later than 2 years and not later than 5 years	2,400,000	2,700,000
	4,744,200	5,399,538
(d) Capital commitments		
Property, plant and equipment committed at reporting date but not recognised as liabilities, payable:		
Not longer than 1 year	-	-
Longer than 1 year and not longer than 5 years	-	-
	-	-

(e) 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.

(f) Royalty Commitment –ML28/373 (Previously E28/1672)

Royalty Commitments exist in relation to the Company's interest in Steeple Hill Iron Project, in particular ML28/373, and other interests in tenements being E25/393, E28/1561 and E28/1696.

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 ML28/373) of Iron Ore sold from the Tenements.

Furthermore, in the event that commercial production has not commenced from the Tenements 12 months from the date of variation, being 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 ML28/373.

The first prepayments, due in 2011 and 2012, have been satisfied. The third and fourth prepayments, due 1 April 2013 and 1 April 2014, are still outstanding at 30 June 2014, included as a trade payable at Note 10.

17. Commitments for expenditure (cont'd)

(g) 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.

(h) 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 for the first $1,500,000 of the proceeds of ore shipped from Steeple Hill Iron Project.

(i) Royalty Commitment – Renaissance Minerals Ltd

In November 2011, the Company acquired the iron ore rights to a new tenement (E28/1997) immediately adjacent to its Steeple Hill Iron Ore Project. Under the agreement with Renaissance WA Pty Ltd, FairStar has agreed to meet three years exploration expenditure for a total $120,000 and pay a 50 cent per tonne royalty on iron ore derived from this tenement.

This royalty commitment has ceased since FairStar acquired the tenement fully as announced in the September 2013 quarterly report.

18. Contingent liabilities

(a) Legal proceedings have been issued against the Company by an unsecured creditor in relation to an unsecured loan amount of $160,000 including interest expense, accrued in the financial statements at 30 June 2014. Interest and costs may be incurred by FairStar in relation to this matter, but the outcome of the proceedings cannot be determined at this time.

(b) Legal proceedings have been issued against the Company by an unsecured creditor in relation to a payable amount of $315,000 accrued in the financial statements at 30 June 2014. FairStar is currently negotiating a payment arrangement with the creditor (including interest expense) and are confident this matter will be settled shortly. Subsequent to 30 June 2014, the Company has entered into a settlement deed regarding this matter. Further details are contained in Note 25 (e).

The Company, as at the date of this report, is not aware of any other contingent liabilities.

19. Contingent Assets

(a) Shares disposed by a Financier

FairStar continues to pursue recovery of the balance of monies in relation to the unlawful disposal of shares in Golden West Resources Ltd in 2008, now estimated at US$3.0 million, including costs and interest.

20. Key Management Personnel Disclosures

(a) Key Management Personnel Disclosures

	2014	**2013**
	$	**$**
Short term employee benefits	839,645	898,656
Share based payments	-	-
Post employment benefits	28,474	33,300
	868,119	931,956

21. Notes to the cash flow statement

	2014 $	2013 $
(a) Reconciliation of cash and cash equivalents		
Cash and cash equivalents at the end of the financial year as shown in the cash flow statement is reconciled to the related items in the balance sheet as follows:		
Cash and cash at bank	25,654	154,572
	25,654	154,572

	2014 $	2013 $
(b) Reconciliation of loss for the year to net cash flows from operating activities		
Loss for the year	(6,632,786)	(15,105,040)
Depreciation	57,706	77,776
Share-based payments	208,808	495,273
Trade payables satisfied by the issue of shares	-	308,691
Loss on share disposal	11,597	6,147,500
Capitalised exploration written off	50,000	200,000
Profit on sale of tenement	-	(214,000)
Interest capitalised on loans	1,533,982	1,777,942
Writedown of investment in listed company	-	542,961
Changes in assets and liabilities:		
Trade and other receivables	(36,920)	66,100
Provision for asset impairment	-	448,480
Loss on asset disposal	12,845	-
Trade and other payables	1,195,928	2,119,235
Provisions	64,974	89,891
Prepayments	236	47,195
Net cash used in operating activities	(3,533,630)	(2,997,996)

	2014 $	2013 $
(c) Non-cash financing and investing activities		
(i) Repayment of unsecured loans and accrued interest satisfied by issue of ordinary shares	121,808	-
(ii) Payables owing for prepaid royalty obligations satisfied by the issue of 15,000,000 shares	-	300,000
(iii) Repayment of secured loan from proceeds of new secured loan	-	750,000
(iv) Payables owing for prepaid royalty obligations satisfied by transfer of mining tenement	-	300,000

22. Financial Risk Management and Policies

The Company's activities expose it to a variety of financial risks: (including interest rate risk and price risk), credit risk and liquidity risk. The Company's overall risk management program focuses on the unpredictability of the financial markets and seeks to minimise potential adverse effects on the financial performance of the Company.

Risk management is carried out by the Board of Directors with assistance from suitably qualified external advisors. The Board provides written principles for overall risk management and further policies will evolve commensurate with the evolution and growth of the Company.

The Company holds the following financial instruments:

	2014	**2013**
	$	**$**
Financial assets		
Cash and cash equivalents	25,654	154,572
Trade and other receivables – current	1,922	1,922
Trade and other receivables – non current	189,810	176,600
Other financial assets	45,923	236,171
	263,309	569,265
Financial liabilities		
Trade and other payables	5,193,938	4,243,035
Borrowings	7,223,002	7,131,221
	12,416,940	11,374,256

It is, and has been throughout the period under review, the Company's policy that no trading in financial instruments shall be undertaken. The main risks arising from the Company are cash flow (interest rate risk, liquidity risk and credit risk). The Board reviews and agrees policies for managing each of these risks and they are summarised below.

(a) Market risk

(i) *Foreign exchange risk*
The Company has no exposure to foreign exchange risk, with the exception of amounts being pursued arising from the settlement of a legal dispute, which was repayable in US Dollars. This debtor has been fully provided for at 30 June 2014. Details are provided in Note 19(a).

(ii) *Price risk*
The Company is exposed to equity securities price risk in relation to its shareholding in a listed company. At 30 June 2014, this risk was not material. The Company is not exposed to any other material price risks.

(iii) *Cash flow and interest rate risk*
The Company's only interest rate risk arises from cash and cash equivalents held. Term deposits and current accounts held with variable interest rates expose the Company to cash flow interest rate risk. The Company does not consider this to be material to the Company and have therefore not undertaken any further analysis of risk exposure. The Company has a number of both secured and unsecured short-term loans payable at 30 June 2014, as detailed in Note 11. Interest rates are fixed on these loans. Interest rates on the hire purchase contracts are also fixed. Interest rate risk is disclosed in the maturity analysis table in Note (c).

22. Financial Risk Management and Policies (cont'd)

(b) Credit risk

The Company does not have any significant concentrations of credit risk. Credit risk is managed by the Board and arises from cash and cash equivalents as well as credit exposure including outstanding receivables and committed transactions.

All cash balances held at banks are held at internationally recognised institutions.

There are no formal credit approval processes and risk management in place.

The maximum exposure to credit risk at reporting date is the carrying amount of the financial assets as summarised at the start of Note 22. The credit quality of financial assets that are neither past due nor impaired can be assessed by reference to external credit ratings (if available) or to historical information about default rates.

Financial assets that are neither past due and not impaired are as follows:-

	2014 $	2013 $
Cash and cash equivalents		
AA- S&P rating	25,654	154,572

(c) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash balances and access to equity funding.

The Company's exposure to the risk of changes in market interest rates relate primarily to cash assets and floating interest rates. The Company does not have significant interest-bearing assets and is not materially exposed to changes in market interest rates.

The directors monitor the cash-burn rate of the Company on an on-going basis against budget and the maturity profiles of financial assets and liabilities to manage its liquidity risk.

22. Financial Risk Management and Policies (cont'd)

The following table sets out the carrying amount, by maturity, of the financial instruments including exposure to interest rate risk:

Year ended 30 June 2014	<1 year	1 - 5 Years	Over 5 Years	Total	Weighted average effective interest rate %
Financial Assets:					
Cash	25,654	-	-	25,654	3
Receivables – current	1,922	-	-	1,922	-
Receivables – non current	-	189,810	-	189,810	-
Investments	-	45,923	-	45,923	-
	27,576	235,733	-	263,309	
Financial Liabilities:					
Trade payables	4,839,554	-	-	4,839,554	-
Accrued interest	354,384	-	-	354,384	-
Hire purchase liability	17,538	-	-	17,538	15
Borrowings	7,205,464	-	-	7,205,464	37
	12,416,940	-	-	12,416,940	

Year ended 30 June 2013	<1 year	1 - 5 Years	Over 5 Years	Total	Weighted average effective interest rate %
Financial Assets:					
Cash	154,572	-	-	154,572	3
Receivables – current	1,922	-	-	1,922	-
Receivables – non current	-	176,600	-	176,600	-
Investments	-	236,171	-	236,171	-
	156,494	412,771	-	569,265	
Financial Liabilities:					
Trade payables	3,989,610	-	-	3,989,610	-
Accrued interest	253,425	-	-	253,425	-
Hire purchase liability	43,589	17,538	-	61,127	12
Borrowings	7,070,093	-	-	7,070,093	35
	11,356,717	17,538	-	11,374,255	

In year ended 30 June 2014 the Company relied on short term financing (refer Note 11) and a standby subscription agreement (refer Note 13(d)) to finance its operations, pending the finalisation of negotiations to source long term debt or equity funding.

(d) Fair value estimation

The fair value of financial assets and liabilities must be estimated for recognition and measurement or for disclosure purposes.

The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values due to their short term nature.

The Company's principle financial instruments consist of cash and deposits with banks, accounts receivable, trade payables and loans payable. The main purpose of these non-derivative financial instruments is to finance the entity's operations.

22. Financial Risk Management and Policies (cont'd)

(e) Financial assets through fair value reserve

2014	**Level 1 $**	**Level 2 $**	**Level 3 $**	**Total $**
Financial assets	45,923	-	-	45,923
Financial liabilities				
- derivative instruments	-	-	-	-
	45,923	-	-	45,923
2013				
Financial assets	236,171	-	-	236,171
Financial liabilities				
- derivative instruments	-	-	-	-
	236,171	-	-	236,171

Included within Level 1 of the hierarchy are listed investments. The fair values of these financial assets and liabilities have been based on the closing quoted prices at reporting date, excluding transaction costs.

In valuing unlisted investments, included in Level 2 of the hierarchy, valuation techniques such as those using comparisons to similar investments for which market observable prices are available have been adopted to determine the fair values of these investments.

Derivative instruments are included in Level 2 of the hierarchy with the fair values being determined using valuation techniques incorporating observable market data relevant to the hedged position

(f) Capital risk

The Company's objectives when managing capital are to safeguard their ability to continue as a going concern, so that they can provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

The company's equity management is determined by funds required to undertake its development activities and meet its corporate and other costs.

23. Share based payments

(a) Repayment of convertible notes and interest paid to convertible noteholders

Year ended 30 June 2014
During the year ended 30 June 2014, repayment of convertible notes and interest payable to convertible noteholders totalling $121,808 was satisfied by the issue of 17,401,172 shares.

Year ended 30 June 2013
During the year ended 30 June 2013, interest payable to convertible noteholders totalling $135,273 was satisfied by the issue of 21,655,833 shares.

(b) Share issue to consultants

Year ended 30 June 2014
During the year ended 30 June 2014, consulting and professional fees totalling $187,000 were satisfied by the issue of 23,021,161 shares in the Company.

Year ended 30 June 2013
During the year ended 30 June 2013, consulting and professional fees totalling $308,691 were satisfied by the issue of 42,823,124 shares in the Company.

23. Share based payments (cont'd)

(c) Share issue to satisfy borrowing costs

Year ended 30 June 2014
No shares were issued during the year to satisfy borrowing costs.

Year ended 30 June 2013
During the year ended 30 June 2013, 25,500,000 shares were issued to satisfy borrowing costs, valued at $360,000. The value was calculated based on the volume weighted average price of shares traded on ASX for the 5 days prior to the issue dates.

(d) Share issue to satisfy royalty commitments

Year ended 30 June 2014
No shares were issued during the year to satisfy royalty commitments.

Year ended 30 June 2013
During the year ended 30 June 2013, Royalty Commitments totalling $300,000 were satisfied by the issue of 15,000,000 shares in the Company.

(e) Expenses arising from share-based payment transactions

Total expenses arising from share-based payment transactions recognised during the year were as follows:

	2014	**2013**
	$	**$**
Share issue to satisfy repayment of convertible note and interest component	21,808	135,273
Share issue to consultants and legal advisors	187,000	308,691
Share issue to satisfy borrowing costs	-	360,000
	208,808	803,964

Please note $100,000 of shares were used to satisfy the repayment of convertible notes.

24. Segment Information

The company operates predominantly in one industry and one geographical segment, being the Mining industry within Western Australia. The operations in Western Australia relate to exploration for gold, uranium, and iron.

25. Events after balance date

Subsequent to balance date, the Company has:

(a) Issued the following shares:
  i. In July 2014, 50,473,542 shares to raise $150,000 for working capital
  ii. In August 2014, 14,062,500 shares to raise $45,000 for working capital

(b) On 31 August 2014, 278,221,152 options exercisable at 10 cents each expired without exercise.

(c) On 21 October 2014, the Company entered into a Convertible Note Agreement to raise $10 million with I-World International Group Limited. The major terms are:
- Secured by PPSA interest granted by FairStar
- Term – 36 months
- 5% pa interest rate
- 12 month voluntary escrow period will apply to shares issued under the note
- Notes to be issued in aggregates of $1 million
- Conversion of shares is subject to shareholder approval
- Funds to be advanced to the Company at the rates of not more than $500,000 per 5 working days
- The notes are to be converted at the note holders option at the rate of 1.6 cents for the first $5 million and 2.0 cents for the second $5million
- An initial advance of $150,000 was made under this facility in October 2014

This facility will assist the Company to fund its current operations and satisfy its immediate creditor obligations.

25. Events after balance date (cont'd)

(d) Received $100,000 an unsecured loan from an unrelated party to assist it to meet creditor obligations. The loan is repayable within 30 days. Interest of $50,000 will be charged on this loan. The Company has not met this repayment and is therefore in default.

(e) In October 2014, the Company entered into a Deed of Settlement and payment arrangement with a creditor. Under the arrangement, payments of $25,000 per month are to be made with 10% p.a. interest accruing.

No other matter or circumstance has arisen since 30 June 2014 that has affected, or may significantly affect the Company's operations, the results of those operations or the Company's state of affairs in future financial years.

26. Related Party Disclosures

(a) Other transactions with director related entities

Transactions with director related entities are on commercial terms no more favourable than those available to other persons unless otherwise stated.

	2014 $	2013 $
(i) Salaries paid and share based payments to related parties (as defined in AASB124) of Kevin Robertson, being employees of FairStar Resources Ltd.	539,995	619,827

(b) Aggregate amount payable to directors and their director related entities at balance date

	2014 $	2013 $
Current liabilities		
Trade payables and accruals	1,299,450	815,374
Accrued Interest	-	-
Borrowings	10,000	-
	1,309,450	815,374

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10 November 2014

Board of Directors
Fairstar Resources Limited
Unit 3
136 Main Street
Osborne Park WA 6017

Dear Directors

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 audit of the financial statements of Fairstar Resources Limited for the year ended 30 June 2014, 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 audit; and

(ii) any applicable code of professional conduct in relation to the audit.

Yours faithfully

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

Martin Michalik
Director

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INDEPENDENT AUDITOR'S REPORT
TO THE MEMBERS OF
FAIRSTAR RESOURCES LIMITED

Report on the Financial Report

We have audited the accompanying financial report of Fairstar Resources Limited, which comprises the statement of financial position as at 30 June 2014, the statement of profit or loss and other comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration.

Directors' responsibility for the Financial Report

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error. In note 1, the directors also state, in accordance with Australian Accounting Standard AASB 101 Presentation of Financial Statements, that the financial statements comply with International Financial Reporting Standards.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Because of the matters described in the Basis for Disclaimer of Opinion paragraph, however, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*.

Basis for Disclaimer of Opinion

As outlined in note 1 u) of the financial report, the company's ability to continue as a going concern, and ultimately meet its debts as and when they fall due, is dependent upon raising further capital and/or loan funds. At the date of this report, the company has negligible cash resources, which are unable to satisfy the significant working capital and net asset deficiencies.

The Company has entered into a convertible note agreement with a third party whereby it can draw down funds up to $10,000,000. Should the company not be able to realise potential funding arising from this convertible note agreement, notwithstanding other interim funding arrangements as discussed in note 1 (u) of the financial report, the company will not be able to meet its current obligations and debts as and when they fall due.

At the date of this report, we have been unable to obtain sufficient appropriate audit evidence at to whether the Company will be able to draw down upon this facility, as per the said terms disclosed in Note 25, and ultimately provide the Company with means to continue as a going concern. We are therefore unable to determine whether it is appropriate to prepare the financial statements on a going concern basis.

Disclaimer of Opinion

Because of the significance of the matters described in the Basis of Disclaimer of Opinion paragraph, we have been unable to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, we do not express an opinion on the financial report.

Report on the Remuneration Report

We have audited the remuneration report included in pages 9 to 13 of the directors' report for the year ended 30 June 2014. The directors of the Company are responsible for the preparation and presentation of the remuneration report in accordance with section 300A of the *Corporations Act 2001.* Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with Australian Auditing Standards

Opinion

In our opinion the remuneration report of Fairstar Resources Limited for the year ended 30 June 2014 complies with section 300 A of the *Corporations Act 2001.*

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
10 November 2014