

May 10, 2016

A.B.N. 38 115 157 689

Kevin Lewis  
Chief Compliance Officer  
ASX Compliance  
20 Bridge Street  
Sydney NSW 2000

Dear Mr Lewis,

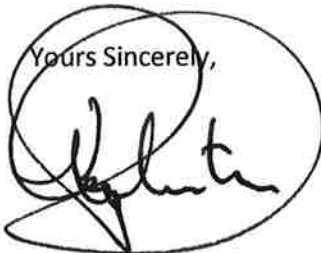
**FAIRSTAR RESOURCES LIMITED ("FAIRSTAR")**

We refer to your letter of 9<sup>th</sup> May 2016 and append hereunder our responses: -

1. Is the I-World Convertible Note Agreement still on foot and able to be drawn down by FairStar?
  - 1.1. The Agreement is still on foot.
2. Have the terms of the I-World Convertible Note Agreement changed in any material respect since the date of the Convertible Note Announcement? If so, please provide details of the changes.
  - 2.1. The terms have not changed.
3. Has FairStar drawn down, or attempted to draw down, any further funds under the I-World Convertible Note Agreement in addition to the initial investment of \$150,000 reported in the Convertible Note Announcement?
  - 3.1. No further draw-downs made.
    - If FairStar has made a further drawdown or further drawdowns of funds under the I-World Convertible Note Agreement, please advise the dates and amounts drawn down and explain why FairStar has not disclosed those amounts in its quarterly cashflow reports.
      - N/A
    - If FairStar has attempted to draw down funds under the I-World Convertible Note Agreement without success, please advise the dates and amounts attempted to be drawn down and explain why those drawdowns were not successful.
      - FairStar has not attempted to draw down.

- If FairStar has not drawn down, or attempted to draw down, any further funds under the I-World Convertible Note Agreement, please explain why not, given its apparent need for funds.
    - The Agreement was made when FairStar's 2014 accounts were being prepared and the Company's shares were suspended from trading. The understanding held by I-World was that the shares would begin trading subsequent to the accounts being lodged. As the suspension was not lifted by the ASX, this has affected the draw downs. FairStar continues to negotiate with I-World.
4. Please confirm that FairStar is in compliance with the Listing Rules, and in particular, Listing Rule 3.1.
- 4.1. FairStar confirms that it is in compliance with Listing Rules, and in particular, Listing Rule 3.1.

Yours Sincerely,

A handwritten signature in black ink, enclosed within a hand-drawn oval. The signature is cursive and appears to read 'Kevin J Robertson'.

**Kevin J Robertson**  
Managing Director.



9 May 2016

Mr Kevin Robertson  
Managing Director  
FairStar Resources Limited  
Unit 3, 136 Main Street  
Osborne Park WA 6017

By email: [kevin@fairstarresources.com](mailto:kevin@fairstarresources.com)

Dear Mr Robertson

**FAIRSTAR RESOURCES LIMITED ("FAIRSTAR")**

ASX Limited ("ASX") refers to the following:

1. FairStar's announcement entitled "Convertible Note Agreement" released on the ASX Market Announcements Platform on 27 October 2014 ("the Convertible Note Announcement"), disclosing, among other things, that FairStar had entered into a Convertible Note Agreement ("the I-World Convertible Note Agreement") with I-World International Group Limited ("I-World"), on the following terms:
  - (a) I-World would invest in 10 convertible notes ("Convertible Notes") with a face value of \$1,000,000 each, totalling \$10,000,000.
  - (b) The notes to be issued pursuant to the Convertible Note Agreement would be for a term expiring 21 October 2017.
  - (c) The Convertible Notes would accrue interest at 5% per annum.
  - (d) The agreed conversion price of the Convertible Notes has been fixed at \$0.016 per fully-paid ordinary share in FairStar as to the first \$5,000,000, and \$0.02 per fully-paid ordinary share in FairStar for the second \$5,000,000.
  - (e) The Convertible Notes would be secured by a "charge" registered on the "PPSR register".
  - (f) Investments under the Convertible Note Agreement would be made in tranches of up to \$800,000 per week.
  - (g) The first instalment of \$150,000 had been received by FairStar.
  - (h) FairStar intended to use the funds from I-World for "*working capital purposes, retirement of debt and development of the Steeple Hill Iron Project*".
2. FairStar's quarterly activities and cashflow report for the period ended 30 September 2014, released to ASX on 31 October 2014, which reported (among other things) a cash balance as at 30 September 2014 of \$44,000.

3. FairStar's notice of Annual General Meeting for the year ended 30 June 2014, released to ASX on 29 October 2014, which sought security holder approval under Listing Rule 7.1 for the issue of the Convertible Notes to I-World and stated (among other things) as follows:

- (a) *"The Company is not obliged to issue a convertible note until it receives the full amount thereof being \$1,000,000.00. As the Company receives each full \$1,000,000.00 it will issue 1 convertible note. The Company may give notice to I-World International Group Limited to advance funds to it however without the prior agreement of I-World International Group Limited the Company may not request payment of more than \$800,000.00 in any 5 day working period."*
- (b) *"The convertible notes will be issued within 3 months of 27 November 2014 that is on or before 27 February 2015."*

As announced to ASX on 27 November 2014, all resolutions put to the 2014 Annual General Meeting, including the resolution to approve the issue of the Convertible Notes to I-World, were passed on a show of hands.

4. FairStar's Annual Report for the year ended 30 June 2014, released to ASX on 11 November 2014, which disclosed (among other things) as follows:

- (a) A statement attributed to Managing Director Kevin Robertson that "I-World has *"committed to invest up to \$10,000,000.00 over the next few weeks."*
- (b) A statement that *"[i]n 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"*.
- (c) The following financial information as at 30 June 2014:
  1. Cash and cash equivalents of \$25,264.
  2. Total current liabilities of \$12,426,940.
  3. Negative net equity of \$8,691,937.
- (d) The following statement in the "Summary of accounting policies" section of the notes to the financial statements (pages 33 – 34):

*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. [...]*

*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."*

- (e) The following statement by Stantons International Audit and Consulting Pty Ltd in its Independent Auditor's Report dated 10 November 2014:

*"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 [as] 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."*

5. FairStar's quarterly activities and cashflow report for the period ended 31 December 2014, released to ASX on 30 January 2015, which reported (among other things) the following:

(a) Proceeds from Convertible Notes during the quarter of \$150,000.

(b) A cash balance as at 31 December 2014 of \$52,000.

6. FairStar's announcement entitled "Response to ASX Appendix 5B Query" released on the ASX Market Announcements Platform on 11 February 2015, which stated (among other things) as follows:

*"The company refers to its announcement dated 27 October 2014 when it announced that it had entered into a Convertible Note Agreement with I-World International Group Limited. That agreement is still on foot and the company anticipates being in a position to draw down on that facility during the coming quarter to meet expenditure commitments."*

7. FairStar's quarterly activities and cashflow report for the period ended 31 March 2015, released to ASX on 30 April 2015, which disclosed (among other things) the following:

- (a) The following statement from FairStar: *“During the Quarter, the Company has continued to aggressively pursue, with the assistance of Creafin & Associates, the required financing to enable the project to move forward into production.*

*Although the global price of iron ore has had some effect on the negotiations, Creafin & Associates are confident of a positive outcome in the near future.”*

- (b) Nil references to the I-World Convertible Note Agreement.
  - (c) Proceeds from Convertible Notes during the quarter of nil.
  - (d) A cash balance as at 31 March 2015 of \$19,000.
8. FairStar’s announcement entitled “Response to ASX Appendix 5B Query” released on the ASX Market Announcements Platform on 6 May 2015, which stated (among other things) as follows:

*“The company refers to it [sic] announcement dated 27 October, 2014 when it announced that it had entered into a Convertible Note Agreement with I-World International Group Limited. That agreement is still on foot and the company anticipates being in a position to draw down on that facility during the coming quarter to meet expenditure commitments.”*

9. FairStar’s announcement entitled “ASX Media Release” released on the ASX Market Announcements Platform on 7 July 2015, which stated:

*“FairStar wishes to inform shareholders that discussions for the funding from I-World International Group Limited, are continuing.*

*The company will provide a further update as soon as it is in a position to do so.”*

10. FairStar’s quarterly activities and cashflow report for the period ended 30 June 2015, released to ASX on 31 July 2015, which disclosed (among other things) the following:

- (a) The following statement from FairStar: *“During the Quarter, the Company has continued to aggressively pursue, with the assistance of Creafin & Associates, the required financing to enable the project to move forward into production.*

*Although the global price of iron ore has had some effect on the negotiations, Creafin & Associates are confident of a positive outcome in the near future.”*

- (b) Nil references to the I-World Convertible Note Agreement.
  - (c) Proceeds from Convertible Notes during the quarter of nil.
  - (d) A cash balance as at 30 June 2015 of \$34,000.
11. FairStar’s quarterly activities and cashflow report for the period ended 30 September 2015, released to ASX on 30 October 2015, which disclosed (among other things) the following:

- (a) The following statement from FairStar: *“During the Quarter, the Company has continued to pursue the required financing to enable the project to move forward into production.”*

- (b) Nil references to the I-World Convertible Note Agreement.
- (c) Proceeds from Convertible Notes during the quarter of nil.
- (d) A cash balance as at 30 September 2015 of nil.

12. FairStar's announcement entitled "ASX Update" released on the ASX Market Announcements Platform on 15 January 2016, which stated (among other things) as follows:

*"The Company has continued negotiations for the full funding of the Company post the break for the festive season. The company anticipates being in a position to make a substantive announcement shortly."*
13. FairStar's quarterly activities and cashflow report for the period ended 31 December 2015, released to ASX on 29 January 2016, which disclosed (among other things) the following:
  - (a) The following statement from FairStar: *"During the Quarter, the Company has continued to pursue the required financing to enable the project to move forward into production.*

*The plunging iron ore price as well as global conditions have had a dampening effect on the financing prospects, but the Company seeks to assure the shareholders that they are confident of an outcome shortly, as the negotiations are proceeding with good faith by all parties."*
  - (b) Nil references to the I-World Convertible Note Agreement.
  - (c) Proceeds from Convertible Notes during the quarter of nil.
  - (d) A cash balance as at 31 December 2015 of nil.
14. FairStar's announcement entitled "Market Update" released on the ASX Market Announcements Platform on 17 March 2016, which stated (among other things) as follows:

*"The Company has continued negotiations for the full funding of the Company. The company anticipates being in a position to make a substantive announcement shortly."*
15. FairStar's quarterly activities and cashflow report for the period ended 31 March 2016, released to ASX on 29 April 2016, which disclosed (among other things) the following:
  - (a) The following statement from FairStar: *"During the Quarter, the Company has continued to pursue the required financing to enable the project to move forward into production.*

*The recent positivity in the iron ore price as well as global conditions have had an encouraging effect on the financing prospects, and the Company seeks to assure the shareholders that they are confident of an outcome shortly, as the negotiations are proceeding with good faith by all parties."*
  - (b) Nil references to the I-World Convertible Note Agreement.
  - (c) Proceeds from Convertible Notes during the quarter of nil.
  - (d) A cash balance as at 31 March 2016 of nil.
16. Listing Rule 3.1, which requires a listed entity to give ASX immediately any information concerning it that a reasonable person would expect to have a material effect on the price or value of FairStar's securities.
17. The definition of "aware" in Chapter 19 of the Listing Rules. This definition states that:

*"an entity becomes aware of information if, and as soon as, an officer of the entity (or, in the case of a trust, an officer of the responsible entity) has, or ought reasonably to have, come into possession of the information in the course of the performance of their duties as an officer of that entity."*

Additionally, you should refer to section 4.4 in Guidance Note 8 *Continuous Disclosure: Listing Rules 3.1 – 3.1B “When does an entity become aware of information?”*.

18. Listing Rule 3.1A, which sets out exceptions from the requirement to make immediate disclosure, provided that each of the following are satisfied.

*“3.1A Listing rule 3.1 does not apply to particular information while each of the following is satisfied in relation to the information:*

*3.1A.1 One or more of the following 5 situations applies:*

- It would be a breach of a law to disclose the information;*
- The information concerns an incomplete proposal or negotiation;*
- The information comprises matters of supposition or is insufficiently definite to warrant disclosure;*
- The information is generated for the internal management purposes of the entity; or*
- The information is a trade secret; and*

*3.1A.2 The information is confidential and ASX has not formed the view that the information has ceased to be confidential; and*

*3.1A.3 A reasonable person would not expect the information to be disclosed.”*

Pursuant to Listing Rule 18.7, ASX requires FairStar to answer the following questions in a format suitable for release to the market:

1. Is the I-World Convertible Note Agreement still on foot and able to be drawn down by FairStar?
2. Have the terms of the I-World Convertible Note Agreement changed in any material respect since the date of the Convertible Note Announcement? If so, please provide details of the changes.
3. Has FairStar drawn down, or attempted to draw down, any further funds under the I-World Convertible Note Agreement in addition to the initial investment of \$150,000 reported in the Convertible Note Announcement?
  - 3.1. If FairStar has made a further drawdown or further drawdowns of funds under the I-World Convertible Note Agreement, please advise the dates and amounts drawn down and explain why FairStar has not disclosed those amounts in its quarterly cashflow reports.
  - 3.2. If FairStar has attempted to draw down funds under the I-World Convertible Note Agreement without success, please advise the dates and amounts attempted to be drawn down and explain why those drawdowns were not successful.
  - 3.3. If FairStar has not drawn down, or attempted to draw down, any further funds under the I-World Convertible Note Agreement, please explain why not, given its apparent need for funds.
4. Please confirm that FairStar is in compliance with the Listing Rules, and in particular, Listing Rule 3.1.

ASX would remind you that an officer or employee of a listed entity who gives, or authorises or permits the giving of, materially false or misleading information to ASX:



- knowingly, breaches section 1309(1) of the Corporations Act, which is a criminal offence punishable by a fine of up to 200 penalty units and/or imprisonment for up to 5 years; or
- without taking reasonable steps to ensure that the information was not false or misleading, breaches section 1309(2) of the Corporations Act, which is a criminal offence punishable by a fine of up to 100 penalty units and/or imprisonment for up to 2 years.

### **When and where to send your response**

This request is made under, and in accordance with, Listing Rule 18.7. Your response is required as soon as reasonably possible and, in any event, by not later than **5pm WST on Wednesday 11 May 2016**.


You should note that if the information requested by this letter is information required to be given to ASX under Listing Rule 3.1 and it does not fall within the exceptions mentioned in Listing Rule 3.1A, FairStar's obligation is to disclose the information "immediately". This may require the information to be disclosed before the deadline set out in the previous paragraph.

ASX reserves the right to release a copy of this letter and your response on the ASX Market Announcements Platform under Listing Rule 18.7A. Accordingly, your response should be in a form suitable for release to the market.

Your response should be sent to me by e-mail at [kevin.lewis@asx.com.au](mailto:kevin.lewis@asx.com.au) with a copy to [james.rowe@asx.com.au](mailto:james.rowe@asx.com.au) and to [ben.tippett@asx.com.au](mailto:ben.tippett@asx.com.au).

If you have any queries or concerns about any of the above, please contact me immediately.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'K. Lewis', written in a cursive style.

**Kevin Lewis** | Chief Compliance Officer  
ASX Compliance | 20 Bridge Street | Sydney NSW 2000

t: +61 2 9227 0771 | m: 0414 593 948 | e: [kevin.lewis@asx.com.au](mailto:kevin.lewis@asx.com.au) f: +61 2 9227 0428