



POLARIS METALS NL

ABN 18 085 223 570



2008

ANNUAL REPORT

Corporate Directory

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Jonathan Lea (Managing Director)
Alan Tough (Executive Director)
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Corporate

Polaris has progressed significantly towards our strategic objective of being a 5-10 million tonnes per annum iron ore producer.

With four potential production projects and excellent exploration potential throughout Western Australia Polaris can plan to move forward with confidence in its transition from explorer to miner.

The exploration of a number of known iron ore prospects and the discovery of a new major potential resource at Weelumurra has enabled a pipeline of future projects to be established. Polaris expects to be able to commence production in 2010 and just as importantly has the potential mineral resources to become a long term medium sized Western Australian iron ore mining house.

The current focus is firmly on the Yilgarn Iron Ore Project (YIOP) with extensive drill testing of the new discoveries of 2007 and feasibility studies to capture all the required data necessary to obtain mining approvals.

Polaris made two renounceable rights issues during the year to raise working capital. Capital requirements for the company have increased, in line with the more advanced nature of operations as the company transitions from exploration to mine development. Approximately \$6 million was raised in November 2007 and \$11 million in April 2008 after costs. The stock broking firm, Patersons Securities Limited, acted as the underwriter on both occasions.

Polaris' two major shareholders, Heron Resources Limited (Heron) and Malaysia's The Lion Group (Lion) maintained their support during the year by participating in both capital raisings and, in the case of Lion, actively buying additional equities on the market. As a consequence at the end of the year Heron owns 25.2% and Lion owns 19.7% of Polaris. The Company looks forward to the continuation of this support.

During the year ended 30 June 2008, Polaris spun out the non-core gold and nickel assets into a new IPO called Southern Cross Goldfields (ASX: SXG) so the Company can concentrate on developing iron ore projects. Polaris owns approximately 18% of SXG fully paid shares and 45% of SXG options, and hence maintains exposure to the exploration upside. A total of 22 million shares in SXG were distributed in-specie to Polaris' shareholders in June 2008.

A number of Board changes occurred during the year - largely associated with Polaris' progressive transition from exploration to mining. In particular, the inaugural Managing Director, Kevin Shultz retired to become a non-executive director. Kevin's vision for the future and major contribution in securing the iron ore assets on which Polaris will base its future cannot be under-estimated. I offer him my warm thanks for his hugely significant input. Vern Strange, another founding Director, also stood down, to concentrate on SXG. Colin McCavana retired due to commitments elsewhere, so 2008 led to a "changing of the guard". New appointments in January 2008 were Jon Lea as Managing Director and Alan Tough as Executive Director Operations,

Project Development

The Yilgarn Iron Ore Project (YIOP) hosts five identified mineral resources with excellent potential for iron ore production. The



initial focus is on Carina – discovered by Polaris in 2007. A recently completed pre-feasibility study showed a robust financial return and the key recommendation was to progress to a bankable study.

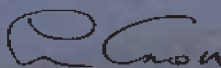
The study was based on an extraction rate of 2.5Mtpa but Polaris expects to develop a resource base sufficient to support production at 5mtpa in the longer term. The project benefits from its proximity to open access rail and ports, reducing the costs and time to access infrastructure. The total resource base for the project is considered to be in excess of 100Mt. The Poondano project near Port Hedland similarly offers potential for near-term production. A mining rate of 1-1.5Mtpa is envisaged both of direct shipping channel iron ore and ore up-graded through screening.

Iron ore mineralisation was found by helicopter reconnaissance at the Weelumurra project during the year and remote sensing studies suggest an exploration potential of over 250Mt. Being further from infrastructure the time to development will be longer but the project is a key development target after the YIOP. The Bullfinch North project hosts the Mayfield magnetite deposit. Polaris is commencing work to evaluate the potential for direct shipping the high grade ores or using dry separation methods to produce a concentrate. With a resource potential of 100Mt and synergies with the YIOP project through shared infrastructure this project will be evaluated over the coming year.

Management and Staff

As Chairman, I have welcomed the strategic input of our two largest shareholders Heron and Lion, and confidently expect their support to continue.

I also wish to acknowledge the sterling efforts of our Management team and Staff for their dedication and hard work during the year. We have an excellent team progressing first class projects through all of the processes of determining development feasibility and obtaining statutory approvals for the Company to become a 5-10Mtpa iron ore producer.



Lew Cross
Chairman

*Your Company is now
focused on becoming one
of the country's strategic
iron ore producers*



Polaris' main focus is currently on the Yilgarn Iron Ore Project but exploration and evaluation is occurring throughout the State of Western Australia.

We are actively developing the links and relationships with the stakeholders and regulators in all parts of the State that we operate. Discussions with regulators and flora and fauna surveys are ongoing for approvals, consultation continues with Aboriginal groups and Native Title parties over heritage issues as well as liaison with local residents.

Polaris strives to inform all stakeholders of future plans and to meet community and regulatory expectations and requirements so that development can occur in a mutually beneficial and acceptable manner.

Yilgarn Iron Ore Project (YIOP)

The YIOP is focussed on 5 prospects approximately 60km north of Koolyanobbing. The Carina deposit is the initial focus of development.

Community

To ensure its Yilgarn developments are carried out with the highest standards of Stakeholder consultation and transparency, Polaris has several operational guidelines:

- ◆ Thorough Stakeholder consultation to ensure that the aspirations of local Stakeholders are reflected in Polaris' development strategies, such that the whole Community benefits and has an input in decision-making.
- ◆ Assisting in the development of a robust and diversified Regional economy that provides opportunities throughout mining, agriculture, conservation and tourism, to the benefit of all in the Community.
- ◆ Respect and support of Indigenous aspirations, through employment opportunities.
- ◆ Maximisation of the utilisation and development of the State's existing regional infrastructure.

To assist in identifying stakeholder aspirations a number of consultation processes have commenced using external consultants. This process will continue to ensure an enhanced understanding and enable the consideration of local requirements as part of the project development process.

Environmental Management

Parts of the Yilgarn Iron Ore Project (YIOP) region contain high conservation and biodiversity values. It is therefore critical that Polaris maintains a high standard of environmental management in its operations. Polaris is proactive in Community Consultation, and in undertaking baseline environmental surveys for its exploration programmes and has developed an Exploration Environmental Management Plan (EEMP) to ensure its activities meet acceptable community standards. The EEMP was a major achievement and while drilling was delayed for a period, the mutual understanding developed between Polaris and the regulators helped strengthen the relationship and to expedite future approval processes.

The Helena – Aurora ranges host the Bungalbin East, J4 and J5 deposits. Environmental baseline surveys have identified a



number of rare and significant plant species on these deposits. The pink flowered rare plant *Tetratheca aphylla* appears to only grow in fissures of exposed BIF rock on the ranges and in areas of 1970s drill pad disturbance. Further surveys are programmed to continue to map the distribution of such protected species, in order to responsibly schedule drilling programmes in early 2009. The Company has a number of deposits that do not contain rare plant species for which environmental proposals are further advanced.

The State government is currently evaluating the possible extension of the Mount Manning A-class Nature Reserve and Polaris' Bungalbin East and J5 deposits fall within the proposed extension. The State has given Polaris three years to quantify the relative economic and environmental value of Bungalbin East, to allow a final decision to be made.

Polaris' view is that the existing Conservation Park zoning over Bungalbin East should remain, since this is a land use which allows both conservation and mining. This view appears to be shared by the community. Allowing a very small percentage of the Conservation Park to be mined will generate the infrastructure and revenue to manage and develop the larger Conservation Park. Additionally, the mining activity will provide the baseline economic activity which will cushion the ups and downs of the local agricultural industry as it struggles with ever increasing drought seasons.

The Carina and Chamaeleon deposits are located in a separate range of hills, the Yendilberin Hills which are outside the potential Mount Manning Nature Reserve extension. Carina is the most advanced of the exploration targets in this area. Baseline environmental assessments for flora, terrestrial and subterranean fauna are well underway. The surveys to date have not identified the rare plants or animals in the project area that are present on other ranges.

Polaris has submitted a proposal to the Environmental Protection Authority (EPA), to set the level of assessment for mining the Carina deposit. A decision on the submission is anticipated later in 2008. The completion of environmental assessments for flora, fauna, groundwater will lead to in the submission of the final environmental impact assessment document to Government in 2009.

Aboriginal Heritage Issues

There are no registered Native Title claims over the YIOP area. Polaris maintains a dialogue with the area's Traditional Owners and undertakes heritage clearance surveys over project areas. Polaris has employed a number of Aboriginal people during its exploration campaigns and continues to seek develop employment opportunities for local people as site activities are increased.



Central Yilgarn Projects

The Polaris Metals NL (Polaris) business plan is to become a significant iron ore producer in the coming 2-3 years. The Company is determined to take advantage of the current window of high iron ore prices to commence production as soon as possible.

Two “company-maker” projects have been identified during 2008:

- The Yilgarn Iron Ore Project (YIOP) - near Koolyanobbing in the central Yilgarn Province with the new Carina deposit offering an initial production of 2.5Mtpa of direct shipping ores (DSO) targeted for 2010 and other deposits enabling ramp up to 5.0Mtpa in the medium to longer term: and
- The Weelumurra Project in the central Pilbara – potential for 250 Mt of channel iron deposit (CID), detrital iron deposits (DID) and canga eluvial mineralization.

The key distinguishing feature and benefit for the YIOP is its proximity to and potential access to existing infrastructure.

As well as these projects two other potential development projects have been identified:

- The Poondano deposit - 30km south east of Port Hedland in the Pilbara Province with potential production of 1.0-1.5Mtpa of channel iron deposit (CID) ore: and
- The Bullfinch North Project – featuring Mayfield with a resource potential of 100Mt including several million tonnes of hematite DSO (+60% Fe) and large tonnages of high grade magnetite-bearing mineralisation (~50% Fe).

Over 17,000m of RC drilling was completed during the year to develop JORC-compliant resource estimates.

In total, the estimated resource potential of Polaris exceeds 400 million tonnes in the four identified key projects and with approximately 4700 km² of tenements in Western Australia, there remains significant potential for further discoveries.

A prefeasibility study based on Carina in mid 2008 indicated robust cash flows and profitability for the first stage of the YIOP. Under prevailing economic conditions this prospect can form the basis of a medium to long life project from which Polaris can develop into a mid size Western Australia iron ore mining house.

The potential quantity and grade of iron deposits reported as exploration potential is conceptual in nature and there has been insufficient exploration to define a Mineral Resource and it is uncertain if further exploration will result in the determination of a Mineral Resource.



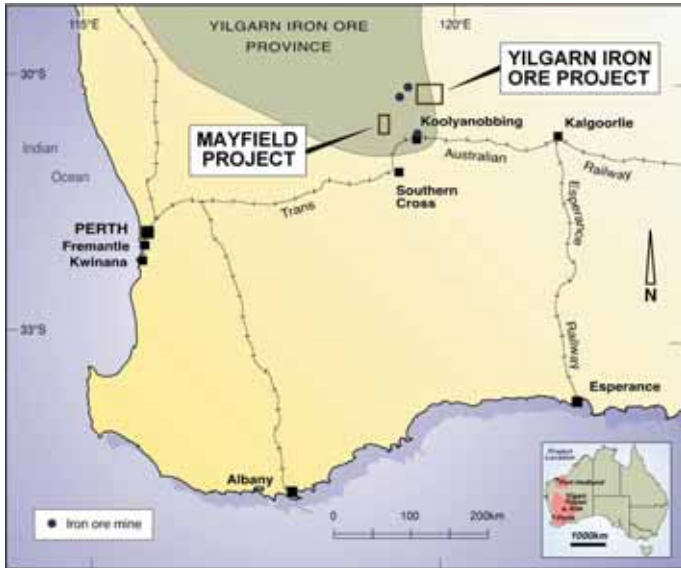
Yilgarn Iron Ore Project (Polaris 100%)

Overview

The Yilgarn Iron Ore Project (YIOP) encompasses approximately 1,000km² of mining tenements 50km north of Koolyanobbing in Western Australia - iron ore rights for the tenements are held 100% by Polaris.

The project currently encompasses five prospects with significant direct shipping ore (DSO) grade iron mineralisation. Some 80-90Mt target potential was established by previous explorers' drilling (Bungalbin East, J4 and J5), with new prospects (Carina, and Chamaeleon) discovered by Polaris.

Targeting a total resource base in excess of 100Mt in current exploration work, the Company believes the Yilgarn Project is capable of sustaining exports initially of 2.5Mt of iron ore annually expanding to 5Mtpa for up to 20 years, subject to securing environmental approvals and infrastructure access.



The Carina and Chamaeleon ore bodies are considered to have a higher immediate production potential as they:

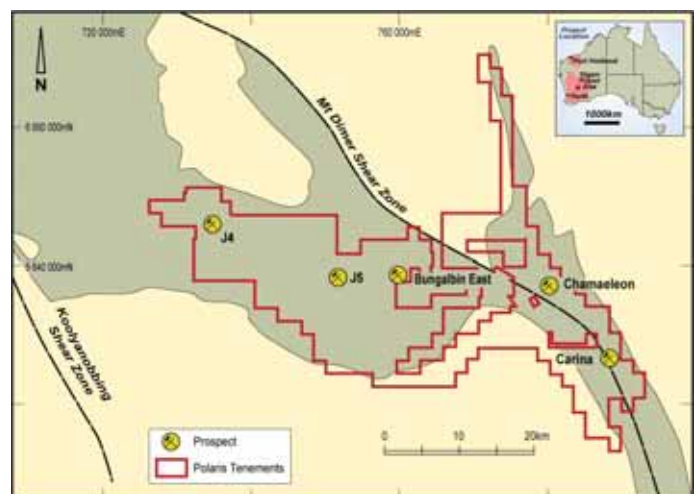
- are located on open range land,
- do not contain any declared rare flora,
- are located outside the Mt Manning Nature Reserve proposed extension,
- in the case of Carina, characterised by a relatively simple tabular ore body geometry with visual ore identification,
- have a potential extraction rate in line with likely initial port capacity, and
- have a readily saleable DSO product.

The resource potential of the two deposits is sufficient to justify a stage 1 development as indicated by the prefeasibility study completed in mid 2008.



In the past year Polaris has assessed all the prospects in the project area to provide a focus on those with most potential for rapid development. Drill assessment was completed in a number of areas and the clear understanding developed that the Carina and Chamaeleon prospects have the most potential for expedited production.

The key reason lies in the relatively ease of obtaining mining approvals. Bungabin East and J5 are within the proposed extension to the Mount Manning Nature Reserve over the Helena-Aurora Range, considered to be an area with significant biodiversity, and as a consequence subject to a challenging environmental approval process for both exploration and mining activity. Polaris is completing flora and fauna studies aimed at characterising the ecology of the area to ensure informed decisions can be made. The Company believes this approach is likely to lead to access to the target areas albeit with a longer time frame than normally expected.



REVIEW OF OPERATIONS

YIOP Resource Inventory

Independent consultants re-estimated the mineralisation in the YIOP and at a 55% Fe cut-off grade, the quoted Inferred Mineral Resources are:

YIOP Inferred Mineral Resource Statement

Prospect	Cut-off Fe%	Tonnes (Million)	Fe (%)	SiO ₂ (%)	Al ₂ O ₃ (%)	P (%)	LOI (%)
Carina	55	15.6	57.7	3.8	1.7	0.12	10.4
J4	55	4.8	57.4	3.9	1.8	0.14	10.9
J5	55	10.0	59.0	5.8	1.2	0.24	7.50
TOTAL	55	30.4	58.1	4.5	1.6	0.16	9.50

LOI – loss on ignition

The exploration potential of Bungalbin East and the western extension to J4 were also assessed by independent resource estimation consultants but based on the nature of the data, Inferred Mineral Resources could not be reported in accordance with the 2004 JORC Code. In addition to the resources quoted above however, broadly spaced, and historic drilling at these two prospects suggests the presence of mineralisation with exploration potential of 70-90Mt at 57-58% Fe. No assessment of the potential at Chamaeleon has been made as more drilling is required.

A previous resource estimate exists for Bungalbin East, which was discovered by BHP in the 1960s. The Independent Geologist's Report and Valuation prepared for Polaris in July 2006 states a target resource of 59Mt with 57.9% Fe, 0.15% P, 2.0% Al₂O₃, 4.6% SiO₂ and 9.8% LOI.

(Note the BHP Bungalbin East 'estimates' were prepared before the implementation of the current JORC Code and do not meet JORC compliance and therefore should only be regarded as estimates of size and grade of mineralisation.)

A dispute with Portman Mining was resolved during the year giving Polaris full ownership of the Bungalbin East, J5 and J4 deposits.

The resource potential of the area leads Polaris to believe that a mining operation initially at 2.5Mtpa growing to 5Mtpa can be sustained for around 20 years. The plan is to develop the mineralisation in the Carina area first and subsequently the other resources in the project area.

The potential quantity and grade of iron deposits reported as exploration potential is conceptual in nature and there has been insufficient exploration to define a Mineral Resource and it is uncertain if further exploration will result in the determination of a Mineral Resource.

Evaluation 2007-2008

Carina and Chamaeleon

Drilling has focused on the massive goethite-hematite mineralisation at the Carina and Chamaeleon prospects. The intercepts to date at Carina from the drilling on 160m line spacing indicates mineralisation over a strike length of up to 1,400m, true widths up to 60m, and vertical depths to 140m. The mineralisation remains open at depth and is surrounded largely by mafic and ultramafic volcanics. Chamaeleon however is more structurally complex and further drilling is required to understand the geometry of the mineralisation.

The present resource estimate for Carina is classified as 'Inferred' and drilling continues at Carina to establish an Indicated and Measured Mineral Resource by the end of 2008.

A desktop evaluation study was completed in September 2007 - the results indicated that a more rigorous and detailed appraisal was justified. A prefeasibility study (PFS) was commenced in late 2007 aimed at establishing the economic potential for mining in the YIOP area at nominal rates of 5-10Mtpa. During the study, the estimation of the initial resource at Carina and the enhanced understanding of timing realities for mining approvals for some of the deposits and export port considerations led to a change in the PFS scope. The study, completed in July 2008, adopted a base case for mining the Carina ore body at a rate of 2.5Mtpa, trucking the ore to a new siding on the Trans Australia rail line and then raiting to the Fremantle Port Authorities' Kwinana operation. A feed of 20Mt at a grade of 57% Fe was used in the Stage 1 study, giving an initial mine life of 8 years from production start-up in late 2010.

The base case produced a significant net present value. The results are considered very positive and indicate the project is viable. The key recommendation from the study was that Polaris should proceed to a bankable feasibility study.

Polaris is aiming at establishing an Indicated and Measured Mineral Resource estimate for the Carina mineralisation by the end of the 2008. This information will form the basis for the definitive feasibility study, to be commenced formally once the preferred export port option is identified. A number of other studies required for mining approvals are ongoing such as the flora and fauna surveys, hydrogeological testing and geotechnical and metallurgical evaluation. Finalising the preferred infrastructure is a key objective with studies continuing for both the Kwinana and Esperance Ports and the rail access options so that the optimum combination can be found in terms of timing, capital cost, operating costs and potential ship size. It is planned to conclude a feasibility study on the project by mid 2009.

Other YIOP Prospects

The J4, J5, Bungalbin East and Musca mineralisation lies on or near the Helena-Aurora Range. The Vela prospect is located



Hematite identified in RC chips at Chamaeleon

on the plain country to the south. All prospects apart from J4 are within the proposed extension to the Mt Manning Nature Reserve and are considered to be areas with high conservation values by Government environmental agencies.

As a consequence the processes to gain approvals for drilling are thorough and time consuming. Flora and fauna surveys continue over these areas aimed at gaining a comprehensive understanding of the environment, leading to the formulation of impact mitigation and management plans as a prerequisite for obtaining exploration and subsequently mining approvals.

Nevertheless drilling was completed at the Vela, Musca and J4 Extended prospects during the year.

Vela was discovered by Polaris through regional mapping and sampling. Vela forms a low ridge of discontinuous outcropping hematite/goethite over 2.5km in length. A total of 38 surface samples taken in 2007 averaged 54.5%Fe. 18 RC holes for 1,188 metres were completed at Vela in the initial drill testing.

The assays suggest that the iron enrichment of the BIF below surface is insufficient to justify further substantial work. Magnetic interpretation suggests that the mineralisation might extend further to the south west under cover. Further testing is possible but has been assigned a low priority.

J4 has been drill tested by previous explorers. Mapping and surface sampling of the area indicated the mineralisation could extend to the southeast. A total of 9 RC holes for 792 metres were completed to test the possible extension.



Carina outcrop

While substantial intervals of enriched BIF were intersected there were no assays of note. Hence it has been established that the economic mineralisation does not extend to the south-west to any significant degree and future work will focus on the existing J4 mineralisation.

Musca was a grass roots discovery by Polaris geologists following reconnaissance mapping and sampling. Initial drill testing was through 11 RC holes for 1,042 metres.

The mineralisation intersected was thin and patchy suggesting the potential for economic extraction to be limited.

An Aboriginal mythological site claim was recently lodged over the Helena-Aurora Range. This has necessitated further investigation and the processes are in train to work through the issue and gain approval to drill at these deposits. Due to this mythological site claim it is possible that drill access to these three prospects will be delayed until calendar 2009.



EPA Proposal to Extend the Mt Manning Nature Reserve

The Environmental Protection Authority (EPA) advises State government with respect to protection of threatened species and biodiversity conservation. On 14 May 2007 the EPA released Bulletin 1256 advising on recommended measures to protect areas deemed to be of high conservation value in proposed extensions to the Mount Manning Nature Reserve, including that:

- ◆ an A Class Nature Reserve to include the highest priority conservation areas be established;
- ◆ the precautionary principle be applied in relation to proposals to offset loss of highly habitat specific Banded Iron Formation ("BIF") endemic species through translocation to other sites.



- ◆ with respect to the Helena-Aurora BIF Range the recommendation was that the Mount Manning Nature Reserve be extended southward to cover the bulk of the Range including the Bungalbin East and J5 deposits.

In December 2007, the WA State Government report on the Banded Iron Formation of the Yilgarn, the Helena-Aurora Range was identified as an area the Government was predisposed to preserve. However the Government specifically exempted any action on the Bungalbin East Ranges for three years – on account of their high potential economic benefits for both the State and local stakeholders.

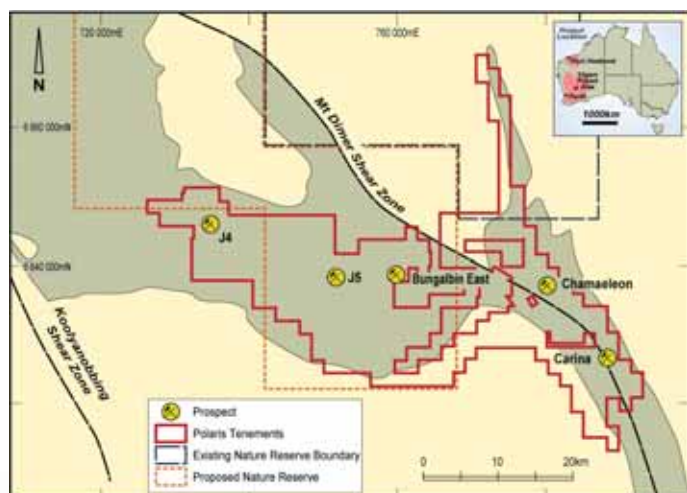
Polaris is undertaking active consultation with the regulators to determine the potential effects of these proposals and is meeting with government to ensure that the Company's interests are properly presented and that government fully understands the exceptional economic potential of the region.

Other Yilgarn Projects (Polaris 100%)

In common with its peers in the mining industry, Polaris recognises the importance of biodiversity conservation and meets or exceeds environmental regulations as well as Aboriginal heritage protection regulations. The Company is well aware of environmental management guidelines of the Department of Industry and Resources (DoIR) and Department of the Environment and Conservation (DEC) as regards operating in environmentally sensitive areas.

Importantly the Carina and Chamaeleon iron ore discoveries made by Polaris are outside the priority area recommended by the EPA to become a Nature Reserve, and therefore the Company expects to be able to continue its exploration of them in accordance with its normal practice of environmental compliance.

The current and proposed boundaries of the Mount Manning Nature Reserve are provided for reference in the figure below.



Bullfinch North Project (Polaris 100% Iron Ore Rights)

The Bullfinch North Project is located 80km north-west of Southern Cross and contains a number of DSO and magnetite iron prospects, with the most significant being Mayfield and Fish Hook.

The Mayfield deposit has been drilled by previous explorers and was the subject of a scoping study completed by Polaris in 2005. The mineralisation consists of high grade magnetite ore (45-50% Fe) covered by a relatively shallow horizon of potentially direct shipping hematite-goethite iron ore.

A target resource potential of 70-90Mt was estimated and metallurgical test work suggested the potential for high grade concentrates in excess of 69% Fe with low silica, alumina and phosphorous.

A recent rationalisation of the prospect ownership and the significant increases in iron ore prices since the scoping study was completed provide encouragement that the project is now viable – particularly given that infrastructure can be shared with the YIOP to the east.

Active exploration has commenced with mapping and sampling and drill scheduled later in the reporting year. Metallurgical test work is planned to better characterise the deposit to assist in marketing studies for both the in situ and upgraded ores.

It is planned to assess the deposit for both direct shipment of the high grade magnetite and DSO ores and to evaluate the potential for simple coarse crushing and beneficiation of the magnetite ores.

Other potential resources in the area such as Fish Hook will also be evaluated.

Discussions with potential off-take partners have commenced to establish whether the magnetite ore can be sold without beneficiation.



Johnston Range JV Project (Polaris earning 70%, Golden State Resources Ltd 100%)

The Johnston Range Project is situated in the Yilgarn Iron Ore Province, 160km north of Southern Cross.

Mapping and surface geochemical sampling in 2006 identified poorly outcropping hematite-goethite iron mineralisation with high grade iron assay results. The highest rock chip result was 65.2% Fe, 2.87% SiO₂, 1.24% Al₂O₃ and 0.065% P.

Follow up reconnaissance gravity results combined with the mapping and sampling information identified seven iron ore targets for drill testing.

RC drilling of 36 holes for 2,160 metres was completed in November 2007. Results indicated limited widths of iron oxide mineralisation grading progressively into magnetite-bearing BIF. Future options are being reviewed.

Windarling East Project (Polaris 100%)

The Windarling East Project is situated east of the Windarling iron ore mine of Portman Ltd. Windarling is a 60 Mt deposit grading 63.6% Fe. A reconnaissance gravity survey found anomalies associated with discrete aeromagnetic highs which could be Windarling-type iron mineralisation. Following fauna surveys planned for late 2008, drill testing is planned.

Evanston JV Project (Polaris earning 70%, Northgate Minerals 100%)

Earlier gravity surveying and reconnaissance geological mapping over the Die Hardy Ranges identified nine iron ore targets. Mapping found a number of goethite and detrital iron outcrops, with the most extensive being a 300-400 metre long outcrop of vitreous goethite which is up to 15m wide. Rock chip sampling of the iron ore targets yielded up to 64.6% Fe, 2.01% SiO₂, 0.60% Al₂O₃ and 0.035% P. Much of the Die Hardy Ranges BIF is unusually enriched in iron, with rock chip assays consistently in the range 40-45% Fe. The area also has potential for large scale magnetite deposits.

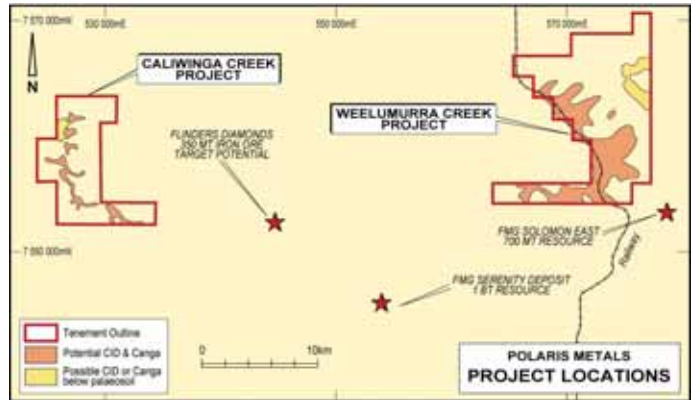
Drilling testing of the targets in the Evanston project is planned to follow the requisite flora surveys.

Northam Project (Polaris 100%)

The Northam Project consists of three exploration licenses between the towns of Northam and Calingari, respectively 90km east-northeast and 110km northeast of Perth, Western Australia.

An assessment of the tenements carried out in 2007 identified a number of potential magnetite targets. Further field work is planned.

Pilbara Iron Ore Projects



A helicopter-supported geological reconnaissance of the two Polaris tenement applications in 2007, located channel iron (CID), detrital iron (DID) and canga deposits up to 25m thick. CID at Caliwinga was visually estimated to be up to 25m thick, with grab sample assays up to 58.8% Fe, low in silica, alumina and phosphorus. At Weelumurra canga and detrital iron deposits were identified with grab sample assays up to 64% Fe.

Weelumurra Project (Polaris 100%)

The Weelumurra Project is comprised of the Weelumurra and Caliwinga Prospects, and is 170-185km south-east of Dampier.

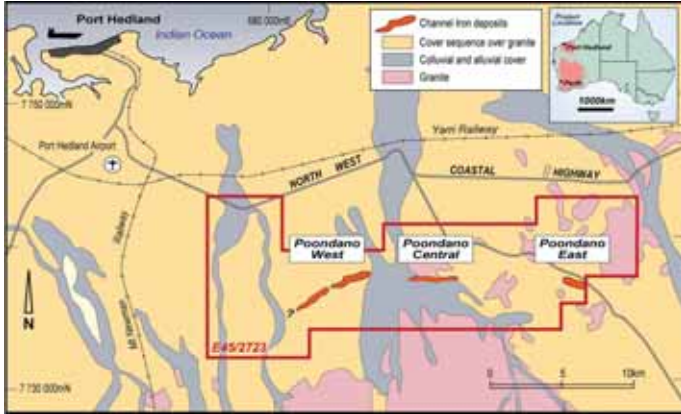
Several major CID discoveries have been announced in proximity to Weelumurra:

- Fortescue Metals Group's (FMG) Solomon East prospect with an inferred resource of 0.7 billion tonnes at 56% Fe, on the southeast boundary.
- FMG's Serenity Prospect with an inferred resource of 1.0 billion tonnes at 56% Fe to the south.
- Rio Tinto Caliwingina Creek with an inferred resource of 0.9 billion tonnes at 57% Fe to the immediate north.

An independent Landsat imagery interpretation study was commissioned and reported a CID target potential of 200–250Mt with additional Canga iron target potential of 50–60Mt on both prospects. These are based on interpreted volume estimates, and no reliable grade estimates are as yet available.

Granting of the Caliwinga Creek and Weelumurra Creek tenements to Polaris is now in progress with heritage access agreements being negotiated. When granted, Polaris will immediately commence exploration leading to drill testing.





Poondano Project (Polaris 100%)

Overview

The Poondano project, 30km southeast of Port Hedland, comprises a series of channel iron deposits ("CID") that extend discontinuously over more than 20km. In the east and central sectors of the palaeochannel, the CID remnants are mesas elevated up to 30m above the plain level ("Poondano East" and "Poondano Central"). In the west the CID has expression as a low hill 10-15m above surrounding sand plain ("Poondano West"). This deposit crops out relatively poorly over a 2km strike length. Further to the west the projection of the palaeochannel is covered by sand and iron-rich gravels, but the presence of CID has been confirmed by Polaris RC drilling to extend over more than 7.5km to the west.

Work during the year has included surface sampling and RC drilling at the Poondano East Mesa and at West Poondano, and magnetic and electro-magnetic geophysical surveys. A prefeasibility study has been ongoing involving environmental studies, preliminary metallurgical test work and economic assessment. Over 10,000m of RC drilling has been completed on the project.

Drill results and preliminary metallurgical test work have down-graded the potential of the East Mesa. The mineralisation does not appear to have an economic grade and the potential for upgrade appears limited.

Drilling at Poondano West however, coupled with the preliminary metallurgical test work results, has given confidence that the buried CID mineralisation can be upgraded through screening.

The surface sampling at the Central Mesas suggests that the material can be mined at an economic grade and will not need beneficiation. Drill testing is planned to validate the surface sampling.

A resource potential exists of 5-10Mt. Grade will depend on the outcomes of screen upgrade testwork which is underway. Future work includes the completion of metallurgical test work and the finalisation of the pre-feasibility study. Should the results be positive, a definitive study is anticipated leading to mining aimed for 2010.

Poondano Evaluation 2007-2008

Eastern Mesa

Mapping and sampling indicated the mesa grade mineralisation being in the 50-55% Fe range. 10 RC drill holes for 141m total were completed on 80m centres along the spine of the mesa. Drill hole grades (averaged 51% Fe) were similar to those returned from the surface sampling and hence the potential for economic extraction hinges on either blending with higher grade ores or beneficiation.



Preliminary metallurgical test work was completed that indicated upgrade through simple screening was unlikely and hence the potential for the mesa has been downgraded. Two diamond holes were drilled on the mesa (27m total) however to provide a more representative sample for rigorous metallurgical testing. These results when received will provide the best indication of whether further work can be justified.

Poondano Central Mesas

Previous surface sampling indicated the mesas grade approximately 56-58% Fe with the exposed CID up to 9 m thick. Drilling is required to validate these grades.

The Central Mesas pose issues for access. Heritage clearance is required prior to any work but given the precipitous nature of the landforms access is difficult. It is planned to use helicopter access to allow the traditional owners access to the mesas to obtain heritage clearance.

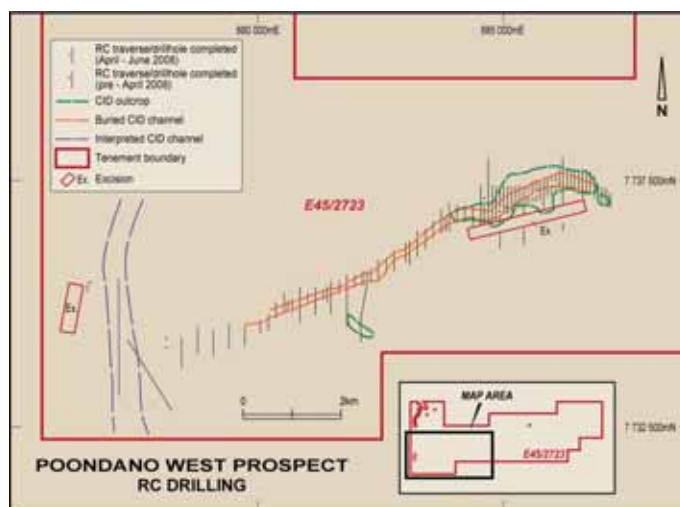
Subsequently the earthworks will be completed to permit access for the drill rig. This work is expected to be completed in 2008-2009.

Of the nine Central Mesas it is likely that only the four largest will be drill tested. The total resource exploration potential of the Central mesas is 1-2Mt of DSO ore.

Poondano Western Channel

Geophysical surveys indicated that the buried CID channel could be identified under the shallow cover. Two RC drilling campaigns were completed that tested the presence and location of the channel and will be used as the basis of initial resource estimation – once all results are returned.

Approximately 10km of potential channel was tested using 760 RC holes for 9,875m at Poondano West. The channel was



identified over a strike length of at least 6km and averaged widths of 50-80m with down-hole intercepts up to 18m in thickness, averaging around 6m in thickness. Depth to the top of channel ranged from 1 to 34m with depths typically increasing to the west.

Magnetic susceptibility readings and drill chip logging suggested significant widths and thicknesses of potentially ore grade material. The main geological observations were that of 10-30% clay in the Poondano West samples suggesting shipping grades might be achievable by simple screening and that greater thicknesses of channel iron mineralisation occur to the west.

Full assay results have yet to be returned from the latest drill campaign but results received to date include: 7m at 51.7% Fe from 5m, 7m at 52.4% Fe from 4m, 5m at 53.0% Fe from 6m, 5m at 53.0% Fe from 6m, 5m at 54.0% Fe from 5m, 9m at 51.7% Fe from 4m, 10m at 52.4% Fe from 6m, 7m at 53.7% Fe from 8m, 12m at 51.6% Fe from 12m.

Preliminary metallurgical test work completed in April 2008 indicated that Poondano West ores have the potential for upgrade (via screening) to an economic grade of iron mineralisation along with an associated decrease in alumina and silica grades.

A five hole diamond drilling programme (PQ size core) is in progress. Metallurgical test work on this core is expected to better quantify the potential for upgrade and the likely resultant grades.

Poondano Gravels

Iron rich gravels are located in a number of locations throughout the Poondano lease – largely eroded from, and lying adjacent to the mesas. The target potential is several million tonnes.

REVIEW OF OPERATIONS

It is planned to test the extent and thickness of the gravel deposits through a grid of shallow auger holes. The samples from these holes will be screened to test the potential to upgrade the gravels to an economic grade.

Pre-feasibility Study

A Pre-feasibility Study continues at Poondano to assess the economics of mining and exporting up to 1.5 million tonnes per annum (Mtpa) of iron ore through Port Hedland (30-40km away).

The conceptual plan involves contract mining, product crushing and screening, and trucking to the port. Minimal infrastructure should be required owing to the location apart from the crushing/screening plant. Negotiations are on-going to formalise access to the Utah Point Public Access Berth (seeking allocation of 1.5Mtpa), expected to be in operation by early 2010.

Other studies associated with the PFS include optimal mining approach, metallurgical characterisation, initial subterranean fauna monitoring (trolofauna and stygofauna) and characterisation, flora and fauna studies and developing an understanding of the environmental considerations as a prerequisite for obtaining mining approval.

At completion of the pre-feasibility study in 2008, the results will be assessed to determine whether the project should progress into a definitive feasibility study.

Preliminary metallurgical test work was completed on four bulk samples from the three target areas. The Central and Eastern mesa samples were from surface outcrop while a 4 m deep trench was excavated at the Western prospect and a sample obtained from the top of the channel. The samples were drop tested to replicate blasting and the coarse and fine fraction assayed. All samples returned an approximately 70:30 lump to fines split (lump attracts a premium sale price compared to fines).

The Central Mesa sample (head assay 59% Fe) and the two Eastern Mesa samples (head assays 53% Fe and 45% Fe respectively) had similar grades in the two size fractions. The result indicates that to be economic, the in-situ grades must be in the typical DSO range as upgrading by simple screening processes appears unlikely.

The Western Poondano trench sample (head assay 47% Fe) showed a significant upgrade in the lump fraction sample (by 7%). This result provides encouragement that the higher grade mineralised intersections received to date are potentially economic. Recent drill results suggest the potential for in-situ grades in some areas to exceed 50% Fe.

Results to date suggest a 1-2Mt potential of DSO from Poondano Central. With selective mining and screening at Poondano West it is also possible that an economic beneficiated product will be produced, resource potential is estimated at 5-10Mt.

The Poondano Central channel sampling results are comparable with the grades of Robe River Iron Ore fines and lump products, which have a high level of commercial acceptance in iron ore markets.

The metallurgical test work results to be returned later in 2008 should provide the fundamental data for informed decision making for the future direction of the project.

Other Pilbara Projects

Goldsworthy JV Project (Polaris earning 70% Northgate Minerals 100%)

The Goldsworthy JV project area consists of a 120km² exploration licence located approximately 100km east of Port Hedland. Under the terms of a joint venture with tenement holder Leviathan Resources Limited (wholly owned subsidiary of Perseverance Corporation Limited), Polaris can earn a minimum 70% interest in the project by spending \$2.5 million over a four year period. Polaris' exploration objective has been discovery of iron ore deposits similar to the 65Mt mined out Mt Goldsworthy deposit which is located within an adjacent BHP Billiton mining lease.

Reverse circulation drilling in 2007 failed to intersect significant mineralisation of the Goldsworthy type. Geophysical interpretation of the existing geological and geophysical data suggests the tenement has limited potential for economic iron mineralisation. Polaris is currently reviewing its options for Goldsworthy.

De Grey Project (Polaris 100%)

The De Grey project consists of an exploration licence contiguous with, and extending northeast of the Poondano exploration licence. The area is extensively soil covered and has potential for buried CID palaeochannels.

Previously Polaris completed a gravity survey over a part of the area where magnetics indicate concealed iron formations of the type being explored by Atlas Iron with some success in adjacent tenements. Gravity anomalies were detected and these will be followed up by drill testing.

Ashburton Project (Polaris 100%)

The project consists of four granted exploration licences that cover 532km² located 10-40km south of Rio Tinto's Paraburdoo iron ore mine in the southern Pilbara region. The area is considered prospective for transported iron ore deposits such as buried Robe pisolitic CID or surficial iron-rich gravels in palaeodrainages shed from the ranges hosting the Paraburdoo iron deposits.

A geophysical interpretation identified potential target that were recommended for follow up through sampling and geophysical surveys, leading to drill testing.

Onslow Project (Polaris 100%)

The Onslow Project comprises three granted exploration licences and five licence applications surrounding Onslow on the north-west coast of Western Australia.

The original intent of the licences was to cover a number of deposits of iron-sands that have been formed by coastal processes on iron-rich sediments transported from the Pilbara region by the Ashburton River.

An agreement with consulting engineers Prodemas as earn-in partner through their subsidiary Solaris was aimed at the development of a new solar salt project in the Onslow tenements, which are contiguous with and/or in proximity to the existing solar salt operations of Onslow Salt. Following research Prodemas indicated that the project is unlikely to be viable under prevailing global solar salt market conditions.

Prodemas indicated they did not intend to proceed with the project and hence forfeited any interest in the tenements. Polaris is reviewing options for the tenements.

The information in this report accurately reflects information prepared by competent persons (as defined by the Australasian Code for Reporting of Mineral Resources and Ore Reserves). It is compiled by Mr Jonathan Lea, an employee of the Company who is a Member of The Australasian Institute of Mining and Metallurgy with the requisite experience in the field of activity in which he is reporting. Mr Lea has sufficient experience which is relevant to the style of mineralisation and the type of deposit under consideration and to the activity which he is undertaking to qualify as a Competent person as defined in the 2004 Edition of the "Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves". Mr Lea consents to the inclusion in the report of the matters based on his information in the form and context in which it appears.

The potential quantity and grade of iron deposits reported as exploration potential is conceptual in nature and there has been insufficient exploration to define a Mineral Resource and it is uncertain if further exploration will result in the determination of a Mineral Resource.

Tenement Schedule

Tenement	State	Status	Interest	Tenement	State	Status	Interest
Ashburton				Copper Bore			
E08/1511 to E08/1513	WA	Granted	100% All	E77/1375	WA	Granted	38% All
E47/1528	WA	Granted	100% All	M77/973	WA	Granted	38% All
Bandicoot Range				Denison Range			
E80/3367	WA	Granted	100% All	E80/2907	WA	Granted	20% All
British Hill North				Die-Hardy Range			
E77/1171	WA	Granted	100% Fe	E80/3274	WA	Granted	20% All
P77/3429 to P77/3430	WA	Granted	100% Fe	Die-Hardy Range			
Bullfinch North				Die-Hardy Range			
E77/1058	WA	Granted	75% Fe	E77/1293	WA	Granted	Option
E77/1283	WA	Granted	75% Fe	P77/3564 to P77/3565	WA	Granted	Option
E77/1368	WA	Granted	100% Fe	Evanston			
E77/1371	WA	Granted	75% Fe	E77/1122	WA	Granted	70% F-in
E77/1372	WA	Granted	75% Fe	E77/1376	WA	Granted	70% F-in
E77/1373	WA	Granted	100% Fe	Goldsworthy			
E77/1374	WA	Granted	75% Fe	E45/2358	WA	Granted	70% F-in
E77/1390	WA	Granted	75% Fe	Jackson			
E77/1391	WA	Pending	75% Fe	E77/1125	WA	Granted	100% Mag
E77/920	WA	Granted	75% Fe	E77/1145	WA	Granted	100% Mag
M77/1058	WA	Pending	75% Fe	E77/1202	WA	Granted	100% Mag
M77/1064	WA	Pending	100% Fe	Jackson North			
M77/1089 to M77/1090	WA	Pending	100% Fe	E77/1384	WA	Granted	100% All
M77/1094	WA	Pending	100% Fe	Jamieson Range			
M77/1101	WA	Pending	100% Fe	E69/2032	WA	Granted	100% All
M77/1103	WA	Pending	100% Fe	Johnston Range			
M77/1216	WA	Pending	75% Fe	E77/1038	WA	Granted	70% F-in
M77/123	WA	Granted	100% Fe	E77/1155	WA	Granted	70% F-in
M77/228	WA	Granted	100% Fe	E77/1387 to E77/1389	WA	Granted	70% F-in
P77/3295	WA	Granted	100% Fe	P77/3670 to P77/3677	WA	Granted	70% F-in
P77/3301 to P77/3303	WA	Granted	100% Fe	Koolyanobbing			
P77/3304	WA	Pending	100% Fe	E77/1272	WA	Granted	100% All
P77/3307	WA	Granted	100% Fe	Le Steere			
P77/3313	WA	Granted	100% Fe	E69/2126	WA	Granted	100% All
P77/3335 to P77/3336	WA	Granted	75% Fe	E69/2377	WA	Pending	100% All
P77/3624	WA	Granted	75% Fe	Milly Milly			
P77/3625 to P77/3627	WA	Granted	75% Fe	E09/1277	WA	Granted	100% All
P77/3628 to P77/3629	WA	Granted	100% Fe	Mount Manning			
P77/3630 to P77/3636	WA	Granted	75% Fe	E77/1315	WA	Pending	100% All

All represents all mineral rights
 Fe represents iron ore rights
 F-in represents farming in
 Mag represents magnetite rights

TENEMENT SCHEDULE

Tenement	State	Status	Interest	Tenement	State	Status	Interest
Mt Elvire				Toomey Hills			
E77/1342	WA	Granted	100% All	E77/1314	WA	Granted	100% Fe
Northam				Windarling Peak			
E70/2782 to E70/2783	WA	Pending	100% All	E77/1353	WA	Granted	100% All
E70/2784	WA	Granted	100% All	Yilgarn Iron Ore			
Onslow				E77/1071	WA	Granted	100% Mag
E08/1458	WA	Granted	100% All	E77/1076 to E77/1077	WA	Granted	100% Fe
E08/1465	WA	Granted	100% All	E77/1097	WA	Granted	100% Fe
E08/1524	WA	Granted	100% All	E77/1099	WA	Granted	100% Fe
E08/1791	WA	Pending	100% All	E77/1115	WA	Granted	100% Fe
E08/1818 to E08/1821	WA	Pending	100% All	E77/1129	WA	Granted	100% Fe
Pannawonica				E77/1382 to E77/1383	WA	Pending	100% All
E47/1525	WA	Pending	100% All	E77/1418	WA	Granted	100% All
E47/1526 to E47/1527	WA	Granted	100% All	E77/1419	WA	Granted	100% Mag
Perrinvale				E77/1420	WA	Pending	100% All
E29/564	WA	Granted	100% Mag	E77/1542 to E77/1543	WA	Pending	100% All
E29/593	WA	Granted	100% Mag	E77/1557 to E77/1559	WA	Pending	100% All
E29/653 to E29/655	WA	Granted	100% Mag	E77/1589	WA	Pending	100% All
E30/203	WA	Granted	100% Mag	E77/842	WA	Granted	100% All
E30/254	WA	Granted	100% Mag	E77/919	WA	Granted	100% All
E30/331	WA	Granted	100% Mag	E77/946	WA	Granted	100% Fe
P29/1922 to P29/1927	WA	Granted	100% Mag	E77/947	WA	Pending	100% All
P30/1011	WA	Granted	100% Mag	L77/210	WA	Pending	100% All
Poondano De Gray				M77/1095 to M77/1097	WA	Pending	100% All
E45/2723	WA	Granted	100% All	M77/1109	WA	Granted	100% Mag
E45/2736	WA	Granted	100% All	M77/1112 to M77/1119	WA	Pending	100% All
E45/3114 to E45/3115	WA	Pending	100% All	M77/1165	WA	Pending	100% All
Rainy Rocks				M77/1242	WA	Granted	100% All
E77/1268	WA	Granted	100% All	M77/1243 to M77/1244	WA	Pending	100% All
P77/3470	WA	Granted	100% All	P77/3371 to P77/3372	WA	Granted	100% Fe
Weelumurra Creek				P77/3803 to P77/3804	WA	Pending	100% All
E47/1557	WA	Pending	100% All	P77/3805 to P77/3806	WA	Pending	100% Mag
E47/1558	WA	Pending	100% All	P77/3871 to P77/3872	WA	Pending	100% All
Windarling East				P77/3882 to P77/3887	WA	Pending	100% All
E77/1294	WA	Granted	100% All	P77/3946 to P77/3949	WA	Pending	100% All
E77/1459	WA	Pending	100% All	P77/3952	WA	Pending	100% All

All represents all mineral rights
 Fe represents iron ore rights
 F-in represents farming in
 Mag represents magnetite rights

Shareholder Information AS AT 18 SEPTEMBER 2008

	Number of holders	Number of shares held	% of shares issued
ORDINARY SHARES			
<i>Distribution of ordinary shares</i>			
1 – 1,000	122	48,891	0.03%
1,001 – 5,000	378	1,134,688	0.73%
5,001 – 10,000	329	2,667,204	1.71%
10,001 – 100,000	824	26,595,194	17.05%
100,001 and over	142	125,524,882	80.48%
Total	1,795	155,970,859	100.00%
<i>Holdings less than a marketable parcel of shares</i>			
	246	258,060	0.17%
<i>Twenty largest ordinary shareholders</i>			
Heron Resources Limited		39,243,244	25.16%
Lion Diversified Holdings Berhad		30,710,259	19.69%
Bell Potter Nominees Ltd		5,318,118	3.41%
Nefco Nominees Pty Ltd		2,642,000	1.69%
Masen Properties Pty Ltd		2,427,011	1.56%
Peterborough Nominees Pty Ltd		2,140,001	1.37%
McCavana Colin James & Debra Dianne		1,980,000	1.27%
Red Puma Pty Ltd		1,800,000	1.15%
Feng Julian		1,386,001	0.89%
Hazurn Pty Ltd		1,320,224	0.85%
Sheerwater Pty Ltd		1,320,000	0.85%
Schultz Dorothy Margaret		961,207	0.62%
Aileendonan Investments Pty Ltd		878,856	0.56%
Barrett-Lennard Judith		852,456	0.55%
Coates Sheldon Philip		785,485	0.50%
Patocoa Nominees Pty Ltd		723,392	0.46%
Bell Bay Investments Pty Ltd		700,533	0.45%
Tonsic Bruna		650,000	0.42%
Strong Nigel		648,000	0.42%
Forty Traders Limited		623,300	0.40%
		97,110,087	62.26%
<i>Substantial shareholders</i>			
Heron Resources Limited		39,243,244	25.16%
Lion Diversified Holdings Berhad		30,710,259	19.69%
		69,953,503	44.85%

There is no current on market buy back.

SHAREHOLDER INFORMATION AS AT 18 SEPTEMBER 2008

	Number of holders	Number of options	% of options issued
OPTIONS			
<i>Distribution of options</i>			
1 – 1,000	4	2,245	0.02%
1,001 – 5,000	51	230,534	1.58%
5,001 – 10,000	33	252,988	1.73%
10,001 – 100,000	72	2,460,886	16.85%
100,001 and over	25	11,658,588	79.82%
	<hr/>		
Total	185	14,605,241	100.00%

Twenty largest option holders

McCavana Colin James & Debra Dianne		1,930,000	13.21%
Arrowcorp Limited		1,268,530	8.69%
Goldmark Investments Pty Ltd		1,066,937	7.31%
Goldrise Investments Pty Ltd		910,080	6.23%
Melselina Pty Ltd		704,000	4.82%
Lion Diversified Holdings Berhad		650,000	4.45%
Bell Bay Investments Pty Ltd		550,533	3.77%
Taylor Kerry & Brenda Ellen		494,100	3.38%
Yelrif Investments Pty Ltd		400,000	2.74%
Hannaford Emma Kate		375,604	2.57%
Hasenkam Peter Francis		375,000	2.57%
Timmid Pty Ltd		350,000	2.40%
Hasslinger Alban Richard		340,000	2.33%
Fisher Laurence Kevin & Carrie Louise		300,000	2.05%
Golden State Resources Ltd		290,000	1.99%
Schultz Kevin & Dorothy Margaret		276,237	1.89%
Duncan Paul Leslie & Daranee		260,000	1.78%
Hasslinger Alban Horst		212,885	1.46%
M & K Korkidas Pty Ltd		150,000	1.03%
Verran Trevor Alan & Suzanne		143,860	0.98%
		<hr/>	
		11,047,766	75.64%

UNQUOTED OPTIONS

Exercise price of \$0.231 expiring 31/12/08	4	2,500,000	7.04%
Exercise price of \$0.281 expiring 31/12/10	1	150,000	0.42%
Exercise price of \$0.281 expiring 14/07/11	3	14,900,000	41.98%
Exercise price of \$0.40 expiring 31/12/11	1	500,000	1.41%
Exercise price of \$0.50 expiring 31/12/11	1	100,000	0.28%
Exercise price of \$0.531 expiring 31/12/11	10	6,325,000	17.82%
Exercise price of \$0.55 expiring 31/12/11	1	50,000	0.14%
Exercise price of \$0.621 expiring 04/01/10	1	5,047,062	14.22%
Exercise price of \$0.631 expiring 31/12/11	1	50,000	0.14%
Exercise price of \$0.731 expiring 31/12/11	10	5,875,000	16.55%
	<hr/>		
	33	35,497,062	100.00%

Unquoted option holders greater than 20%

Exercise price of \$0.281 expiring 14/07/11			
Heron Resources Limited		<hr/>	
		14,000,000	

There are no voting rights attached to options.

Directors' Report

The Directors of Polaris Metals NL ("Company" or "Polaris") submit their report for the year ended 30 June 2008.

DIRECTORS

The names and details of the Company's directors in office during the financial year and until the date of this report are as follows. Directors were in office for this entire period unless otherwise stated.

Lewis George Cross - Non executive Chairman

Mr Cross is a Certified Practising Accountant and principal of the firm CrossCorp Accounting, which has been established for over 29 years. He has a Bachelor of Business majoring in Accounting from Curtin University and is a Fellow of the Institute of Company Directors. Mr Cross has been involved in the mining industry for many years both in Australia and overseas. Mr Cross is also a member of the audit and remuneration committees of the Company. During the past three years Mr Cross has also served as a director of the following listed companies:

- Golden State Resources Limited (Director since May 2006)
- Aspermont Limited (Director since August 2000)
- White Canyon Uranium Ltd (Director since September 2007)

Jonathan Robert Lea - Managing Director (Appointed 2 January 2008)

Mr Lea has extensive experience in mining and project development. A qualified geologist from the University of Tasmania and a Member of the AusIMM, Mr Lea also has post graduate qualifications in Mineral Economics and Applied Finance and Investment. Over the past 20 years, he has explored for and mined a number of commodities including iron ore, gold, tin, chromite and base metals throughout Australia and in Africa.

The majority of Mr Lea's experience has been in mine based production roles; mine geology, near mine exploration, and project development in a range of operational and management positions. He has also managed mine site environmental, geotechnical and mine engineering and planning functions.

Mr Lea is responsible for the day to day operation of the Company's business with particular focus on the transition of Polaris from exploration to production, and interface with regulatory authorities including government departments and local authorities. During the past three years Mr Lea has not served as a director of any other listed company.

Alan Ronald Tough - Executive Director of Operations (Appointed 2 January 2008)

Mr Tough is a graduate of the University of Western Australia in Mechanical Engineering with Honours and subsequently with a Masters Degree in Business Administration.

His background has included five years each in London and Melbourne in the design and construction business related to mining and industrial projects and eleven years as managing director of the world's largest heavy mineral operation at Eneabba. A further eleven years as managing director of a specialist insulation company servicing the alumina, and oil and gas industries specialising in the high tech insulation required for LNG production. Both these companies were publicly listed.

Prior to the heavy mineral involvement Mr Tough had a contract for two years with the WA State government in industrial development and a similar period as a Corporate Finance Director of a merchant bank. Mr Tough's extensive background in senior management, finance, off-take agreement negotiation and long standing links with government regulators will be extensively used as Polaris moves towards mine development. During the past three years Mr Tough has not served as a director of any other listed company.

DIRECTORS' REPORT

Kevin Schultz - Non executive Director

Mr Schultz, a geologist and mining engineer from the Western Australia School of Mines, is a Fellow of the Australasian Institute of Mining and Metallurgy (Chartered Professional). He has extensive experience in mining and mineral exploration management which commenced in the 1968-1970 nickel boom when he was responsible for the discovery of the Carr Boyd Rocks nickel copper deposit. Over the ensuing 38 years his management of exploration programs and feasibility studies has ranged across a variety of mineral commodities including gold, iron ore and uranium.

Mr Schultz retired as Managing Director on 2 January 2008 and has continued to serve as a non executive Director. During the past three years Mr Schultz has also served as a director of the following listed company:

- Northern Uranium Limited (Director since June 2006)

Vernon Wesley Strange - Non executive Director (Resigned 3 July 2008)

Mr Strange is a businessman and the owner of drilling contracting company Southern Cross Drilling Services. He has been actively involved in the mineral business, including mining, exploration and prospecting, for over 20 years. Based in Southern Cross he has extensive experience and knowledge of the Yilgarn goldfields and this experience, and his many local contacts among Southern Cross miners, prospectors and farmers, provides the Company with extensive contacts in the area. He was a former President of the Yilgarn Prospectors' Association and Delegate for the Australian Prospectors' and Leaseholders' Association. Mr Strange resigned as a non-executive Director on 3 July 2008 to allow him to focus his energy on Polaris spin-out, Southern Cross Goldfields Limited and will continue to consult to the Company. During the past three years Mr Strange has also served as a director of the following listed company:

- Southern Cross Goldfields Limited (Director since March 2007)

Colin James McCavana - Non executive Director (Resigned 14 November 2007)

Mr McCavana is the Managing Director of ASX listed Haddington Resources Limited. Mr McCavana has over 28 years world wide management experience in the mining industry, many of which have been related to acquisition, development and operation of mineral recovery projects. Mr McCavana is a Fellow of the Australian Institute of Company Directors and a member of the Australasian Institute of Mining and Metallurgy. Mr McCavana resigned as a non-executive Director on 14 November 2007. During the past three years Mr McCavana has also served as a director of the following listed companies:

- Haddington Resources Limited (Director since September 1999)
- Northern Uranium Limited (Director since June 2006)

Ian James Buchhorn - Non executive Director

Mr Buchhorn is a mineral economist and geologist with over 30 years of experience. Prior to listing Heron in 1996 as founding managing director, he worked with Anglo American Corporation in Southern Africa; and Comalco, Shell/Billiton and Elders Resources in Australia, as well as setting up and managing Australia's first specialist mining grade control consultancy. In addition to his strong record in base metals exploration, his mining experience includes bauxite and industrial minerals, and he has commissioned several open cut gold mines. During the past three years Mr Buchhorn has also served as a director of the following listed companies:

- Heron Resources Limited (Director since February 1995)
- Pioneer Nickel Limited (Director from January 2003 to June 2006)
- Rubicon Resources Limited (Director since August 2005)
- Southern Cross Goldfields Limited (Director since July 2007)

DIRECTORS' REPORT

Kenneth John Hellsten - Non executive Director (Appointed 3 July 2008)

Mr Hellsten is a Geologist with 25 years experience. He has been employed in senior executive roles ranging from exploration to development and operations. During the past 12 years Mr Hellsten has led teams responsible for the completion of feasibility studies and project development of Cawse and Ravensthorpe HPAL nickel laterite projects. Mr Hellsten went on to commission the Cawse project on schedule and on budget through to successful start-up and has had senior executive roles with BHP Billiton, Centaur Mining and Billiton Australia. Mr Hellsten is also director of a resource management consultant business and is a non-executive director on the Board of Heron Resources Limited, one of Polaris' major shareholders. He was also the founding Managing Director of IronClad Mining until early 2008. During the past three years Mr Hellsten has also served as a director of the following listed companies:

- Heron Resources Limited (Director since December 2006)
- IronClad Mining Limited (Director from May 2007 to February 2008)

COMPANY SECRETARY

Trevor Alan Verran

Trevor Verran is a Certified Practising Accountant with extensive experience in both the accounting profession and the mining industry. Prior to 2000, he held a senior position in an international firm of accountants. More recently Mr Verran's experience has included the provision of accounting, financial management and company secretarial services for a number of public mining companies including Aurora Gold Limited (2000-03) and Northern Uranium Limited.

Mr Verran has been the Company Secretary and Chief Financial Officer of Polaris Metals NL since May 2004.

DIRECTORS' MEETINGS

The number of meetings of directors (including meetings of committees of directors) held during the year and the number of meetings attended by each director was as follows:

	Directors' Meetings Attended	Directors' Meetings Held While in Office	Remuneration Committee Meetings Held and Attended	Audit Committee Meetings Held and Attended
Lewis George Cross	17	19	1	1
Jonathan Robert Lea (appointed 2/1/08)	9	9	-	-
Alan Ronald Tough (appointed 2/1/08)	8	9	-	-
Kevin Schultz	18	19	-	-
Vernon Wesley Strange (resigned 3/7/08)	14	19	-	-
Colin James McCavana (resigned 14/11/07)	5	7	1	1
Ian James Buchhorn	19	19	-	-
Kenneth John Hellsten (appointed 3/7/08)	-	-	-	-

DIRECTORS' INTERESTS

Interests in the shares and options of the Company and related bodies corporate at the date of this report:

	Ordinary shares	Listed 31/12/08 \$0.181 options	Unlisted 31/12/08 \$0.231 options	Unlisted 31/12/11 \$0.531 options	Unlisted 31/12/11 \$0.731 options
Lewis George Cross	2,140,002	20,000	500,000	1,000,000	1,000,000
Jonathan Robert Lea	89,070	-	-	1,000,000	1,000,000
Alan Ronald Tough	75,000	15,000	-	-	-
Kevin Schultz	961,207	301,207	1,000,000	1,000,000	1,000,000
Ian James Buchhorn	1,320,224	-	-	1,000,000	1,000,000
Kenneth John Hellsten	30,000	-	-	-	-

DIVIDENDS

No dividends were paid or declared by the Company since the end of the previous financial year.

PRINCIPAL ACTIVITIES

The principal activity of the Group during the course of the financial year was exploration and evaluation of mineral interests.

There were no significant changes in the nature of activities during the year.

OPERATING AND FINANCIAL REVIEW

Overview

The Company was formed in 1998 when Vernon Strange acquired several strategic mineral tenements situated in the Southern Cross area of Western Australia. The Company listed on the Australian Securities Exchange in April 2004 with the aim of actively exploring for mineral deposits in Western Australia. The principal focus was on gold, nickel and iron ore in the Southern Cross region of Western Australia. Since listing, the Company expanded its portfolio to include several new iron ore, uranium, and gold projects. The Company is now focused on exploration for iron ore following the acquisition of the iron ore assets of Heron Resources Limited in the previous financial year. The Company divested its uranium tenements to Northern Uranium Limited in the previous financial year and divested its gold and base metal assets to Southern Cross Goldfields Limited during the current financial year.

Operating Results for the Year

The consolidated net loss after income tax was \$3,748,788 compared with the previous year's net loss after income tax of \$1,041,777. The major items comprising the net profit in 2008 were a gain on derecognition of subsidiary of \$1,233,767 following the successful spin-off of Southern Cross Goldfields Limited (2007: nil), exploration expenditure written off totaling \$1,090,390 (2007: \$455,674), share-based payments of \$1,499,058 (2007: \$16,203) and administration and corporate expenses totaling \$2,143,807 (2007: \$985,771).

Financial Position

Net assets and total equity increased by \$19,036,580 predominately due to an increase in cash, an increase in available-for-sale financial assets and an increase in exploration and evaluation assets. Net assets and total equity at 30 June 2008 was \$37,136,521 (2007: \$18,099,941).

During the year 36,965,768 shares were issued for cash under rights issues raising a total of \$18,313,511 before costs of the issues.

The net increase in cash for the year was \$8,542,899 and cash in bank at the end of the year was \$13,161,942. The increase in cash was largely due to proceeds from issue of shares under rights issues.

The company's investments in Southern Cross Goldfields Limited and Northern Uranium Limited (disclosed as investments in associates and available-for-sale financial assets) increased by \$6,222,267 due to the acquisition of 11,650,000 shares in Southern Cross Goldfields limited at 20 cents each and the reclassification of the investment in Northern Uranium Limited from an associate to an available-for-sale financial asset resulting in a revaluation in its fair value for the year of \$3,337,784.

Exploration and evaluation assets increased by \$9,274,660 due to exploration expenditure incurred on mineral interests and the balance carried forward at the end of the year was \$17,075,630.

Exploration Activities

A detailed review of the Company's exploration activities is contained in the Review of Operations section of this Annual Report.

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

The Company's issued capital increased to \$35,876,373 from \$19,358,192, an increase of \$16,518,181 with the major movement comprising an issue of 36,965,768 shares for cash under rights issues.

Significant changes in assets during the year were as follows:

- An increase in cash assets of \$8,542,899 predominantly due to proceeds from issue of shares of \$18,313,511, proceeds from repayment of loan to Southern Cross Goldfields of \$2,346,167 less payments for exploration of mineral interests of \$8,024,099, purchase of shares in Southern Cross Goldfields Limited of \$2,330,000 and payments for corporate and administration costs of \$1,942,211.
- An increase in available-for-sale financial assets of \$5,546,000 arising from a revaluation of the fair value of the investment in Northern Uranium Limited and acquisition of unlisted options in Southern Cross Goldfields Limited.
- An increase in exploration and evaluation assets of \$9,274,660 due to exploration expenditure incurred on mineral interests.

SIGNIFICANT EVENTS AFTER THE BALANCE DATE

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

LIKELY DEVELOPMENTS AND EXPECTED RESULTS

The Company will continue its exploration activity and development of its Western Australian iron ore assets with the object of identifying commercial resources and is planning to make the transition from strategic explorer to significant iron ore producer in 2010.

Polaris is planning to commence mining Stage 1 of its Yilgarn Iron Ore Project in 2010 based on the Carina iron ore deposit located 60km north of Koolyanobbing in Western Australia. A recently completed pre-feasibility study strongly indicated the viability of the project and drilling is ongoing. The Company maintains its belief that the relatively simple ore geometry, moderate strip ratio and proximity to infrastructure of the Carina deposit should allow for its relatively rapid development.

A pre-feasibility study will continue at Poondano to assess the economics of mining and exporting up to 1.5Mtpa of iron ore through Port Hedland (30-40km away).

ENVIRONMENTAL REGULATION

The exploration activities of the Group are subject to environmental regulations imposed by various regulatory authorities, particularly those relating to ground disturbance and the protection of rare and endangered flora and fauna. The Group has complied with all material environmental requirements up to the date of this report. The directors believe that the Company has adequate systems in place for the management of its environmental responsibilities and are not aware of any breaches of the regulations during the period covered by this report.

OPTIONS

As at the date of this report, unissued ordinary shares under options were as follows:

Quoted Options:

14,605,241 options at an exercise price of \$0.181 expiring 31/12/08 (ASX: POLO)

Unquoted Options:

2,500,000 options at an exercise price of \$0.231 expiring on 31/12/08
150,000 options at an exercise price of \$0.281 expiring on 31/12/10
14,900,000 options at an exercise price of \$0.281 expiring on 14/07/11
500,000 options at an exercise price of \$0.40 expiring 31/12/11
100,000 options at an exercise price of \$0.50 expiring 31/12/11
6,325,000 options at an exercise price of \$0.531 expiring on 31/12/11
50,000 options at an exercise price of \$0.55 expiring 31/12/11
5,047,062 options at an exercise price of \$0.621 expiring on 04/01/10
50,000 options at an exercise price of \$0.631 expiring on 31/12/11
5,875,000 options at an exercise price of \$0.731 expiring on 31/12/11

Option holders do not have any right, by virtue of the option, to participate in any share issue of the Company or any related body corporate or in the interest issue of any other registered scheme.

DIRECTORS' REPORT

25,000 options at an exercise price of \$0.531 expiring on 31/12/11 and 25,000 and options at an exercise price of \$0.731 expiring on 31/12/11 lapsed during the year.

No options expired or were cancelled during the year.

INDEMNIFICATION AND INSURANCE OF DIRECTORS

The Company has entered into a Deed of Indemnity, Insurance and Access with each of the Directors to indemnify them to the maximum extent permitted by law against liabilities and legal expenses incurred in, or arising out of the conduct of the business of the Company or the discharge of the duties as a director.

Also pursuant to the Deed, the Company has paid premiums to insure the Directors against liabilities incurred in the conduct of the business of the Company and has provided right of access to Company records. In accordance with common commercial practice, the insurance policy prohibits disclosure of the amount of the premium and the nature of the liability insured against. The amount of the premium is included as part of the directors remuneration in the Remuneration Report.

REMUNERATION REPORT

This report outlines the remuneration arrangements in place for directors, secretaries and senior managers of Polaris Metals NL (the Company).

Remuneration policy

The Remuneration Committee of the Board of Directors is responsible for determining and reviewing compensation arrangements for the directors and executives. The Remuneration Committee assesses the appropriateness of the nature and amount of remuneration on a periodic basis by reference to relevant employment market conditions with the overall objective of ensuring maximum stakeholder benefit from the retention of a high quality board and executive team.

Remuneration levels for directors and executives are competitively set to attract the most qualified and experienced candidates, taking into account prevailing market conditions and individual's experience and qualifications.

Remuneration packages contain the following key elements:

- (a) Short-term benefits - salary/fees and non monetary benefits including the provision of motor vehicles;
- (b) Post-employment benefits – including superannuation;
- (c) Share-based payments - share options granted under the Company's option plan; and

In accordance with best practice corporate governance, the structure of non-executive director and executive remuneration is separate and distinct.

Non-executive director remuneration

The Board seeks to set aggregate remuneration at a level which provides the Company with the ability to attract and retain directors of the highest calibre, whilst incurring a cost which is acceptable to the shareholders.

Each of the non-executive directors receives a fixed fee for their services as directors. There is no direct link between remuneration paid to any of the directors and corporate performance such as bonus payments for achievement of certain key performance indicators.

The Constitution and the ASX Listing Rules specify that the aggregate remuneration of non-executive directors shall be determined from time to time by a general meeting. An amount not exceeding the amount determined is then divided between the directors as agreed. The latest determination was at the Annual General Meeting held on 14 November 2007 when shareholders approved an aggregate remuneration of \$400,000 per year. Non-executive directors' base fees are presently \$70,000 per annum and the Chairman \$80,000 per annum.

The amount of aggregate remuneration sought to be approved by shareholders and the manner in which it is apportioned amongst directors is reviewed annually. The board considers the fees paid to non-executive directors of comparable companies when undertaking the annual review process.

DIRECTORS' REPORT

Executive remuneration

Executives receive a fixed remuneration set to provide a base level commensurate with their position and responsibilities within the Company and so as to align the interests of executives with those of shareholders and ensure total remuneration is competitive by market standards. There is no direct link between remuneration paid and corporate performance such as bonus payments for achievement of certain key performance indicators.

In addition the Company may issue options to executives under the Company's Option Plan to recognise ability and effort, provide incentive to improve company performance, attract appropriate persons and promote loyalty.

Remuneration levels are reviewed annually by the Remuneration Committee by reviewing company performance, personal performance, market trends, industry comparisons, employment market conditions and, where appropriate, external advice.

Executives are employed under contracts with no fixed term and can be terminated by either party by one months notice in writing.

Details of remuneration for the year ended 30 June 2008

	Short-term		Post Employment	Share-based payments	Total	Remuneration consisting of options	
	Salary & Fees	Non Monetary Benefits	Other Benefits	Super-annuation Benefits	Options		
	\$	\$	\$	\$	\$	%	
Non-executive directors:							
Lewis Cross - Chairman	-	-	1,939	66,762	252,372	321,073	79%
Kevin Schultz (Managing Director from 1/7/07 to 2/1/08)	125,164	4,186	1,939	56,755	252,372	440,416	57%
Vernon Strange	40,000	-	1,939	3,600	252,372	297,911	85%
Colin McCavana (resigned 14/11/07)	-	-	726	26,350	-	27,076	-
Ian Buchhorn	-	-	1,939	43,600	252,372	297,911	85%
Executive directors:							
Jonathan Lea - Managing Director (appointed 2/1/08)	208,564	783	959	18,771	252,372	481,449	52%
Alan Tough - Operations Director (appointed 2/1/08)	125,000	-	959	-	-	125,959	-
Company secretary:							
Trevor Verran	54,840	3,249	-	64,635	126,186	248,910	51%
Group executives:							
Samantha Tough	36,290	-	-	3,266	-	39,556	-
Antony Truelove	126,433	16,900	-	11,379	-	154,712	-
Daniel Calvert	103,370	-	-	9,303	-	112,673	-

Group executives are officers of Southern Cross Goldfields Limited (SXG) and the above remuneration of group executives is for the period 1/7/07 to 11/3/08 when SXG was a subsidiary of the Company.

Details of remuneration for the year ended 30 June 2007

	Short-term		Other Benefits	Post Employment	Share-based payments	Total	Remuneration consisting of options
	Salary & Fees	Non Monetary Benefits		Super-annuation Benefits	Options		
	\$	\$	\$	\$	\$	\$	%
Non-executive directors:							
Lewis Cross - Chairman	15,000	-	2,837	36,321	-	54,158	-
Vernon Strange	35,833	-	2,837	3,225	-	41,895	-
Colin McCavana	-	-	2,837	39,058	-	41,895	-
Ian Buchhorn (appointed 18/9/06)	-	-	2,837	32,064	-	34,901	-
Executive director:							
Kevin Schultz - Managing Director	143,670	4,561	2,837	26,046	-	177,114	-
Company Secretary:							
Trevor Verran	69,966	3,249	-	22,568	5,000	100,784	5%

Options granted as part of remuneration

	Value of options granted during the year*	Value of options exercised during the year	Value of options lapsed during the year	Total value of options granted, exercised and lapsed during the year
	\$	\$	\$	\$
Directors:				
Lewis Cross	535,546	-	-	535,546
Jonathan Lea	535,546	-	-	535,546
Kevin Schultz	535,546	-	-	535,546
Vernon Strange	535,546	-	-	535,546
Ian Buchhorn	535,546	-	-	535,546
Company Secretary:				
Trevor Verran	267,773	-	-	267,773

* The value of options granted during the year is the fair value of the options calculated at grant date using a Black Scholes pricing model. The total value of the options granted is included in the table above. This is allocated to remuneration over the vesting period from the grant date of 22 November 2007 to vesting dates of 22 November 2008 and 22 November 2009.

The above options with various vesting conditions were granted on 22 November 2007 following shareholder approval at the 2007 annual general meeting. 50% of these options are exercisable at \$0.531 each on or before 31 December 2011 and the remaining 50% are exercisable at \$0.731 each on or before 31 December 2011.

CORPORATE GOVERNANCE

In recognising the need for the highest standards of corporate behaviour and accountability, the directors of Polaris Metals NL support and have adhered to the principles of corporate governance. The Company's corporate governance statement is contained in the following section of this annual report.

PROCEEDINGS ON BEHALF OF 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 a party for the purpose of taking responsibility on behalf of the Company for all or any part of those proceedings.

DIRECTORS' REPORT

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

AUDITOR'S INDEPENDENCE DECLARATION

The lead auditor's independence declaration under Section 307C of the Corporations Act 2001 is set out on page 66 and forms part of the Director's Report for the year ended 30 June 2008.

NON-AUDIT SERVICES

The auditor independence requirements of the Corporations Act 2001 were not compromised during the year since there were no non-audit services provided by the Group's auditor, Ord Partners.

Signed in accordance with a resolution of the directors.

A handwritten signature in black ink, appearing to be 'JL', written in a cursive style.

Jonathan Lea
Managing Director
Perth, Western Australia 30 September, 2008

Corporate Governance Statement

INTRODUCTION

Polaris Metals NL ("the Company") is committed to achieving and demonstrating the highest standards of corporate governance and recognises the need to maintain policies and practices which reflect the requirements and expectations of all who deal with the Company. This statement outlines the Company's main corporate governance practices during the year ended 30 June 2008. Your Directors are pleased to advise that substantial compliance with the recommendations of the ASX Corporate Governance Council has been achieved and exceptions to the ASX recommendations are noted in the Statement.

The following additional information about the Company's Corporate Governance practices is set out on the Company's website at www.polarismetals.com.au:

- Corporate Governance Disclosures and Explanations;
- Statement of Board and Management Functions;
- Nomination Committee Charter;
- Policy and Procedure for Selection and Appointment of New Directors;
- Code of Conduct for Company Executives;
- Policy for Trading in Company Securities;
- Audit Committee Charter;
- Procedure for Selection, Appointment and Rotation of External Auditor;
- Summary of Compliance Procedures for ASX Listing Rule Disclosure;
- Shareholder Communication Strategy;
- Company's Risk Management Policy and Internal Compliance and Control System;
- Statement of process for performance evaluation of the Board, Board committees, individual directors and key executives;
- Remuneration Committee Charter; and
- Corporate Code of Conduct.

BOARD COMPOSITION

The Board is comprised of a majority of non-executive directors with four non-executive directors and two executive directors. The directors in office at the date of this statement are:

Lewis Cross - Non executive Chairman
Jonathan Lea - Managing Director
Alan Tough - Executive Director
Kevin Schultz - Non-executive Director
Ian Buchhorn - Non-executive Director
Kenneth Hellsten - Non-executive Director

A profile of each director including their experience and expertise is set out in the Directors' Report section of the Annual Report.

The Board (subject to members' voting rights in general meeting) is responsible for selection of new Board members and succession planning, and has regard to a candidate's experience and competence in areas such as mining, exploration, geology, finance and administration. The Company maintains a mix of Directors on the Board from different business backgrounds with complementary skills and experience. The wide commercial experience of its Board members assists the Company in meeting its corporate objectives and plans.

The Board delegates responsibility for the Company's administration and operation to its Managing Director, who is accountable to the Board.

Under the Company's constitution, the maximum number of directors on the Board is currently set at ten and at the Annual General Meeting each year one third of the directors in office retire by rotation for re-election by the shareholders.

DIRECTOR INDEPENDENCE

In considering independence of directors, the Board refers to the criteria for independence as recommended by the ASX. To the extent that it is necessary for the Board to consider issues of materiality, the Board refers to the thresholds for qualitative and quantitative materiality as adopted by the Board and contained in the Board Charter, which is disclosed in full on the Company's website.

Applying the criteria for independence, two directors are currently considered to be independent. The current independent directors of the Company are Lewis Cross and Kevin Schultz.

ROLE OF THE BOARD

Directors are responsible to shareholders for the short-term and long-term performance of the Company and their focus is to enhance the interests of shareholders and other key stakeholders and to ensure the Company is properly managed.

The primary functions of the Board include responsibility for:

- supervising the Company's framework of control and accountability systems to enable risk to be assessed and managed;
- ensuring the Company is properly managed;
- approving and monitoring the progress of major capital expenditure, capital management, and acquisitions and divestitures;
- approval of the annual budget;
- monitoring the financial performance of the Company;
- approving and monitoring financial and other reporting;
- overall corporate governance of the Company, including conducting regular reviews of the balance of responsibilities within the Company to ensure division of functions remain appropriate to the needs of the Company;
- liaising with the Company's external auditors and Audit Committee; and
- monitoring and ensuring compliance with all of the Company's legal obligations, in particular those obligations relating to the environment, native title, cultural heritage and occupational health and safety.

The Board must convene regular meetings with such frequency as is sufficient to appropriately discharge its responsibilities (not less than one per month). During the financial year the Board met fourteen times.

INDEPENDENT PROFESSIONAL ADVICE

If a director considers it necessary to obtain independent professional advice to properly discharge the responsibility of their office as a director, then, provided the director first obtains approval for incurring such expense from the chairman, the Company will pay the reasonable expenses associated with obtaining such advice.

PERFORMANCE ASSESSMENT

The Board undertakes an annual self assessment of its collective performance, the performance of the Chairman and of its committees. The Chairman meets privately with each Director to discuss individual and collective performance of Directors.

FINANCIAL REPORTING

In accordance with the requirements of S295A of the Corporations Act 2001, the CEO and CFO have declared to the Board that the Company's financial reports are complete and present a true and fair view, in all material respects, of the financial condition and operational results of the Company and are in accordance with relevant accounting standards. The Board receives monthly reports from management on the financial and operational performance of the Company.

NOMINATION COMMITTEE

The full Board carries out the functions of the Nomination Committee. The Board did not meet formally as the Nomination Committee during the financial year; however any relevant matters were discussed on an as-required basis from time to time during regular meetings of the Board.

AUDIT COMMITTEE

The members of the Audit Committee comprise a majority of independent directors and currently consist of Lewis Cross, Kevin Schultz and Kenneth Hellsten. The Managing Director and Chief Financial Officer attend committee meetings by invitation.

CORPORATE GOVERNANCE STATEMENT

As a Certified Practising Accountant, Lewis Cross possesses "financial expertise" for the purposes of the Audit Committee. Kevin Schultz and Kenneth Hellsten are qualified to be members of the Audit Committee by virtue of having considerable management experience in the mining industry.

The main functions of the Audit Committee are to:

- monitor the integrity of the financial statements of the Company;
- review the Company's internal financial control system and risk management systems;
- monitor and review the effectiveness of the Company's internal audit function;
- make recommendations to the Board in relation to the appointment of the external auditor and to approve the remuneration and terms of engagement of the external auditor;
- monitor and review the external auditor's independence, objectivity and effectiveness; and
- develop and implement policy on the engagement of the external auditor to supply non-audit services.

The Audit Committee met once during the financial year.

REMUNERATION

The Board has established a Remuneration Committee comprising a majority of independent directors and currently consists of Lewis Cross, Kevin Schultz and Kenneth Hellsten.

The main functions of the Remuneration Committee are to review the competitiveness of the Company's executive compensation packages and make recommendations to the Board with the overall objective of ensuring maximum stakeholder benefit from the attraction, retention and motivation of a high quality board and executives.

Remuneration levels for executives are competitively set to attract the most qualified and experienced candidates, taking into account prevailing market conditions and individual's experience and qualifications.

Non-executive directors receive a fixed fee for their services as directors and are not entitled to any bonuses or incentive payments. Non-executive directors do not receive retirement benefits (other than statutory superannuation payments).

The Remuneration Committee met twice during the financial year.

Further information on directors' and executives' remuneration is set out in the Director's Report section of the Annual Report.

RISK MANAGEMENT

The Board is responsible for ensuring the adequacy of the Company's risk management framework and system of internal control and for regularly reviewing its effectiveness.

Regular controls established by the Board include:

- detailed monthly management financial statements and cash flow reports; and
- project expenditure must first be approved by the Board.

The Board recognises the need to identify any areas of significant business risk and to develop and implement strategies to mitigate these risks.

The Company maintains comprehensive insurance policies and has purchased Director's and Officer's Insurance cover for its Board of directors.

Both the CEO and CFO have made a declaration to the Board in accordance with the requirements of Principle 7 of the ASX's Corporate Governance Council Principles of Good Corporate Governance and Best Practice Recommendations.

COMMUNICATION WITH SHAREHOLDERS

The Company communicates to shareholders through the Company's Annual Report, Annual General Meeting, ASX Announcements, shareholder newsletters and the Company's website. Financial reports, quarterly reports and all other announcements are made available to shareholders on the website. Shareholders can also subscribe to receive newsletters and ASX announcements via email on the website. The Board encourages full participation of shareholders at the Company's General Meeting to ensure a high level of accountability and identification with its strategy and goals.

CONTINUOUS DISCLOSURE

The Company Secretary has been nominated as the person responsible for communication with the Australian Securities Exchange (ASX). This role includes responsibility for ensuring compliance with the continuous disclosure requirements in the ASX Listing Rules and overseeing and coordinating information disclosure to the ASX, analysts, brokers, shareholders, the media and the public. All information disclosed to the ASX is posted on the Company's website as soon as it is disclosed to the ASX. When analysts are briefed, the material used in the presentations is released to the ASX prior to the commencement of the briefing. This information is also posted on the Company's website. The Company is committed to ensuring that all stakeholders and the market are provided with relevant and accurate information regarding its activities in a timely manner.

EXPLANATIONS FOR DEPARTURES FROM BEST PRACTICE RECOMMENDATIONS

During the financial year, the Company has complied with the Corporate Governance Principles and Recommendations as published by the ASX Corporate Governance Council, other than in relation to the matters specified below.

Recommendation 2.1 requires the majority of the Board to be independent directors. Only two of the directors satisfy the criteria for independence as recommended by the ASX. Given the size and scope of the Company's operations the Board considers that it is appropriately structured to discharge its duties in a manner that is in the best interests of the Company and its shareholders from both a long-term strategic and day-to-day operations perspective. The Board is of the view that it has achieved an appropriate balance between independent representation and maintaining sufficient relevant experience for the Board to fulfill its objectives.

Recommendation 2.4 requires listed entities to establish a nomination committee. The Company does not have a separately established nomination committee. The role of the Nomination Committee is carried out by the full Board. The Board considers that given its size, no efficiencies or other benefits would be gained by establishing a separate Nomination Committee.

Recommendation 4.2 requires the Audit Committee to consist of at least three members. Throughout the year the Audit Committee comprised only two members. Given the composition of the Board (ie only two independent directors) the Audit Committee was restricted to two members in order to ensure only independent representation on the Audit Committee. The Board considered that a two member committee was sufficient to properly fulfill the objectives of the Audit Committee. Since the end of the financial year an addition member has been appointed and the Audit Committee now consists of three members comprising a majority of independent directors.

Income Statement FOR THE YEAR ENDED 30 JUNE 2008

	Notes	Consolidated		Company	
		2008	2007	2008	2007
		\$	\$	\$	\$
REVENUE FROM CONTINUING OPERATIONS					
Interest revenue		386,757	227,221	380,793	227,221
Rendering of services		-	34,031	-	34,031
TOTAL REVENUE		386,757	261,252	380,793	261,252
OTHER INCOME					
Net gain on disposal of investments		-	440,000	-	440,000
Net gain on disposal of exploration assets		-	30,044	50,216	75,222
Impairment reversal of loan to controlled entity		-	-	152,992	-
Gain on derecognition of subsidiary		1,233,767	-	-	-
TOTAL INCOME		1,620,524	731,296	584,001	776,474
EXPENSES					
Compliance and regulatory expenses		96,157	67,547	95,616	67,335
Consulting expenses		166,720	63,977	136,086	63,977
Impairment of investment in controlled entity		-	-	126,320	78,568
Impairment of loan to controlled entity		-	-	13,947	152,992
Depreciation and amortisation expense		71,649	39,068	64,386	38,829
Employee benefits expense		1,004,570	531,259	775,110	519,580
Exploration expenditure written off		1,090,390	455,674	506,902	291,012
Finance costs		6,894	8,134	6,333	8,134
Insurance expense		53,826	29,860	28,431	29,860
Legal expenses		337,036	84,327	220,036	56,298
Rent expense		161,131	70,630	92,101	70,630
Other expenses		245,824	90,969	150,895	90,919
Share-based payments		1,499,058	16,203	1,499,058	16,203
Share of loss of equity accounted investees		636,057	315,425	636,057	315,425
TOTAL EXPENSES		5,369,312	1,773,073	4,351,278	1,799,762
LOSS BEFORE INCOME TAX		(3,748,788)	(1,041,777)	(3,767,277)	(1,023,288)
Income tax	4	-	-	-	-
LOSS FOR YEAR		(3,748,788)	(1,041,777)	(3,767,277)	(1,023,288)
Basic and diluted loss per share (cents per share)	5	(3.08)	(1.13)		

The accompanying notes form part of these financial statements.

Balance Sheet AS AT 30 JUNE 2008

	Notes	Consolidated		Company	
		2008	2007	2008	2007
		\$	\$	\$	\$
ASSETS					
Current Assets					
Cash and cash equivalents	6	13,161,942	4,619,043	13,161,942	4,617,626
Other receivables	7	303,602	34,485	303,602	32,156
Non-current assets classified as held for sale	8	-	4,100,707	-	3,235,693
Total Current Assets		13,465,544	8,754,235	13,465,544	7,885,475
Non-current Assets					
Other receivables	7	22,906	18,156	159,419	893,363
Investments accounted for using the equity method	9	2,236,276	1,560,009	2,236,276	1,560,009
Available-for-sale financial assets	10	5,546,000	-	5,546,000	-
Other financial assets	11	109,000	-	109,000	126,320
Property, plant & equipment	12	405,129	349,774	405,129	346,385
Exploration and evaluation assets	13	17,075,630	7,800,970	16,939,117	7,664,458
Intangible assets	14	37,598	-	37,598	-
Total Non-current Assets		25,432,539	9,728,909	25,432,539	10,590,535
TOTAL ASSETS		38,898,083	18,483,144	38,898,083	18,476,010
LIABILITIES					
Current Liabilities					
Trade and other payables	15	1,675,819	244,462	1,675,819	218,839
Interest-bearing loans and borrowings	16	-	57,636	-	57,636
Provisions	17	85,743	50,199	85,743	50,199
Total Current Liabilities		1,761,562	352,297	1,761,562	326,674
Non-current Liabilities					
Interest-bearing loans and borrowings	16	-	30,906	-	30,906
Total Non-current Liabilities		-	30,906	-	30,906
TOTAL LIABILITIES		1,761,562	383,203	1,761,562	357,580
NET ASSETS		37,136,521	18,099,941	37,136,521	18,118,430
EQUITY					
Issued capital	19	35,876,373	19,358,192	35,876,373	19,358,192
Other reserves	20	8,132,938	1,865,751	8,132,938	1,865,751
Accumulated losses	21	(6,872,790)	(3,124,002)	(6,872,790)	(3,105,513)
TOTAL EQUITY		37,136,521	18,099,941	37,136,521	18,118,430

The accompanying notes form part of these financial statements.

Statement of Changes in Equity FOR THE YEAR ENDED 30 JUNE 2008

	Consolidated		Company	
	2008	2007	2008	2007
	\$	\$	\$	\$
Total equity at beginning of year	18,099,941	4,722,217	18,118,430	4,722,217
Income and expense recognised directly in equity:				
Share of changes recognised directly in associate's equity	(45,655)	1,835,248	(45,655)	1,835,248
Change in fair value of available-for-sale financial assets	3,793,784	-	3,793,784	-
Total income and expense recognised directly in equity	3,748,129	1,835,248	3,748,129	1,835,248
Loss for the year	(3,748,788)	(1,041,777)	(3,767,277)	(1,023,288)
Total recognised income and expense for the year	(659)	793,471	(19,148)	811,960
Shares issued during the year	20,079,009	12,852,068	20,079,009	12,852,068
Share issue costs	(1,141,023)	(284,018)	(1,141,023)	(284,018)
Options issued for acquisition of mining tenements	1,020,000	-	1,020,000	-
Share-based payments	1,499,058	16,203	1,499,058	16,203
Reduction in capital on in-specie distribution to shareholders	(2,419,805)	-	(2,419,805)	-
	19,037,239	12,584,253	19,037,239	12,584,253
Total equity at end of year	37,136,521	18,099,941	37,136,521	18,118,430

The accompanying notes form part of these financial statements.

Cash Flow Statement FOR THE YEAR ENDED 30 JUNE 2008

	Consolidated		Company	
	2008	2007	2008	2007
	\$	\$	\$	\$
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from customers	-	34,031	-	34,031
Payments to suppliers and employees	(1,942,211)	(906,953)	(1,425,805)	(873,881)
Interest received	383,006	228,504	377,042	228,504
Interest paid	(6,894)	(8,134)	(6,333)	(8,134)
NET CASH FLOWS USED IN OPERATING ACTIVITIES 22(a)	(1,566,099)	(652,552)	(1,055,096)	(619,480)
CASH FLOWS FROM INVESTING ACTIVITIES				
Proceeds on disposal of investment	-	450,000	-	450,000
Proceeds from repayment of loan to controlled entities	2,346,167	-	3,137,535	-
Proceeds from repayment of loan to jointly controlled entity	-	340,319	-	340,319
Proceeds from repayment of loan to other entity	-	41,728	-	41,728
Proceeds on disposal of property, plant and equipment	40,709	-	40,709	-
Purchase of property, plant and equipment	(244,053)	(216,523)	(177,221)	(212,896)
Purchase of intangible assets	(50,500)	-	(43,235)	-
Purchase of available-for-sale financial assets	(2,330,000)	-	(2,330,000)	-
Purchase of investment	-	(50,000)	-	(50,000)
Payments for exploration	(8,024,099)	(2,730,569)	(7,437,397)	(2,539,632)
Payments for performance bonds	(109,000)	-	(109,000)	-
Cash disposed of on derecognition of subsidiary	(25,800)	-	-	-
Loans to controlled entities	-	-	(2,259,796)	(229,053)
Loan to jointly controlled entity	-	(236,889)	-	(236,889)
NET CASH FLOWS USED IN INVESTING ACTIVITIES	(8,396,576)	(2,401,934)	(9,178,405)	(2,436,423)
CASH FLOWS FROM FINANCING ACTIVITIES				
Proceeds from issue of shares	20,008,009	7,252,068	20,008,009	7,252,068
Payment of share issue costs	(1,413,266)	(284,018)	(1,141,023)	(284,018)
Repayment of borrowings	(89,169)	(29,449)	(89,169)	(29,449)
NET CASH FLOWS PROVIDED BY FINANCING ACTIVITIES	18,505,574	6,938,601	18,777,817	6,938,601
NET INCREASE IN CASH AND CASH EQUIVALENTS	8,542,899	3,884,115	8,544,316	3,882,698
Cash and cash equivalents at beginning of year	4,619,043	734,928	4,617,626	734,928
CASH AND CASH EQUIVALENTS AT END OF YEAR 22(b)	13,161,942	4,619,043	13,161,942	4,617,626

The accompanying notes form part of these financial statements.

Notes to the Financial Statements

1. CORPORATE INFORMATION

The financial report of Polaris Metals NL (the Company) for the year ended 30 June 2008 was authorised for issue in accordance with a resolution of the directors on 19 September 2008.

Polaris Metals NL is a public company incorporated in Australia and listed on the Australian Securities Exchange.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of preparation

The financial report is a general-purpose financial report, which has been prepared in accordance with the requirements of the Corporations Act 2001, Australian Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board and Australian Interpretations. The financial report has also been prepared on a historical cost basis, except for available-for-sale investments, which have been measured at fair value. Cost is based on the fair values of the consideration given in exchange for assets.

The financial report complies with Australian Accounting Standards, which include Australian equivalents to International Financial Reporting Standards ('AIFRS'). Compliance with AIFRS ensures that the financial report, comprising the financial statements and notes thereto, complies with International Financial Reporting Standards.

In the application of AIFRS, 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.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Judgments made by management in the application of AIFRS that have significant effects on the financial statements and estimates with a significant risk of material adjustments in the next year are disclosed, where applicable, in the relevant notes to the financial statements.

(b) Adoption of new and revised accounting standards

The Company has adopted the following Standards and Interpretations mandatory for annual periods beginning on or after 1 January 2007. The adoption of these standards and interpretations has only affected the disclosure in these financial statements. There has been no affect on profit and loss or the financial position of the Company.

- AASB 7 *Financial Instruments: Disclosures*;
- AASB 2005-10 Amendments to Australian Accounting Standards (AASB 132, 101, 114, 117, 133, 139, 1, 4, 1023 and 1038);
- AASB 2007-04 Amendments to Australian Accounting Standards arising from ED 151 and other amendments; and
- AASB 2007-7 Amendments to Australian Accounting Standards (AASB 1, 2, 4, 5, 107 and 108).

(c) Basis of consolidation

The consolidated financial statements comprise the financial statements of Polaris Metals NL and its subsidiaries ("the Group").

The financial statements of subsidiaries are prepared for the same reporting period as the parent Company, using consistent accounting policies. Adjustments are made to bring into line any dissimilar accounting policies that may exist.

All intercompany balances and transactions, including unrealised profits arising from intra-group transactions, have been eliminated in full. Unrealised losses are eliminated unless costs cannot be recovered.

NOTES TO THE FINANCIAL STATEMENTS

Subsidiaries are consolidated from the date on which control is transferred to the Group and cease to be consolidated from the date on which control is transferred out of the Group. Where there is loss of control of a subsidiary, the consolidated financial statements include the results for the part of the reporting period during which the parent Company has control. On acquisition, the assets, liabilities and contingent liabilities of a subsidiary are measured at their fair values at the date of acquisition. Subsequent to initial recognition, investments in subsidiaries are measured at cost less any impairment provision on the Company's accounts.

(d) Going Concern

The financial report has been prepared on the going concern basis, which contemplates continuity of normal business activities and the realisation of assets and settlement of liabilities in the ordinary course of business. The going concern of the Company is dependent upon the Company obtaining additional funds through successful capital raisings and/or the future profitability of the Company. The directors believe that they will be able to access the capital markets for further funds if necessary until such point as the Group is cashflow positive.

(e) Cash and cash equivalents

Cash and cash equivalents in the balance sheet comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less.

For the purposes of the Cash Flow Statement, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

(f) Receivables

Receivables are recorded at amounts due less any allowance for doubtful debts.

(g) Investments in associates

The Group's investment in its associates is accounted for using the equity method of accounting in the consolidated financial statements. The associates are entities over which the Group has significant influence and that are neither subsidiaries nor joint ventures.

Under the equity method, investments in the associates are carried in the consolidated balance sheet at cost plus post acquisition changes in the Group's share of net assets of the associates. 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 Group determines whether it is necessary to recognise any impairment loss with respect to the Group's net investment in associates.

The Group's share of its associates' post-acquisition profits or losses is recognised in the income statement, and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. Dividends receivable from associates are recognised in the parent entity's income statement, while in the consolidated financial statements they reduce the carrying amount of the investment.

When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any unsecured long-term receivables and loans, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

The reporting dates of the associates and the Group are identical and the associates' accounting policies conform to those used by the Group for like transactions and events in similar circumstances.

(h) Investment in jointly controlled entities

Interests in jointly controlled entities are accounted for under the equity method in the consolidated financial statements and the cost method in the Company financial statements.

(i) Financial assets

The Group classifies its financial assets either financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, or available-for-sale financial assets. The classification depends on the purpose for which the investments were acquired.

NOTES TO THE FINANCIAL STATEMENTS

Financial assets are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

Available-for-sale financial assets

Available-for-sale financial assets, comprising principally marketable equity securities, are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the reporting date.

Investments are designated as available-for-sale if they do not have fixed maturities and fixed or determinable payments and management intends to hold them for the medium to long term.

After initial recognition available-for-sale securities are measured at fair value with gains or losses being recognised as a separate component of equity until the investment is derecognised or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is recognised in profit or loss.

Other financial assets

Other non-derivative financial instruments are measured at amortised cost using the effective interest method, less any impairment losses.

(j) Property, plant and equipment

Plant and equipment is stated at cost less accumulated depreciation and any impairment in value.

Depreciation is calculated on a straight-line basis over the estimated useful life of the asset which is between 3 to 13 years depending on the nature of the asset.

The carrying values of plant and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable.

(k) Exploration, evaluation and development expenditure

In respect of each separate area of interest, exploration and evaluation expenditure is either expensed as incurred or capitalised, and recognised as an exploration and evaluation asset.

Exploration and evaluation expenditure is only recognised as an exploration and evaluation asset where right of tenure of the area of interest is current and 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.

Development costs related to an area of interest are carried forward to the extent that they are expected to be recouped either through sale or successful exploitation of the area of interest.

When an area of interest is abandoned or the directors decide that it is not commercial, any accumulated 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 costs written off to the extent that they will not be recoverable in the future. Amortisation is not charged on costs carried forward in respect of areas of interest in the development phase until production commences.

(l) Intangible assets

Computer software

Acquired computer software licences are stated at cost less accumulated amortisation and any impairment in value. Amortisation is calculated on a straight-line basis over the estimated useful life of the computer software (not exceeding 3 years).

Intangible assets are tested for impairment where an indicator of impairment exists. Useful lives are also examined on an annual basis and adjustments, where applicable, are made on a prospective basis.

(m) Non-current assets held for sale

Non-current assets classified as held for sale are presented separately from other assets in the balance sheet. Non-current assets classified as held for sale are measured at the lower of carrying amount and fair value less costs to sell. Non-current assets are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset is available for immediate sale in its present condition. The sale of the asset is expected to be completed within one year from the date of classification.

(n) Leases

Operating lease payments are recognised as an expense in the income statement on a straight-line basis over the lease term.

(o) Impairment of assets

At each reporting date, the Group assesses whether there is any indication that an asset may be impaired. Where an indicator of impairment exists, the Group makes a formal estimate of recoverable amount. Where the carrying amount of an asset exceeds its recoverable amount the asset is considered impaired and is written down to its recoverable amount.

Recoverable amount is the greater of fair value less costs to sell and value in use. It is determined for an individual asset, unless the asset's value in use cannot be estimated to be close to its fair value less costs to sell and it does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

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.

(p) Trade and other payables

Trade and other payables represent liabilities for goods and services provided to the Group prior to the end of the financial period and which are unpaid. Trade and other payables are carried at cost which is the fair value of the consideration to be paid in the future for goods and services received, whether or not billed to the Group. The amounts are unsecured and are usually paid within 30 days of recognition.

Payables to related parties are carried at the principal amount. Interest, when charged by the lender, is recognised as an expense on an accrual basis.

(q) Interest-bearing loans and borrowings

All loans and borrowings are initially recognised at cost, being the fair value of the consideration received net of transaction costs associated with the borrowing.

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost with any difference between the initial recognised amount and the redemption value being recognised in the income statement over the period of the borrowing using the effective interest rate method.

(r) Issued capital

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

(s) Revenue

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

Interest

Interest income is recognised in the income statement on an accruals basis, using the effective interest rate method.

NOTES TO THE FINANCIAL STATEMENTS

Rendering of services

Revenue from a contract to provide services is recognised by reference to the stage of completion of the contract.

(t) Employee benefits

Provision is made for the Group's liability for employee benefits arising from services rendered by employees to balance date. Employee benefits that are expected to be settled within one year have been measured at the amounts expected to be paid when the liability is settled, plus related on-costs. Employee benefits payable later than one year have been measured at the present value of the estimated future cash outflows to be made for those benefits.

(u) Share-based payments

Equity-settled share-based payments granted after 7 November 2002 that were unvested as of 1 January 2005, are measured at fair value at the date of grant.

Options over ordinary shares are granted to employees as part of remuneration from time to time, on a discretionary basis under an employee option plan.

The cost of these share-based payments is measured by reference to the fair value at the date at which they are granted using an option pricing model. The options are subject to service vesting conditions and their fair value is recognised as an expense together with a corresponding increase in other reserve equity over the vesting period. The proceeds received net of any directly attributable transaction costs are credited to share capital when the options are exercised.

(v) Income taxes

The income tax expense or revenue for the period is the tax payable on the current period's taxable income or loss adjusted by changes in deferred tax assets and liabilities attributable to temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements, and to unused tax losses.

Deferred tax is accounted for using the balance sheet liability method in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements.

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to apply when the assets are recovered or liabilities settled, based on those tax rates which are enacted. The relevant tax rates are applied to the cumulative amounts of deductible and taxable temporary differences arising from the initial recognition of an asset or liability.

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

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable profits will be available to utilise those temporary differences and losses.

(w) Goods and services tax

Revenues, expenses and assets are recognised net of the amount of goods and services tax ("GST"), except where the GST incurred is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated with the amount of GST included. The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the balance sheet.

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

NOTES TO THE FINANCIAL STATEMENTS

(x) Earnings per share

Basic earnings per share is calculated by dividing the profit or loss attributable to shareholders of the Company by the weighted average number of ordinary shares outstanding during the period. Diluted earnings per share is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, which comprise share options.

(y) Comparatives

Where necessary, comparatives have been reclassified and repositioned for consistency with current year disclosures.

3. SEGMENT INFORMATION

The Company operates in only one business and geographical segment, being the mineral exploration industry in Australia.

Consolidated		Company	
2008	2007	2008	2007
\$	\$	\$	\$

4. INCOME TAX

Reconciliation of income tax to loss before income tax

Loss before income tax	(3,748,788)	(1,041,777)	(3,767,277)	(1,023,288)
Tax benefit calculated at 30% on loss before income tax	(1,124,636)	(312,533)	(1,130,183)	(306,986)
Add/(less) tax effect of:				
Share-based payments not deductible	449,717	-	449,717	-
In-specie distribution	1,022,917	-	1,022,917	-
Other	69,377	5,632	69,377	5,632
Tax losses and temporary differences not recognised	(417,375)	306,901	(411,828)	301,354
Income tax	-	-	-	-

Unrecognised tax assets and liabilities

Deferred tax assets				
Unused tax losses	5,905,618	4,518,279	5,905,618	4,144,860
Deductible temporary differences:				
Investment in associate	28,175	-	28,175	-
Provision for employee entitlements	25,723	15,060	25,723	15,060
Share issue costs	342,040	123,036	342,040	123,036
Other	4,350	7,868	8,534	149,972
	6,305,906	4,664,243	6,310,090	4,432,928
Deferred tax liabilities				
Assessable temporary differences:				
Non-current assets classified as held for sale	-	(1,230,212)	-	(970,708)
Investment in associate	-	(426,003)	-	(426,003)
Available-for-sale financial assets	(1,621,800)	-	(1,621,800)	-
Property, plant & equipment	(121,539)	(104,932)	(121,539)	(103,915)
Exploration and evaluation assets	(5,122,689)	(2,276,115)	(5,081,735)	(2,299,337)
Intangible assets	(11,279)	-	(11,279)	-
Other	(1,125)	-	(1,125)	-
	(6,878,432)	(4,037,262)	(6,837,478)	(3,799,963)
Net unrecognised tax balances	(572,526)	626,981	(527,388)	632,965

The net deferred tax assets and deferred tax liabilities are not recognised since it is not probable that future taxable profits will be available to utilise deductible temporary differences and losses.

NOTES TO THE FINANCIAL STATEMENTS

	Consolidated	
	2008	2007
	\$	\$
5. LOSS PER SHARE		
Loss used in calculating basic and diluted loss per share	(3,748,788)	(1,041,777)
	Number of shares	Number of shares
Weighted average number of ordinary shares used in calculating basic loss per share	121,834,102	92,263,522
Weighted average number of ordinary shares used in calculating diluted loss per share	169,982,041	117,146,147

As the company has incurred a loss, the diluted loss per share is disclosed as the same as basic loss per share.

	Consolidated		Company	
	2008	2007	2008	2007
	\$	\$	\$	\$
6. CASH AND CASH EQUIVALENTS				
Cash at bank and in hand	13,984	23,362	13,984	21,945
Bank deposits at call	1,397,958	1,241,568	1,397,958	1,241,568
Bank short term deposits	11,750,000	3,354,113	11,750,000	3,354,113
	<u>13,161,942</u>	<u>4,619,043</u>	<u>13,161,942</u>	<u>4,617,626</u>

7. OTHER RECEIVABLES

Current:

GST receivable	(a)	108,154	20,404	108,154	18,075
Prepayments		22,164	-	22,164	-
Other receivables	(a)	173,284	14,081	173,284	14,081
Loan to subsidiary	(b)	-	-	-	152,992
Less provision for impairment	(b)	-	-	-	(152,992)
		<u>303,602</u>	<u>34,485</u>	<u>303,602</u>	<u>32,156</u>

Non-current:

Loan to subsidiary	(b)	-	-	150,460	875,207
Less provision for impairment	(b)	-	-	(13,947)	-
Other receivables	(c)	22,906	18,156	22,906	18,156
		<u>22,906</u>	<u>18,156</u>	<u>159,419</u>	<u>893,363</u>

(a) GST receivable and current other receivables are non-interest bearing and normally received within 30 days. Due to the short term nature of these receivables, their carrying amount is a reasonable approximation of fair value.

(b) The loan to subsidiaries are non-interest bearing with no fixed repayment date and the carrying amount of the loan approximates its fair value. The loans are provided to fund exploration expenditure. The ultimate recoupment of the loan is dependent upon sale or successful exploitation of the area of interest. An impairment provision is recognised for the subsidiaries net asset deficiency.

7. OTHER RECEIVABLES continued

(c) Non-current other receivables represent bonds on lease of office premises and earn interest at a weighted average rate of 3.3% (2007: 3.3%)

Consolidated		Company	
2008	2007	2008	2007
\$	\$	\$	\$

8. NON-CURRENT ASSETS CLASSIFIED AS HELD FOR SALE

Exploration and evaluation assets	-	4,100,707	-	3,235,693
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In the previous financial year the Company proposed to sell various gold and base metal tenements in Western Australia to Southern Cross Goldfields Limited (SXG) and the carrying values of those tenements at 30 June 2007 were classified as held for sale. In the current financial year, the Company entered into an agreement to sell those various gold and base metal tenements in Western Australia to SXG for the consideration of 21,999,999 shares and 15,000,000 share options in SXG at a deemed value of \$2,420,000 for the shares (11 cents per share) and \$780,000 for the share options (exercisable at 20 cents each on or before 31 December 2012).

9. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

Investment in associates:

Northern Uranium Limited	-	1,560,009	-	1,560,009
Southern Cross Goldfields Limited	2,236,276	-	2,236,276	-
	<u>2,236,276</u>	<u>1,560,009</u>	<u>2,236,276</u>	<u>1,560,009</u>

Northern Uranium Limited

Carrying amount at beginning of year	1,560,009	16,788	1,560,009	16,788
Investments at cost	-	23,398	-	23,398
Share of changes recognised directly in equity	(45,655)	1,835,248	(45,655)	1,835,248
Share of loss	(542,138)	(315,425)	(542,138)	(315,425)
	<u>972,216</u>	<u>1,560,009</u>	<u>972,216</u>	<u>1,560,009</u>
Transfer to available-for-sale for financial assets	(972,216)	-	(972,216)	-
Carrying amount at end of year	-	1,560,009	-	1,560,009

Northern Uranium Limited was incorporated in Australia on 31 May 2006 and the Company holds 10,000,001 shares representing an ownership interest of 19.76% at 30 June 2008 (2007: 20.32%). The principal activity of Northern Uranium Limited is exploration and evaluation of uranium mineral interests. Northern Uranium Limited is listed on the Australian Securities Exchange and the fair value of the investment based on the published price quotation at 30 June 2008 was \$3,650,000 (2007: \$15,080,001). The Company ceased to have significant influence over Northern Uranium Limited on 31 March 2008 and the investment was reclassified from an investment in associate to an available-for-sale financial asset.

Southern Cross Goldfields Limited

Carrying amount at beginning of year	-	-	-	-
Investments at cost	4,750,000	-	4,750,000	-
In-specie distribution to shareholders	(2,419,805)	-	(2,419,805)	-
Share of loss	(93,919)	-	(93,919)	-
Carrying amount at end of year	<u>2,236,276</u>	<u>-</u>	<u>2,236,276</u>	<u>-</u>

9. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD continued

Southern Cross Goldfields Limited (SXG) was incorporated in Australia on 12 March 2007 and the Company holds 11,651,774 shares representing an ownership interest of 17.97% at 30 June 2008 (2007: 100%). SXG was a subsidiary until 11 March 2008 and was reclassified as an associate when it ceased to be a subsidiary. Although the Company holds less than 20% of the voting power of SXG at 30 June 2008 it is classified as an investment in associate since the Company has significant influence from representation on the SXG board of directors.

The principal activity of SXG is exploration and evaluation of mineral interests. SXG is listed on the Australian Securities Exchange and the fair value of the investment based on the published price quotation at 30 June 2008 was \$2,621,649 (2007: not listed).

Summarised financial information of associates:

	Consolidated		Company	
	31/03/08	30/06/07	31/03/08	30/06/07
	\$	\$	\$	\$
Northern Uranium Limited				
Current assets	4,979,817	7,788,007	4,979,817	7,788,007
Non-current assets	139,831	75,723	139,831	75,723
	<u>5,119,648</u>	<u>7,863,730</u>	<u>5,119,648</u>	<u>7,863,730</u>
Current liabilities	<u>199,528</u>	<u>186,518</u>	<u>199,528</u>	<u>186,518</u>
Net assets	<u>4,920,120</u>	<u>7,677,212</u>	<u>4,920,120</u>	<u>7,677,212</u>
Revenue	<u>330,679</u>	<u>230,832</u>	<u>330,679</u>	<u>230,832</u>
Net loss	<u>2,801,532</u>	<u>2,043,495</u>	<u>2,801,532</u>	<u>2,043,495</u>
Share of associate loss	<u>542,138</u>	<u>(315,425)</u>	<u>542,138</u>	<u>(315,425)</u>
Share of associate exploration expenditure commitments not later than one year	<u>292,574</u>	<u>219,302</u>	<u>292,574</u>	<u>219,302</u>

	Consolidated		Company	
	30/06/08	30/06/08	30/06/08	30/06/08
	\$	\$	\$	\$
Southern Cross Goldfields Limited				
Adjusted to conform with the Company's accounting policies:				
Current assets	4,068,026		4,068,026	
Non-current Assets	7,407,681		7,407,681	
	<u>11,475,707</u>		<u>11,475,707</u>	
Current liabilities	<u>635,128</u>		<u>635,128</u>	
Net assets	<u>10,840,579</u>		<u>10,840,579</u>	
Revenue (12/3/08 to 30/06/08)	<u>141,014</u>		<u>141,014</u>	
Net loss (12/3/08 to 30/06/08)	<u>515,377</u>		<u>515,377</u>	
Share of associate loss (12/3/08 to 30/06/08)	<u>93,919</u>		<u>93,919</u>	
Share of exploration expenditure commitments not later than one year	<u>220,696</u>		<u>220,696</u>	
Share of operating lease commitments:				
Not later than one year	<u>13,714</u>		<u>13,714</u>	
Later than 1 year but not later than 5 years	<u>15,455</u>		<u>15,455</u>	
	<u>29,169</u>		<u>29,169</u>	

NOTES TO THE FINANCIAL STATEMENTS

	Consolidated		Company	
	2008	2007	2008	2007
	\$	\$	\$	\$

10. AVAILABLE-FOR-SALE FINANCIAL ASSETS

At fair value:

Australian listed equity securities	(a)	4,310,000	-	4,310,000	-
Australian unlisted equity securities	(b)	1,236,000	-	1,236,000	-
		<u>5,546,000</u>	<u>-</u>	<u>5,546,000</u>	<u>-</u>

(a) The fair value of Australian listed equity securities has been determined directly by reference to published price quotations in an active market.

(b) Australian unlisted equity securities represent options in a listed company. The fair value has been determined using a Binominal option pricing model inputting a share price of \$0.225, an exercise price of \$0.20, a risk free interest rate of 6.5%, an expiry date of 31 December 2012 and a volatility factor of 50% .

11. OTHER FINANCIAL ASSETS

Bank term deposits	(a)	109,000	-	109,000	-
Investment in subsidiaries at cost	(b)	-	-	600,000	600,000
Less provision for impairment		-	-	(600,000)	(473,680)
		<u>109,000</u>	<u>-</u>	<u>109,000</u>	<u>126,320</u>

(a) The bank term deposits are held as security for bank guarantee performance bonds for the potential rehabilitation of exploration assets. As such the term deposits are not accessible to the Group and the Company.

(b) The consolidated financial statements include the financial statements of Polaris Metals NL and its wholly owned subsidiaries, Eclipse Minerals Pty Ltd (Eclipse) and Southern Cross Goldfields Limited (SXG) which were incorporated in Australia. Polaris Metals NL is the parent entity within the Group. The ownership interest of the Company in Eclipse at 30 June 2008 is 100% (2007: 100%). SXG ceased to be a subsidiary on 11 March 2008. The Company's ownership interest in SXG on 11 March 2008 was reclassified as an available-for-sale financial asset on derecognition of SXG as a subsidiary. The ownership interest of the Company in SXG at 30 June 2008 was 17.97% . The ownership interest of the Company in SXG at 30 June 2007 was 100%.

12. PROPERTY, PLANT AND EQUIPMENT

Computing equipment

Gross carrying amount at beginning of year		38,049	25,142	34,421	25,142
Additions		64,150	12,907	30,918	9,279
Disposals		(48,004)	-	(11,144)	-
Gross carrying amount at end of year		<u>54,195</u>	<u>38,049</u>	<u>54,195</u>	<u>34,421</u>
Accumulated depreciation at beginning of year		23,114	12,393	22,875	12,393
Depreciation expense		15,004	10,721	10,918	10,482
Disposals		(13,459)	-	(9,134)	-
Accumulated depreciation at end of year		<u>24,659</u>	<u>23,114</u>	<u>24,659</u>	<u>22,875</u>
Carrying amount at beginning of year		<u>14,935</u>	<u>12,749</u>	<u>11,546</u>	<u>12,749</u>
Carrying amount at end of year		<u>29,536</u>	<u>14,935</u>	<u>29,536</u>	<u>11,546</u>

NOTES TO THE FINANCIAL STATEMENTS

	Consolidated		Company	
	2008	2007	2008	2007
	\$	\$	\$	\$
12. PROPERTY, PLANT AND EQUIPMENT continued				
Exploration equipment				
Gross carrying amount at beginning of year	34,075	18,575	34,075	18,575
Additions	41,368	15,500	41,368	15,500
Disposals	(9,800)	-	(9,800)	-
Gross carrying amount at end of year	<u>65,643</u>	<u>34,075</u>	<u>65,643</u>	<u>34,075</u>
Accumulated depreciation at beginning of year	11,130	6,349	11,130	6,349
Depreciation expense	10,049	4,781	10,049	4,781
Disposals	(9,800)	-	(9,800)	-
Accumulated depreciation at end of year	<u>11,379</u>	<u>11,130</u>	<u>11,379</u>	<u>11,130</u>
Carrying amount at beginning of year	<u>22,945</u>	<u>12,226</u>	<u>22,945</u>	<u>12,226</u>
Carrying amount at end of year	<u>54,264</u>	<u>22,945</u>	<u>54,264</u>	<u>22,945</u>
Office furniture and equipment				
Gross carrying amount at beginning of year	37,538	24,514	37,538	24,514
Additions	48,691	13,024	15,091	13,024
Disposals	(35,963)	-	(2,363)	-
Gross carrying amount at end of year	<u>50,266</u>	<u>37,538</u>	<u>50,266</u>	<u>37,538</u>
Accumulated depreciation at beginning of year	9,146	3,905	9,146	3,905
Depreciation expense	7,263	5,241	5,632	5,241
Disposals	(3,994)	-	(2,363)	-
Accumulated depreciation at end of year	<u>12,415</u>	<u>9,146</u>	<u>12,415</u>	<u>9,146</u>
Carrying amount at beginning of year	<u>28,392</u>	<u>20,609</u>	<u>28,392</u>	<u>20,609</u>
Carrying amount at end of year	<u>37,851</u>	<u>28,392</u>	<u>37,851</u>	<u>28,392</u>
Vehicles, caravans and trailers				
Gross carrying amount at beginning of year	361,703	186,610	361,703	186,610
Additions	89,844	175,093	89,844	175,093
Disposals	(75,253)	-	(75,253)	-
Gross carrying amount at end of year	<u>376,294</u>	<u>361,703</u>	<u>376,294</u>	<u>361,703</u>
Accumulated depreciation at beginning of year	78,201	42,842	78,201	42,842
Depreciation expense	50,202	35,359	50,202	35,359
Disposals	(35,587)	-	(35,587)	-
Accumulated depreciation at end of year	<u>92,816</u>	<u>78,201</u>	<u>92,816</u>	<u>78,201</u>
Carrying amount at beginning of year	<u>283,502</u>	<u>143,768</u>	<u>283,502</u>	<u>143,768</u>
Carrying amount at end of year	<u>283,478</u>	<u>283,502</u>	<u>283,478</u>	<u>283,502</u>
Total Property plant and equipment				
Gross carrying amount at beginning of year	471,365	254,841	467,737	254,841
Additions	244,053	216,524	177,221	212,896
Disposals	(169,020)	-	(98,560)	-
Gross carrying amount at end of year	<u>546,398</u>	<u>471,365</u>	<u>546,398</u>	<u>467,737</u>

NOTES TO THE FINANCIAL STATEMENTS

	Consolidated		Company	
	2008	2007	2008	2007
	\$	\$	\$	\$

12. PROPERTY, PLANT AND EQUIPMENT continued

Total Property plant and equipment continued

Accumulated depreciation at beginning of year	121,591	65,489	121,352	65,489
Depreciation expense	82,518	56,102	76,801	55,863
Disposals	(62,840)	-	(56,884)	-
Accumulated depreciation at end of year	141,269	121,591	141,269	121,352
Carrying amount at beginning of year	349,774	189,352	346,385	189,352
Carrying amount at end of year	405,129	349,774	405,129	346,385

Property plant and equipment pledged as security

Plant and equipment at 30 June 2007 includes motor vehicles with a carrying value of \$113,560 pledged as security under a hire purchase agreement for the associated hire purchase liability. The hire purchase liability was paid out during the financial year and there is no plant and equipment at 30 June 2008 pledged as security.

13. EXPLORATION AND EVALUATION ASSETS

Costs carried forward in respect of areas of interest in pre-production exploration and evaluation phases

Carrying amount at beginning of year	7,800,970	2,934,235	7,664,458	1,975,379
Transfer from/(to) assets classified as held for sale	4,100,707	(3,101,585)	3,235,693	(2,236,570)
Additions	10,289,126	8,423,994	8,904,284	8,216,661
Written off	(1,090,390)	(455,674)	(506,902)	(291,012)
Disposals	(4,024,783)	-	(2,358,416)	-
Carrying amount at end of year	17,075,630	7,800,970	16,939,117	7,664,458

The recoverability of the carrying amount of the exploration and evaluation assets is dependent on the continuance of the Group's rights to tenure of the interest, the results of future exploration, and the successful development and commercial exploitation, or alternatively, sale of the respective areas of interest.

14. INTANGIBLE ASSETS

Computer software

Gross carrying amount at beginning of year	17,600	17,600	17,600	17,600
Additions	50,500	-	43,235	-
Disposals	(14,500)	-	(7,235)	-
Gross carrying amount at end of year	53,600	17,600	53,600	17,600
Accumulated amortisation at beginning of year	17,600	14,873	17,600	14,873
Amortisation expense	7,183	2,727	5,637	2,727
Disposals	(8,781)	-	(7,235)	-
Accumulated amortisation at end of year	16,002	17,600	16,002	17,600
Carrying amount at beginning of year	-	2,727	-	2,727
Carrying amount at end of year	37,598	-	37,598	-

NOTES TO THE FINANCIAL STATEMENTS

	Consolidated		Company	
	2008	2007	2008	2007
	\$	\$	\$	\$
15. TRADE AND OTHER PAYABLES				
Trade payables	1,154,079	173,800	1,154,079	148,177
Non-trade payables and accrued expenses	521,740	70,662	521,740	70,662
	<u>1,675,819</u>	<u>244,462</u>	<u>1,675,819</u>	<u>218,839</u>

Trade and other payables are non-interest bearing and are normally settled on 30 day terms. Due to the short term nature of these payables, their carrying amount is a reasonable approximation of fair value.

16. INTEREST-BEARING LOANS AND BORROWINGS

Current:

Hire purchase liabilities - secured	-	57,636	-	57,636
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Non-current:

Hire purchase liabilities - secured	-	30,906	-	30,906
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Hire purchase liabilities are in respect of the purchase of motor vehicles and the liabilities are repayable by monthly installments over terms from 4 to 5 years. Interest is recognised at an average rate of 7.7% (2007: 7.7%). Hire purchase liabilities are secured by a charge over the motor vehicles. The hire purchase liabilities were paid out during the financial year and there are no motor vehicles at 30 June 2008 secured by a charge.

17. PROVISIONS

Employee benefits provision for annual leave	85,743	50,199	85,743	50,199
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18. SHARE-BASED PAYMENTS

3,000,000 options were granted to directors and management on 18 December 2003, exercisable immediately from the date of grant and expiring on 31 December 2008. Shareholders approved the grant of options to directors at the 2003 annual general meeting.

11,700,000 options with various vesting conditions were granted to directors, employees and consultants on 22 November 2007 following shareholder approval at the 2007 annual general meeting. 5,850,000 (tranche 1) of these options are exercisable at 53.1 cents each on or before 31 December 2011 and the remaining 5,850,000 (tranche 2) options are exercisable at 73.1 cents each on or before 31 December 2011.

An Option Plan for employees was established and approved by shareholders at the 2004 annual general meeting. 650,000 options were granted in the 2005 financial year and 775,000 in the 2007 financial year under the plan to employees with 50% of the options exercisable after 6 months employment from the grant date and the remaining 50% of the options exercisable after 12 months employment from the grant date. 650,000 options were granted to employees under the plan during the current financial year exercisable after 12 months employment from the grant date with the exercise price set as the average closing price of 5 days trading prior to commencement of employment plus 10% rounded down to the nearest 5 cent increment. Options granted carry no dividend or voting rights.

18. SHARE-BASED PAYMENTS continued

The following share-based payment arrangements were in existence during the period:

Grant date	Number	Expiry date	Exercise price at 30/06/08	Fair value at grant date
18 December 2003	3,000,000	31/12/2008	\$0.231	\$0.024
20 December 2004	500,000	31/12/2008	\$0.231	\$0.022
20 October 2006	650,000	31/12/2010	\$0.281	\$0.020
3 November 2006	125,000	31/12/2010	\$0.281	\$0.050
23 November 2007	5,850,000	31/12/2011	\$0.531	\$0.296
23 November 2007	5,850,000	31/12/2011	\$0.731	\$0.239
06 February 2008	50,000	31/12/2011	\$0.731	\$0.254
20 March 2008	50,000	31/12/2011	\$0.631	\$0.202
20 May 2008	500,000	31/12/2011	\$0.531	\$0.311
26 June 2008	50,000	31/12/2011	\$0.550	\$0.170
	16,625,000			

The number and weighted average exercise prices of options granted as share based payments are as follows:

	2008 Number of options	2008 Weighted average exercise price	2007 Number of options	2007 Weighted average exercise price
Outstanding at beginning of year	4,275,000	\$0.255	3,650,000	\$0.250
Granted during the year	12,350,000	\$0.646	775,000	\$0.300
Exercised during the year	(1,625,000)	\$0.269	-	-
Lapsed during the year	(50,000)	\$0.631	(150,000)	\$0.250
Outstanding at end of year	14,950,000	\$0.557	4,275,000	\$0.259
Exercisable and vested at end of the year	2,650,000	\$0.234	3,887,500	\$0.255

The weighted average share price at the date of exercise of options exercised during the year was \$0.547 (2007: not applicable).

The range of exercise prices for options outstanding at the end of the year was \$0.231 to \$0.731 (2007: \$0.25 to \$0.30) and a weighted average remaining contractual life of 2.99 years (2007: 1.86 years).

The weighted average fair value of \$0.269 for options granted during the year was calculated using a Black and Scholes option pricing model inputting a weighted average share price of \$0.596, a weighted average exercise price of \$0.646, a weighted average risk free interest rate of 6.78%, an expiry date of 31 December 2011, a volatility factor of 50% based on historical volatility and expected changes to future volatility taking into account the transition from explorer to miner.

The fair value of the options is recognised as an expense over the period from grant to vesting date. The amount recognised as part of employee benefits expense during the year was \$1,499,058 (2007: \$16,203).

NOTES TO THE FINANCIAL STATEMENTS

	Consolidated		Company	
	2008	2007	2008	2007
	\$	\$	\$	\$
19. ISSUED CAPITAL				
(a) Fully paid ordinary shares				
Balance at beginning of year:				
111,043,823 (2007: 50,310,002) shares	19,358,192	6,790,142	19,358,192	6,790,142
Nil (2007: 30,445,623) shares issued for cash under cash placements	-	7,250,374	-	7,250,374
36,965,768 (2007: nil) shares issued for cash under rights issues	18,313,511	-	18,313,511	-
100,000 (2007: 30,279,730) shares issued for acquisition of mining tenements	71,000	5,600,000	71,000	5,600,000
7,861,268 (2007: 8,468) shares issued for cash on exercise of options	1,694,498	1,694	1,694,498	1,694
In-specie distribution	(2,419,805)	-	(2,419,805)	-
Share issue costs	(1,141,023)	(284,018)	(1,141,023)	(284,018)
Balance at end of year:				
155,970,859 (2007: 111,043,823) shares	35,876,373	19,358,192	35,876,373	19,358,192

The Company does not have authorised capital or par value in respect of its issued shares.

Ordinary shares have the right to receive dividends as declared and, in the event of winding up the Company, to participate in the proceeds from the sale of all surplus assets in proportion to the number of and amounts paid up on shares held.

Ordinary shares entitle their holder to one vote, either in person or by proxy, at a meeting of the Company.

(b) Options over ordinary shares

	Consolidated		Company	
	2008	2007	2008	2007
	Number	Number	Number	Number
<i>Exercise price of \$0.181 (2007: \$0.20) expiring 31/12/08:</i>				
Balance at beginning of year	20,741,509	20,749,977	20,741,509	20,749,977
Issued during the year	-	-	-	-
Exercised during the year	(6,136,268)	(8,468)	(6,136,268)	(8,468)
Balance at end of year	14,605,241	20,741,509	14,605,241	20,741,509
<i>Exercise price of \$0.231 (2007: \$0.25) expiring 31/12/08:</i>				
Balance at beginning of year	3,500,000	3,650,000	3,500,000	3,650,000
Issued during the year	-	-	-	-
Exercised during the year	(1,000,000)	-	(1,000,000)	-
Lapsed during the year	-	(150,000)	-	(150,000)
Balance at end of year	2,500,000	3,500,000	2,500,000	3,500,000

19. ISSUED CAPITAL continued
(b) Options over ordinary shares

	Consolidated		Company	
	2008 Number	2007 Number	2008 Number	2007 Number
<i>Exercise price of \$0.281 (2007: \$0.30) expiring 31/12/10:</i>				
Balance at beginning of year	775,000	-	775,000	-
Issued during the year	-	775,000	-	775,000
Exercised during the year	(625,000)	-	(625,000)	-
Balance at end of year	150,000	775,000	150,000	775,000
<i>Exercise price of \$0.281 (2007: \$0.30) expiring 14/07/11:</i>				
Balance at beginning of year	15,000,000	-	15,000,000	-
Issued during the year	-	15,000,000	-	15,000,000
Exercised during the year	(100,000)	-	(100,000)	-
Balance at end of year	14,900,000	15,000,000	14,900,000	15,000,000
<i>Exercise price of \$0.531 expiring 31/12/11:</i>				
Balance at beginning of year	-	-	-	-
Issued during the year	6,350,000	-	6,350,000	-
Lapsed during the year	(25,000)	-	(25,000)	-
Balance at end of year	6,325,000	-	6,325,000	-
<i>Exercise price of \$0.55 expiring 31/12/11:</i>				
Balance at beginning of year	-	-	-	-
Issued during the year	50,000	-	50,000	-
Balance at end of year	50,000	-	50,000	-
<i>Exercise price of \$0.621 (2007: \$0.64) expiring 04/01/10:</i>				
Balance at beginning of year	5,047,062	-	5,047,062	-
Issued during the year	-	5,047,062	-	5,047,062
Balance at end of year	5,047,062	5,047,062	5,047,062	5,047,062
<i>Exercise price of \$0.631 expiring 31/12/11:</i>				
Balance at beginning of year	-	-	-	-
Issued during the year	50,000	-	50,000	-
Balance at end of year	50,000	-	50,000	-
<i>Exercise price of \$0.731 expiring 31/12/11:</i>				
Balance at beginning of year	-	-	-	-
Issued during the year	5,900,000	-	5,900,000	-
Lapsed during the year	(25,000)	-	(25,000)	-
Balance at end of year	5,875,000	-	5,875,000	-

The exercise price of outstanding options on 23 June 2008 was reduced by \$0.019 as a result of the capital reduction by an in-specie distribution of shares in Southern Cross Goldfields Limited to the Company's shareholders.

NOTES TO THE FINANCIAL STATEMENTS

		Consolidated		Company	
		2008	2007	2008	2007
		\$	\$	\$	\$
20. OTHER RESERVES					
Share based payments reserve	(a)	1,529,561	30,503	1,529,561	30,503
Associate investment reserve	(b)	-	1,835,248	-	1,835,248
Share option reserve	(c)	1,020,000	-	1,020,000	-
Equity revaluation reserve	(d)	5,583,377	-	5,583,377	-
		<u>8,132,938</u>	<u>1,865,751</u>	<u>8,132,938</u>	<u>1,865,751</u>

(a) Share based payments reserve

Balance at beginning of year	30,503	14,300	30,503	14,300
Recognition of share-based payment expense	1,499,058	16,203	1,499,058	16,203
Balance at end of year	<u>1,529,561</u>	<u>30,503</u>	<u>1,529,561</u>	<u>30,503</u>

The share based payments reserve is used to recognise the fair value of options provided to employees as part of their remuneration.

(b) Associate investment reserve

Balance at beginning of year	1,835,248	-	1,835,248	-
Share of changes recognised directly in associate's equity	(45,655)	1,835,248	(45,655)	1,835,248
Transfer to equity revaluation reserve	(1,789,593)	-	(1,789,593)	-
Balance at end of year	<u>-</u>	<u>1,835,248</u>	<u>-</u>	<u>1,835,248</u>

The associate investment reserve is used for changes in proportionate interest in associate arising from changes recognised directly in associate's equity.

(c) Share option reserve

Balance at beginning of year	-	-	-	-
Recognition of fair value of options issued as consideration for the acquisition of mining tenements	1,020,000	-	1,020,000	-
Balance at end of year	<u>1,020,000</u>	<u>-</u>	<u>1,020,000</u>	<u>-</u>

The share option reserve is used to recognise the fair value of options issued as consideration for the acquisition of mining tenements.

(d) Equity revaluation reserve

Balance at beginning of year	-	-	-	-
Change in fair value of available-for-sale financial assets	3,793,784	-	3,793,784	-
Transfer from associate investment reserve	1,789,593	-	1,789,593	-
Balance at end of year	<u>5,583,377</u>	<u>-</u>	<u>5,583,377</u>	<u>-</u>

The equity revaluation reserve records movements in the fair value of available-for-sale financial assets.

NOTES TO THE FINANCIAL STATEMENTS

	Consolidated		Company	
	2008	2007	2008	2007
	\$	\$	\$	\$

21. ACCUMULATED LOSSES

Balance at beginning of year	(3,124,002)	(2,082,225)	(3,105,513)	(2,082,225)
Net loss for year	(3,748,788)	(1,041,777)	(3,767,277)	(1,023,288)
Balance at end of year	(6,872,790)	(3,124,002)	(6,872,790)	(3,105,513)

22. NOTES TO THE CASH FLOW STATEMENT

(a) Reconciliation of net loss to cash flows used in operating activities

Net loss	(3,748,788)	(1,041,777)	(3,767,277)	(1,023,288)
Add/(less) non-cash items:				
Net gain on disposal of investments	-	(440,000)	-	(440,000)
Net gain on disposal of exploration assets	-	(30,044)	(50,216)	(75,222)
Gain on derecognition of subsidiary	(1,233,767)	-	-	-
Depreciation and amortisation expense	71,649	39,068	64,386	38,829
Impairment of investment in controlled entity	-	-	126,320	78,568
Impairment of loan to controlled entity	-	-	13,947	152,992
Impairment reversal of loan to controlled entity	-	-	(152,992)	-
Exploration expenditure written off	1,090,390	455,674	506,902	291,012
Share-based payment	1,499,058	16,203	1,499,058	16,203
Share of loss of associate	636,057	315,425	636,057	315,425
Change in assets and liabilities:				
(Increase)/decrease in other receivables	(212,305)	(12,164)	(122,054)	(9,835)
Increase in trade and other payables	290,367	44,092	154,793	34,865
Increase in provisions	41,240	971	35,979	971
Net cash flows used in operating activities	(1,566,099)	(652,552)	(1,055,097)	(619,480)

(b) Reconciliation of cash

Cash balance comprises:				
Cash and cash equivalents	13,161,942	4,619,043	13,161,942	4,617,626

(c) Financing facilities available

At reporting date, the following hire purchase and credit card facility had been negotiated and was available:

Total facility	210,000	210,000	210,000	210,000
Facility used at reporting date	6,233	93,254	6,233	93,254
Facility unused at reporting date	203,767	116,746	203,767	116,746

23. OPERATING LEASES

The Company leases office premises at unit 20 and 23, 123A Colin Street, West Perth under operating leases for a term of 3 years from 15 November 2005 and 2.1 years from 16 October 2006 respectively. Both leases have an option to renew for a further 3 years. The rent payable in respect of unit 20 is reviewed for CPI increases one year from commencement and reviewed to reflect market rentals two years from commencement. The rent payable in respect of unit 23 has a fixed increase adjustment of 5% each anniversary date.

The Company leases storage premises at 5 Coolgardie Terrace, Perth under an operating lease for a term of 1 year from 23 June 2008 with an option to renew for a further 1 year. If the option to renew is exercised the rent will be reviewed for CPI increase.

The Company's subsidiary, Southern Cross Goldfields Limited leased office premises at Level 2, 123B Colin Street, West Perth under an operating lease for three years with a right of renewal for a further three years at which time all terms are renegotiable. Lease amounts are subject to an annual rent increase of 4%.

During the financial year ended 30 June 2008, \$161,131 was recognised as an expense in the income statement in respect of operating leases (2007: \$70,630).

Non-cancellable operating lease rentals not provided for in the financial report are payable as follows:

	Consolidated		Company	
	2008	2007	2008	2007
	\$	\$	\$	\$
Not later than one year	62,548	76,305	62,548	76,305
Later than one year and not later than five years	-	28,615	-	28,615
	<u>62,548</u>	<u>104,920</u>	<u>62,548</u>	<u>104,920</u>

24. KEY MANAGEMENT PERSONNEL DISCLOSURES

Key management personnel

Directors:

Lewis Cross - Non-executive Chairman

Jonathan Lea - Managing Director (appointed 2 January 2008)

Alan Tough - Executive Director (appointed 2 January 2008)

Kevin Schultz - Non-executive Director (Managing Director from 1 July 2007 to 2 January 2008)

Vernon Strange - Non-executive Director (resigned 3 July 2008)

Colin McCavana - Non-executive Director (resigned 14 November 2007)

Ian Buchhorn - Non-executive Director

Kenneth Hellsten - Non-executive Director (appointed 3 July 2008)

The Remuneration Committee of the Board of Directors is responsible for determining and reviewing compensation arrangements for the directors, and the executive team. The Remuneration Committee assesses the appropriateness of the nature and amount of emoluments of such officers on a periodic basis by reference to relevant employment market conditions with the overall objective of ensuring maximum stakeholder benefit from the retention of a high quality board and executive team.

Remuneration levels for executives are completely set to attract the most qualified and experienced candidates, taking into account prevailing market conditions and individual's experience and qualifications.

24. KEY MANAGEMENT PERSONNEL DISCLOSURES continued

Each of the non-executive directors receives a fixed fee for their services as directors. There is no direct link between remuneration paid to any of the directors and corporate performance such as bonus payments for achievement of certain key performance indicators. The aggregate maximum remuneration for all non-executive directors approved by shareholders at the 2007 Annual General Meeting, is fixed at \$400,000 per annum. Non-executive directors' base fees are presently \$70,000 per annum and the Chairman \$80,000 per annum.

Compensation of key management personnel for the year ended 30 June 2008

	Short-term		Post Employment		Share-based payments	Total
	Salary & Fees	Non Monetary Benefits	Other Benefits	Super-annuation Benefits	Options	
	\$	\$	\$	\$	\$	\$
Lewis Cross	-	-	1,939	66,762	252,372	321,073
Jonathan Lea	208,564	783	959	18,771	252,372	481,449
Alan Tough	125,000	-	959	-	-	125,959
Kevin Schultz	125,164	4,186	1,939	56,755	252,372	440,416
Vernon Strange	40,000	-	1,939	3,600	252,372	297,911
Colin McCavana	-	-	726	26,350	-	27,076
Ian Buchhorn	-	-	1,939	43,600	252,372	297,911
Total	498,728	4,969	10,400	215,838	1,261,860	1,991,795

Compensation of key management personnel for the year ended 30 June 2007

	Short-term		Post Employment		Share-based payments	Total
	Salary & Fees	Non Monetary Benefits	Other Benefits	Super-annuation Benefits	Options	
	\$	\$	\$	\$	\$	\$
Lewis Cross	15,000	-	2,837	36,321	-	54,158
Kevin Schultz	143,670	4,561	2,837	26,046	-	177,114
Vernon Strange	35,833	-	2,837	3,225	-	41,895
Colin McCavana	-	-	2,837	39,058	-	41,895
Ian Buchhorn	-	-	2,837	32,064	-	34,901
Total	194,503	4,561	14,185	136,714	-	349,963

24. KEY MANAGEMENT PERSONNEL DISCLOSURES continued

Compensation options for the year ended 30 June 2008

	Grant date	Number granted	Number vested	Value at grant date	Exercise price	First exercise date	Last exercise date
Lewis Cross	22/11/07	1,000,000	-	0.296	\$0.531	22/11/08	31/12/11
Lewis Cross	22/11/07	1,000,000	-	0.239	\$0.731	22/11/09	31/12/11
Jonathan Lea	22/11/07	1,000,000	-	0.296	\$0.531	22/11/08	31/12/11
Jonathan Lea	22/11/07	1,000,000	-	0.239	\$0.731	22/11/09	31/12/11
Kevin Schultz	22/11/07	1,000,000	-	0.296	\$0.531	22/11/08	31/12/11
Kevin Schultz	22/11/07	1,000,000	-	0.239	\$0.731	22/11/09	31/12/11
Vernon Strange	22/11/07	1,000,000	-	0.296	\$0.531	22/11/08	31/12/11
Vernon Strange	22/11/07	1,000,000	-	0.239	\$0.731	22/11/09	31/12/11
Ian Buchhorn	22/11/07	1,000,000	-	0.296	\$0.531	22/11/08	31/12/11
Ian Buchhorn	22/11/07	<u>1,000,000</u>	-	0.239	\$0.731	22/11/09	31/12/11
		<u>10,000,000</u>					

Option holdings of key management personnel

(i) Options with an exercise price of \$0.231 and an expiry date of 31 December 2008:

	Held at 1 July 2007	Purchases (sales)	Held at 30 June 2008	Vested & exercisable at 30 June 2008
Lewis Cross	500,000	-	500,000	500,000
Kevin Schultz	1,000,000	-	1,000,000	1,000,000
Vernon Strange	500,000	-	500,000	500,000
Colin McCavana (resigned 14/11/07)	500,000	-	500,000	500,000
Ian Buchhorn	-	-	-	-
Total	<u>2,500,000</u>	-	<u>2,500,000</u>	<u>2,500,000</u>

(ii) Options with an exercise price of \$0.181 and an expiry date of 31 December 2008:

	Held at 1 July 2007	Exercised	Purchases (sales)	Held at 30 June 2008	Vested & exercisable at 30 June 2008
Lewis Cross	1,020,001	(1,000,001)	-	20,000	20,000
Alan Tough	-	-	15,000	15,000	15,000
Kevin Schultz	951,207	-	(650,000)	301,207	301,207
Vernon Strange	1,975,405	-	(900,000)	1,075,405	1,075,405
Colin McCavana (resigned 14/11/07)	2,480,533	-	-	2,480,533	2,480,533
Total	<u>6,427,146</u>	<u>(1,000,001)</u>	<u>(1,535,000)</u>	<u>3,892,145</u>	<u>3,892,145</u>

24. KEY MANAGEMENT PERSONNEL DISCLOSURES continued

(iii) Options with an exercise price of \$0.531 and an expiry date of 31 December 2011:

	Held at 1 July 2007	Granted as compensation	Purchases (sales)	Held at 30 June 2008	Vested & exercis- able at 30 June 2008
Lewis Cross	-	1,000,000	-	1,000,000	-
Jonathan Lea	-	1,000,000	-	1,000,000	-
Kevin Schultz	-	1,000,000	-	1,000,000	-
Vernon Strange	-	1,000,000	-	1,000,000	-
Ian Buchhorn	-	1,000,000	-	1,000,000	-
Total	-	5,000,000	-	5,000,000	-

(iv) Options with an exercise price of \$0.731 and an expiry date of 31 December 2011:

	Held at 1 July 2007	Granted as compensation	Purchases (sales)	Held at 30 June 2008	Vested & exercis- able at 30 June 2008
Lewis Cross	-	1,000,000	-	1,000,000	-
Jonathan Lea	-	1,000,000	-	1,000,000	-
Kevin Schultz	-	1,000,000	-	1,000,000	-
Vernon Strange	-	1,000,000	-	1,000,000	-
Ian Buchhorn	-	1,000,000	-	1,000,000	-
Total	-	5,000,000	-	5,000,000	-

Shareholdings of key management personnel

	Held at 1 July 2007	Exercise of options	Purchases (sales)	Held at 30 June 2008
Lewis Cross	1,040,001	1,000,001	100,000	2,140,002
Jonathan Lea	-	-	54,588	54,588
Alan Tough	-	-	30,000	30,000
Kevin Schultz	961,207	-	-	961,207
Vernon Strange	1,058,873	-	(540,000)	518,873
Colin McCavana (resigned 14/11/07)	2,680,533	-	-	2,680,533
Ian Buchhorn	150,000	-	1,070,224	1,220,224
Total	5,890,614	1,000,001	714,812	7,605,427

Other transactions with key management personnel

Transaction	2008 \$	2007 \$
Vernon Strange (i) Rent, hire and services	152,846	58,881
Vernon Strange (ii) Tenements acquisition	-	15,000
Kevin Schultz (iii) Exploration facilities	24,000	36,000

(i) The Company used the services of Southern Cross Drilling Services, a personally-related entity of Vernon Strange. Amounts were billed based on normal market rates for such services and were due and payable under normal payment terms.

24. KEY MANAGEMENT PERSONNEL DISCLOSURES continued

(ii) In 2007 the Company paid an option to acquire exploration and mining tenements from Vernon Strange on terms and conditions that were no more favourable than those available, or which might reasonably be expected to be available, on similar transactions to unrelated entities on an arm's length basis.

(iii) The Company used the facilities of Overseas Mining Services Pty Ltd, a personally-related entity of Kevin Schultz. Amounts were billed based on normal market rates for such facilities and were due and payable under normal payment terms.

	2008	2007
	\$	\$
Aggregate amount recognised as expense from the above transactions	87,984	45,003
Assets and liabilities arising from the above transactions at reporting date:		
<i>Non-current assets:</i>		
Exploration and evaluation assets	88,862	64,878
<i>Current liabilities:</i>		
Trade payables	1,715	2,723

25. RELATED PARTY DISCLOSURES

a) Subsidiaries and associates

Details of the Company's investment in its subsidiaries, Eclipse Minerals Pty Ltd (Eclipse) and Southern Cross Goldfields Limited (SXG) are disclosed in note 11.

Details of the Company's investment in its associates, Northern Uranium Limited and Southern Cross Goldfields Limited (SXG) are disclosed in note 9.

The Company made loans totalling \$66,622 (2007: \$76,061) to Eclipse during the year for the purpose of exploration expenditure on its mineral tenements. Eclipse repaid \$791,369 on the loan following the sale of mining tenements to SXG during the year. The balance of the loan at 30 June 2008 is \$136,513 after providing for impairment of \$13,947 (2007: \$875,207) and is disclosed as non-current other receivables of the Company in note 7. The loan is non-interest bearing with no fixed repayment date.

In December 2007, the Company entered into an agreement to sell various gold and base metal tenements in Western Australia to SXG for the consideration of 21,999,999 shares and 15,000,000 share options in SXG at a deemed value of \$2,420,000 for the shares (11 cents per share) and \$780,000 for the share options (exercisable at 20 cents each on or before 31 December 2012). Consideration of \$791,369 was allocated to mining tenements held by Eclipse that were included in the sale to SXG.

On 21 December 2007, SXG lodged a prospectus for an Initial Public Offer (IPO) to raise \$10,000,000 through the issue of 50,000,000 shares at 20 cents each. On 12 March 2008 SXG successfully allotted the IPO shares and ceased to be a subsidiary of the Company.

As part of the IPO, the Company purchased 11,650,000 shares at 20 cents each to ensure minimum subscription was achieved and these shares were placed in voluntary escrow for 12 months.

On 6 November 2007, the Company entered into a letter agreement (as amended on 19 December 2007) to advance funds of up to \$2,298,167 to SXG. The Company made loans totalling \$2,193,175 (2007: 152,992) to SXG during the year for the purpose of acquiring mineral tenements, exploration, administration and IPO costs. The loan totalling \$2,346,167 was fully repaid on 14 March 2008. Interest of \$20,869 at the rate of 8% per annum from 31 January 2008 to 14 March 2008 was charged on the loan.

25. RELATED PARTY DISCLOSURES continued

b) Key management personnel

Details of remuneration, share and option holdings of directors and key management personnel and other transactions with key management personnel are disclosed in note 24.

26. EXPENDITURE COMMITMENTS

Exploration expenditure commitments

In order to maintain current rights of tenure to exploration tenements, the Company and the Group are required to perform minimum exploration work to meet the minimum expenditure requirements specified by various State governments. These obligations can be reduced by selective relinquishment of exploration tenure or renegotiation. Due to the nature of the Company's operations in exploring and evaluating areas of interest, exploration expenditure commitments beyond twelve months cannot be reliably determined. It is anticipated that expenditure commitments in subsequent years will be similar to that for the forthcoming twelve months. These obligations are not provided for in the financial report and are payable.

	Consolidated		Company	
	2008	2007	2008	2007
	\$	\$	\$	\$
Not later than one year	1,691,240	2,608,260	1,691,240	2,506,400

Hire purchase commitments

At 30 June 2007 the Company had hire purchase contracts for motor vehicles with a carrying value of \$113,560. These hire purchase contracts were paid out during the financial year and there are no hire purchase commitments at 30 June 2008. The hire purchase contracts had the following repayment commitments as at 30 June 2007:

Not later than one year	-	57,636	-	57,636
Later than one year but not later than five years	-	30,906	-	30,906
	-	88,542	-	88,542

27. CONTINGENCIES

In May 2007 Western Australia's Environmental Protection Authority ("EPA") published a study in which it recommended the establishment of "A class reserves" for the protection of certain allegedly environmentally sensitive areas in Banded Iron Formation (BIF) ranges of Western Australia. Some of the proposed A class reserves overlap with mining tenements granted to Polaris (the "Overlapping Areas"). The EPA study has been submitted to the Minister for the Environment.

A Government Working Group has been established and is consulting with key stakeholders (including Polaris) to revise the boundaries of specific proposed A class reserves. The purpose of this review is to excise high mineral prospective areas out of the proposed A class reserve boundary. Polaris is currently in dialogue with the Working Group on this issue.

28. SUBSEQUENT EVENTS

The Company has entered into an agreement to lease office premises at Level 2, 1109 Hay Street, West Perth under an operating lease for a term of 3 years commencing 1 October 2008 and expiring 30 September 2011 with an option to renew for a further 3 years. The annual rent payable is \$211,280 and will be reviewed for CPI increases one year from commencement and reviewed to reflect market rentals two years from commencement.

NOTES TO THE FINANCIAL STATEMENTS

Consolidated		Company	
2008	2007	2008	2007
\$	\$	\$	\$

29. AUDITORS REMUNERATION

Amounts paid to the auditor for audit and review of financial reports

27,775	22,000	27,775	22,000
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30. IN SPECIE DISTRIBUTION

On 20 December 2007 The Company entered into an agreement with its wholly owned subsidiary, Southern Cross Goldfields Limited (SXG) for the disposal of its non-iron ore assets in return for the issue of 22 million SXG shares and 15 million SXG options.

Approval was obtained at a general meeting of shareholders held on 25 February 2008 for a reduction of capital and distribution in specie whereby the issued share capital of the Company be reduced by the Company making a pro-rata in specie distribution of up to 22,000,000 fully paid ordinary shares in SXG within six months of SXG listing on the Australian Securities Exchange (ASX).

SXG was listed on the ASX on 20 March 2008.

The Company made an in-specie distribution of 21,998,226 fully paid ordinary shares in SXG to its shareholders on 23 June 2008.

Each Polaris shareholder received 1 SXG share for every 5.846 Polaris shares held on the record date of 4 March 2008.

The Company was granted a waiver from vendor restriction requirements imposed on the shares the subject of the in specie distribution.

31. FINANCIAL RISK MANAGEMENT

The Group's principal financial instruments comprise cash and short-term deposits, receivables, available for sale investments, payables and hire purchase contracts.

The main purpose of these financial instruments is to fund the Group's operations.

The main risks arising from the Group's financial instruments are credit risk, liquidity risk and market risk (including interest rate risk and equity price risk). To monitor existing financial assets and liabilities as well as to enable an effective controlling of future risks, the Company has established comprehensive risk reporting. The Group uses different methods to measure and manage different types of risks to which it is exposed. These include monitoring levels of exposure to interest rate and assessments of market forecasts for interest rate and liquidity risk is monitored through future rolling cash flow forecasts.

NOTES TO THE FINANCIAL STATEMENTS

	Consolidated		Company	
	2008	2007	2008	2007
	\$	\$	\$	\$

31. FINANCIAL RISK MANAGEMENT continued

The carrying amounts of all financial assets and liabilities (including liabilities contractual maturities) at balance date are as follows:

Financial assets

Cash and cash equivalents	6	13,161,942	4,619,043	13,161,942	4,617,626
Other receivables	7	326,508	52,641	463,021	925,519
Available-for-sale financial assets	10	5,546,000	-	5,546,000	-
Other financial assets	11	109,000	-	109,000	126,320
Total financial assets		19,143,450	4,671,684	19,279,963	5,669,465

Financial liabilities

Trade and other payables:	15				
- 6 months or less		1,675,819	244,462	1,675,819	218,839
Hire purchase liabilities:	16				
- 6 months or less		-	15,932	-	15,932
- 6 to 12 months		-	41,704	-	41,704
- 1 to 2 years		-	20,721	-	20,721
- 2 to 3 years		-	10,185	-	10,185
Total financial liabilities		1,675,819	333,004	1,675,819	307,381

The carrying amount of all financial assets and liabilities approximates their fair value.

Credit risk

Credit risk arises from the financial assets of the Group, which comprise cash and cash equivalents, other receivables and available-for-sale financial assets. Receivable balances are monitored on an ongoing basis with the result that the Group's exposure to bad debts is not significant. The Group has adopted the policy of only dealing with credit worthy counterparties.

The Group's exposure to credit risk arises from potential default of the counter party, with a maximum exposure equal to the carrying amount of these instruments.

Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure that it will always have sufficient liquidity to meet its liabilities when due.

The Group currently does not have major funding in place. However, the Group continuously monitors forecasts and actual cash flows and the maturity profiles of financial assets and liabilities to manage its liquidity risk.

The decision on how the Company will raise future capital will depend on market conditions existing at that time.

The Group manages liquidity risk by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities. Surplus funds are generally only invested in short term bank deposits.

31. FINANCIAL RISK MANAGEMENT continued

Market risk

Market risk is the risk that changes in market prices, such as interest rates and equity prices will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

Interest rate risk

The Group's exposure to the risk of changes in market interest rates relates primarily to cash assets and variable interest rates.

At balance date the group had the following mix of financial assets and liabilities exposed to Australian variable interest rate risk:

	Consolidated		Company	
	2008	2007	2008	2007
	\$	\$	\$	\$
Cash and cash equivalents	13,161,942	4,619,043	13,161,942	4,617,626

The following sensitivity analysis shows the effect on profit after tax to a 1.0% change in interest rates with other variables held constant on the interest rate exposures in existence at balance date (there would be no effect on other equity to a change in the interest rates).

Impact on profit after tax to:

1.0% increase in interest rates	54,968	38,841	54,121	38,841
1.0% decrease in interest rates	(54,968)	(38,841)	(54,121)	(38,841)

Equity price risk

The Group is exposed to equity securities price risk from investments held that are classified on the balance sheet as available for sale. Material investments are managed on an individual basis and all buy and sell decisions are approved by the Board.

The following sensitivity analysis shows the effect on equity after tax to a 50% change in market value of the Australian listed equity securities and a 50% change in the market share price input into the Binominal option pricing model for the unlisted Australian listed equity securities with other variables held constant.

Impact on equity after tax to:

50% increase in equity price	3,188,657	-	3,188,657	-
50% decrease in equity price	(3,010,466)	-	(3,010,466)	-

Directors' Declaration

In accordance with a resolution of the directors of Polaris Metals NL, I state that:

(1) In the opinion of the directors:

- (a) the financial statements and notes of the Company and of the Group are in accordance with the *Corporations Act 2001*, including
 - (i) giving a true and fair view of the Company's and Group's financial position as at 30 June 2008, and of their performance for the year ended on that date; and
 - (ii) complying with Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements; and
- (b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

(2) This declaration has been made after receiving the declarations required to be made to the directors in accordance with section 295A of the *Corporations Act 2001* for the financial year ended 30 June 2008.

On behalf of the Board



Jonathan Lea
Managing Director

Dated at Perth this 30th day of September 2008

Auditors Independence Declaration

30 September 2008

To the Board of Directors of Polaris Metals NL

Dear Sirs

AUDITORS INDEPENDENCE DECLARATION UNDER SECTION 307C OF THE CORPORATIONS ACT 2001

I declare that, to the best of my knowledge and belief, in relation to the audit for the year ended 30 June 2008, there have been:

- no contraventions of the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the audit; and
- no contraventions of any applicable code of professional conduct in relation to the audit.

Yours faithfully

ORD PARTNERS



Ian Macpherson
Partner

Ian K Macpherson CA

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Chartered Accountants

Independent Auditors Report

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF POLARIS METALS NL

We have audited the accompanying financial report of Polaris Metals NL, which comprises the balance sheet as at 30 June 2008, and the income statement, statement of changes in equity and cash flow statement for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' responsibility for the financial report

The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Act 2001. This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In Note 2, the directors also state, in accordance with Accounting Standard AASB 101 Presentation of Financial Statements, that compliance with Australian equivalents to International Financial Reporting Standards ensures that the financial report, comprising the financial statements and notes complies with International Financial Reporting Standards.

The directors of the company are also responsible for the remuneration disclosures contained in the financial report.

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. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report and remuneration disclosure contained in the directors' report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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Chartered Accountants

INDEPENDENT AUDITORS REPORT

Independence

In conducting our audit, we have complied with the independence requirements of the Corporations Act 2001. We confirm that the independence declaration required by the Corporations Act 2001, provided to the directors of Polaris Metals NL on 30 September 2008, would be in the same terms if provided to the directors as at the date of this auditor's report.

Auditor's opinion

In our opinion:

- (a) the financial report of Polaris Metals NL is in accordance with the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the company's and consolidated entity's financial position as at 30 June 2008 and of its performance for the year ended on that date; and
 - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*; and
- (b) the financial report also complies with International Financial Reporting Standards as disclosed in Note 2.

ORD PARTNERS

Chartered Accountants

A handwritten signature in black ink, appearing to read 'I Macpherson', with a long horizontal flourish extending to the right.

Ian Macpherson
Partner
Perth, 30 September 2008



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