

POLARIS METALS NL

ABN 18 085 223 570

HALF YEAR FINANCIAL REPORT

31 DECEMBER 2005

This Half Year Financial Report is provided to the Australian Stock Exchange under ASX Listing Rule 4.2A. The information set out in this Half Year Financial Report should be read in conjunction with the Annual Report for the year ended 30 June 2005.

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DIRECTORS' REPORT

Your directors submit their report for the half-year ended 31 December 2005.

DIRECTORS

The names of the company's directors in office during the half-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
Kevin Schultz - Managing Director
Vernon Wesley Strange - Non executive Director
Colin James McCavana - Non executive Director

REVIEW AND RESULTS OF OPERATIONS

The consolidated net loss for the half-year ended 31 December 2005 was \$409,634 compared to the 31 December 2004 half-year net loss of: \$347,947. The net loss comprises predominantly administration and corporate expenses.

During the half-year the successful completion of a shareholders' share purchase plan and a placement raised a total of \$1,845,000 through the issue of 12,300,000 shares at \$0.15 each.

Cash in bank at the end of the half-year was \$1,861,571.

Net assets and total equity at 31 December 2005 was \$5,339,090.

Exploration expenditure of \$775,311 (prior to amounts written off) was incurred during the half-year on the following projects:

Evanston Project	56,663
Goldsworthy Project	23,552
Bullfinch North Project	233,774
Central Yilgarn Project	343,460
Southern Cross - Parker Range Project	21,416
Lake Jeffries Project	1,949
Gardiner - Tanami Uranium Project	36,262
Wallal Uranium Project	48,776
Denison Range Project	9,459
	<u>\$775,311</u>

The balance of deferred exploration expenditure carried forward at the end of the half-year was \$3,471,674.

The following is a summary of results from exploration and drilling programs during the half-year:

Iron Ore Exploration

Evanston Iron Project (*Polaris earning 70% Leviathan Resources Limited 30%*)

The main focus of iron ore exploration by the company during the half-year shifted from the Bullfinch Iron Project to the Evanston Iron Project located in the southern part of the Yilgarn Iron Ore Province.

The Province is considered highly prospective, given its history of large-scale iron ore production, with the Koolyanobbing operation of Portman Limited currently producing at a rate of about 5Mtpa.

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The Evanston Iron Project comprises two exploration licences (E77/1107 and E77/1122) covering 240km². The licences are granted with the authorisation of the Minister for State Development for iron exploration.

Investigation for iron ore in the 1960s and 70s identified hematitic iron deposits within the Evanston Iron Project area, 15-30km northeast of Portman's Windarling iron mine. Extensive iron-enriched banded iron formation (BIF), up to 100m in thickness, also has potential for very large (+400 million tonnes) magnetite deposits.

The Evanston Project tenements are prospective for gold as well as iron ore and some old drill holes for gold intersected wide areas of surface canga (hematite conglomerate) and loosely cemented hematitic pisolite over depths of up to 10m. Hematitic detrital material from two of the old holes was sampled during the half-year and results ranged from 45.0 - 50.9% Fe. Aluminium oxide ranged from 10-21%, silica ranged from 2.5 - 6.1% and phosphorus was below 0.03%. The high alumina is believed to originate from a clay matrix that may be removable by screening, thereby upgrading the iron content.

Polaris' exploration is targeting a resource base sufficient for export of 2.5 million tonnes per year of direct shipping hematitic iron ore. An operation would utilise the established rail link from Koolyanobbing to Kwinana and the Kwinana/Naval Base bulk jetty.

During the half-year the company identified other areas of interest near Evanston Project including Windarling East (Polaris 100%) and the area between the Evanston Iron Project and Windarling East. Discussions with the holder of some key tenements in this area are likely to lead to an option for Polaris to acquire the tenements.

Bullfinch Iron Project (*Polaris 40% Portman Iron Ore Limited 60%*)

The Bullfinch project is centred on the high grade Mayfield magnetite deposit situated 80km north of Southern Cross. An application for an extension of the term of the exploration licence covering the deposit was successful, and the joint venture partners continue to discuss future plans.

Goldsworthy JV Project (*Polaris earning 70% Leviathan Resources Limited 30%*)

During the half-year Polaris agreed terms with Leviathan Resources Limited to earn a 70% interest in Leviathan's Goldsworthy exploration licence E45/2358 covering an area of about 120km², in the North Pilbara Iron Ore Province, approximately 95 kilometres east of Port Hedland.

The Goldsworthy Project exploration licence is contiguous with mining leases held by BHP Billiton over the former Mount Goldsworthy iron ore mine which is reported to have produced approximately 157 million tonnes of iron ore. The Goldsworthy rail link to Port Hedland is still serviceable.

The Mt Goldsworthy iron ores included lenses of massive hematite believed to have formed by hydrothermal replacement of host BIF within zones of faulting. The BIF stratigraphy extends into Goldsworthy exploration licence where aeromagnetic data indicate similar structural targets that can be tested by drilling.

A helicopter was used for a rapid appraisal of the geology, mineral deposits and structures in the area and a thorough compilation of previous exploration data is now in progress with geological and geophysical field work scheduled to commence in April-May 2006.

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Gold Exploration

Jackson Prospect (Polaris 75% Evanston Resources Ltd 25%)

During the half-year 82 RAB holes were drilled in a 3,000m program at the Jackson prospect, 135km north of Southern Cross. Five of eight targets that were drilled encountered significant gold mineralisation and three of these warrant follow up RC drilling. The most promising, the North Yilgarn target, extends over 400m strike length with intersections of 11m at 2.5g/t from 27m and 6m of 2.5g/t from 23m.

Clampton North Prospect (Polaris 80% Cape Lambert Iron Ore Ltd, formerly International Goldfields Ltd 20%) and Yarbu Prospect (Polaris option to acquire 95%)

A 77 hole (4,773m) RAB drilling program was completed during the half-year at the Yarbu and Clampton North prospects, situated 150km north of Southern Cross with the following significant assay results:

Hole Number	MGA Coordinates East	MGA Coordinates North	From (m)	To (m)	Width (m)	Au (g/t)	Remarks
Clampton North Andromeda target (Hole drilled westerly at -60°)							
CNRB022	706,850	6,696,715	24	31	7	2.4	True width uncertain (includes 27 28 1 8.2)
			27	28	1	8.2	
Yarbu Mine southern extension target (Holes drilled westerly at -60°)							
YBRB027	707,440	6,691,790	24	30	6	5.1	Width approx true width (includes 28 29 1 27.5)
			28	29	1	27.5	

The Company is of the opinion that exploration of the Clampton North prospect, in particular the RAB drilling of the "Andromeda" target, indicates that significant gold deposits may exist beneath the lateritic and transported soil cover to the north of the historic Yarbu workings. Geochemical auger soil sampling was therefore continued northward on broadly spaced lines.

New drilling targets are being outlined by the auger sampling with several zones defined as >10ppb Au anomalies within an area 4km x 1.5km. One of the anomalies peaks at 746ppb (0.7g/t Au) and the area is currently being further investigated with infill lines of auger soil sampling. A follow up RAB drilling program is scheduled to commence in March.

Battler Prospect (Polaris 100%)

The Battler prospect comprises three granted mining leases covering old gold mine workings situated 16km south of Southern Cross. In 2004 Polaris drilled around the old workings and delineated mineral resources estimated at 300,000 tonnes with a cut grade of 2.75g/t Au containing 26,500 ounces of gold.

The sharp rise in the price of gold since 2004 has added approximately \$2.5 million to the operating revenue of a scoping study that was carried out in 2004, encouraging an ongoing investigation of opportunities to mine the resources, and further exploration of the Battler mining leases.

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Bullfinch North Gold and Nickel Exploration

Golden Valley Joint Venture (GVJV - Polaris 80%, Geoinformatics 15%, Oropa 5%)

The Polaris-Geoinformatics prospectivity studies completed in the previous half-year identified the Trident and Aquarius gold targets within the salt flats of Lake Deborah West as "priority one" targets. These were scheduled for immediate follow up drilling. However, information obtained in the course of preparing an application for ground disturbance prior to drilling showed that the whole of Lake Deborah is entered on the Interim Register in the Department of Indigenous Affairs as an Aboriginal heritage "mythological" site. The consent of the parties who recorded the site, and the approval of the Minister for Indigenous Affairs under Section 18 of the Aboriginal Heritage Act, are required before any work on the lake can proceed. A consulting anthropologist report was completed in December 2005 to assist in obtaining the necessary clearances for drilling.

Work was carried out on other high priority gold targets in the GVJV area, including Hughes Hill and the "Elbi" prospect.

Geological reconnaissance at Hughes Hill showed that targets associated with folded BIF have previously been drilled with a small number of reconnaissance RC holes, most of which intersected significant gold. Follow up drilling is being planned. The most promising part of the Elbi prospect, also the subject of earlier drilling which gave results up to 5g/t Au, also warrants further exploration.

Bullfinch North Joint Venture (BNJV - Polaris 75%, Western Areas 25%)

Assessment work (geochemical auger soil sampling surveys and geological mapping) continued on the most highly ranked gold and nickel targets in the BNJV area, particularly Ennuin and Valley of the Giants South.

Geological mapping and analysis of aeromagnetic data north of Trough Well identified three ultramafic units, one of which may be equivalent to the unit hosting the Trough Well nickel deposit. During the half-year auger soil geochemical sampling programs covered specific areas of interest and assay results indicate some nickel anomalies warranting follow up.

Uranium Exploration

Gardiner-Tanami Project (Polaris 50% Washington Resources Limited 50%)

During the half-year the Company considerably enlarged its land holding around Gardiner Range, 150km southeast of Halls Creek in Western Australia including crossing the border into the Northern Territory. Seven exploration licences have now been applied for in the Gardiner Range area (three of which were granted during the half-year) and seven in the Tanami area, NT.

Polaris and Washington Resources Limited (Washington) entered into an agreement to form a jointly owned enterprise focused on advancing the uranium projects of both companies in the Gardiner Range and Tanami-Granites areas in WA and NT.

Each company will contribute their current uranium exploration rights in exploration licences spanning some 8,000km² across the WA-NT border into a joint venture called the Gardiner-Tanami Project.

Under the terms of the agreement, the rights to uranium in their respective tenements are to be vested in a single entity in which Washington and Polaris will hold equal interests, and which will initially be managed by Polaris. It is intended that this jointly-owned entity will raise its own capital and appoint its own management team to fully explore the tenements for uranium deposits. Work on an information memorandum is currently in process, based on a compilation of all publicly available geological, geophysical, remote sensing and exploration data.

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Previous uranium exploration in the area by BHP Minerals and others in the 1980s established similarities in the region with the rich Canadian Athabasca Basin, host environment for the world's highest grade uranium deposits. To provide a perspective on the potential of such a region, the value per tonne of some individual deposits within the Athabasca Basin is extremely high, ranging up to more than \$US6,000 per tonne. The giant, high grade McArthur River deposit, a blind ore body discovered in 1988 by Cameco, is estimated to contain more than 416 million pounds of U₃O₈ (160,000 t U) with an average grade of 15%.

Wallal Uranium Project (Polaris 100%)


The Wallal project adjoins the Company's Goldsworthy Project in the North Pilbara. Scattered mesas and rock pavements of sandstone (Callawa Formation) occur near the southwestern margin of the Canning Sedimentary Basin, between Mt Goldsworthy and Shay Gap. The basement to the sedimentary basin succession in the area is granite of the Archaean Muccan Batholith, which stands out in aeroradiometric data as a strong uranium anomaly. This anomalous characteristic makes it a likely uranium source.

Some of the Callawa Formation outcrops also appear to be the source of aeroradiometric uranium anomalies, and the area has potential for "roll front" uranium deposits.

AUDITOR'S INDEPENDENCE DECLARATION

The lead auditor's independence declaration under Section 307C of the Corporations Act 2001 is set out on page 19 and forms part of the Director's Report for the half-year ended 31 December 2005.

Signed in accordance with a resolution of the directors.



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Kevin Schultz
Managing Director

Perth, Western Australia 7 March, 2006

POLARIS METALS NL
CONSOLIDATED INCOME STATEMENT
FOR THE HALF-YEAR ENDED 31 DECEMBER 2005

	Consolidated	Consolidated
	Half-year	Half-year
	ended	ended
	31 December	31 December
	2005	2004
	\$	\$
INCOME		
Interest received	36,636	54,803
TOTAL INCOME	36,636	54,803
EXPENSES		
Compliance and regulatory expenses	37,041	47,995
Consulting expenses	46,493	6,171
Depreciation and amortisation expense	15,079	11,658
Employee expenses	224,682	207,776
Exploration expenditure written off	27,190	33,929
Finance costs	5,451	4,679
Insurance expense	30,444	30,586
Legal expenses	10,684	16,850
Rent expense	14,810	11,633
Other expenses	34,396	31,473
TOTAL EXPENSES	446,270	402,750
LOSS ATTRIBUTABLE TO MEMBERS OF PARENT	(409,634)	(347,947)
Basic loss per share (cents per share)	(1.0)	(1.0)

Notes to the financial statements are included on pages 10 to 17.

POLARIS METALS NL
CONSOLIDATED BALANCE SHEET
AS AT 31 DECEMBER 2005

	Notes	Consolidated	
		31 December 2005 \$	30 June 2005 \$
ASSETS			
Current Assets			
Cash and cash equivalents		1,861,571	1,340,538
Trade and other receivables		14,324	12,648
Prepayments		2,393	-
Total Current Assets		1,878,288	1,353,186
Non-current Assets			
Other financial assets		11,541	-
Property, plant & equipment		205,258	210,824
Exploration and evaluation assets		3,471,674	2,723,554
Intangible assets		6,137	9,686
Total Non-current Assets		3,694,610	2,944,064
TOTAL ASSETS		5,572,898	4,297,250
LIABILITIES			
Current Liabilities			
Trade and other payables		67,377	125,920
Interest-bearing loans and borrowings		38,207	38,207
Provisions		33,623	29,063
Total Current Liabilities		139,207	193,190
Non-current Liabilities			
Interest-bearing loans and borrowings		94,601	108,254
Total Non-current Liabilities		94,601	108,254
TOTAL LIABILITIES		233,808	301,444
NET ASSETS		5,339,090	3,995,806
EQUITY			
Issued capital	4	6,793,739	5,047,971
Other reserves		14,300	7,150
Accumulated losses		(1,468,949)	(1,059,315)
TOTAL EQUITY		5,339,090	3,995,806

Notes to the financial statements are included on pages 10 to 17.

POLARIS METALS NL
CONSOLIDATED CASH FLOW STATEMENT
FOR THE HALF-YEAR ENDED 31 DECEMBER 2005

	Consolidated	
	Half-year ended 31 December 2005	Half-year ended 31 December 2004
	\$	\$
CASH FLOWS FROM OPERATING ACTIVITIES		
Payments to suppliers and employees	(409,010)	(258,954)
Interest received	40,070	52,813
Interest paid	(5,451)	(4,679)
Income tax refund	-	3,450
NET CASH FLOWS USED IN OPERATING ACTIVITIES	(374,391)	(207,370)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property, plant and equipment	(12,712)	(81,703)
Payments for exploration	(827,378)	(962,043)
NET CASH FLOWS USED IN INVESTING ACTIVITIES	(840,090)	(1,043,746)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issue of shares	1,845,000	-
Payment of share issue costs	(95,833)	(3,525)
Proceeds from borrowings	-	68,307
Repayment of borrowings	(13,653)	(15,579)
NET CASH FLOWS FROM FINANCING ACTIVITIES	1,735,514	49,203
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	521,033	(1,201,913)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	1,340,538	2,680,239
CASH AND CASH EQUIVALENTS AT END OF PERIOD	1,861,571	1,478,326

Notes to the financial statements are included on pages 10 to 17.

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CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE HALF-YEAR ENDED 31 DECEMBER 2005

	Issued Capital \$	Other Reserves \$	Accumulated Losses \$	Total Equity \$
Balance at 1 July 2004	4,288,943	-	84,294	4,373,237
Total income and expense for the period recognised directly into equity	-	-	-	-
Loss for the period	-	-	(347,947)	(347,947)
Shares issued during the period	-	-	-	-
Share issue costs	(3,328)	-	-	(3,328)
Balance at 31 December 2004	4,285,615	-	(263,653)	4,021,962
Total income and expense for the period recognised directly into equity	-	-	-	-
Loss for the period	-	-	(795,662)	(795,662)
Shares issued during the period	837,900	-	-	837,900
Share issue costs	(75,544)	-	-	(75,544)
Share-based payment	-	7,150	-	7,150
Balance at 30 June 2005	5,047,971	7,150	(1,059,315)	3,995,806
Total income and expense for the period recognised directly into equity	-	-	-	-
Loss for the period	-	-	(409,634)	(409,634)
Shares issued during the period	1,845,000	-	-	1,845,000
Share issue costs	(99,232)	-	-	(99,232)
Share-based payment	-	7,150	-	7,150
Balance at 31 December 2005	<u>6,793,739</u>	<u>14,300</u>	<u>(1,468,949)</u>	<u>5,339,090</u>

Notes to the financial statements are included on pages 10 to 17.

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NOTES TO THE FINANCIAL STATEMENTS

1. BASIS OF PREPARATION OF THE HALF-YEAR FINANCIAL REPORT

The half-year financial report does not include all notes of the type normally included within the annual financial report and therefore cannot be expected to provide as full an understanding of the financial performance, financial position and financing and investing activities of the consolidated entity as the full financial report.

The half-year financial report should be read in conjunction with the Annual Financial Report of Polaris Metals NL as at 30 June 2005, which was prepared based on Australian Accounting Standards applicable before 1 January 2005 (AGAAP).

It is also recommended that the half-year financial report be considered together with any public announcements made by Polaris Metals NL and its controlled entities during the half-year ended 31 December 2005 in accordance with the continuous disclosure obligations arising under the Corporations Act 2001.

The half-year financial report is a general-purpose financial report, which has been prepared in accordance with the requirements of the Corporations Act 2001, applicable Accounting Standards including AASB 134 "Interim Financial Reporting" and other mandatory professional reporting requirements.

The half-year financial report has been prepared on a historical cost basis.

For the purpose of preparing the half-year financial report, the half-year has been treated as a discrete reporting period.

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

This is the first half-year financial report prepared based on AIFRS and comparatives for the half-year ended 31 December 2004 and full-year ended 30 June 2005 have been restated accordingly. A summary of the significant accounting policies under AIFRS are disclosed in Note 2.

Reconciliations of:

- AIFRS equity as at 1 July 2004, 31 December 2004 and 30 June 2005; and
- AIFRS profit for the half-year 31 December 2004 and full year 30 June 2005,

to the balances reported in the 31 December 2004 half-year report and 30 June 2005 full-year financial report prepared under AGAAP are detailed in Note 3.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) 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.

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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.

(b) Cash and cash equivalents

Cash and short-term deposits 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.

(c) Trade and other receivables

Trade and other receivables, which generally have 30-90 day terms, are recognised and carried at original invoice amount less an allowance for any uncollectible amounts.

An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off when identified.

(d) 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.

(e) Exploration, evaluation and development expenditure

Exploration, evaluation and development costs are accumulated in respect of each separate area of interest.

Exploration and evaluation costs are carried forward where right of tenure of the area of interest is current and they are expected to be recouped through sale or successful development and exploitation of the area of interest, or, where exploration and evaluation activities in the area of interest have not yet reached a stage that permits reasonable assessment of the existence of economically recoverable reserves.

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.

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(f) 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.

(g) 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 pretax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

(h) 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.

(i) 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.

(j) 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.

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NOTES TO THE FINANCIAL STATEMENTS

(k) 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.

Sale of non-current assets

The gross proceeds of non-current asset sales are recognised as revenue at the date control of the asset passes to the buyer, usually when an unconditional contract of sale is signed.

The gain or loss on disposal is calculated as the difference between the carrying amount of the asset at the time of disposal and the net proceeds on disposal (including incidental costs).

(l) Employee benefits

Provision is made for employee benefits accumulated as a result of employees rendering services up to the reporting date. These benefits include wages and salaries, annual leave, sick leave and long service leave.

Liabilities arising in respect of wages and salaries, annual leave, sick leave and any other employee benefits expected to be settled within twelve months of the reporting date are measured at their nominal amounts based on remuneration rates which are expected to be paid when the liability is settled. All other employee benefit liabilities are measured at the present value of the estimated future cash outflow to be made in respect of services provided by employees up to the reporting date.

(m) Superannuation contributions

Contributions are made to several accumulated benefits superannuation funds on behalf of employees and recognised as an expense in the income statement as incurred.

(n) Share-based payments

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.

AASB 2 "Share-based Payments" is applied only to equity investments granted after 7 November 2002 that had not vested on or before 1 January 2005.

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NOTES TO THE FINANCIAL STATEMENTS

(o) 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 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.

(p) 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.

(q) Loss per share

Basic loss per share is calculated by dividing the net loss attributable to members of the parent entity for the reporting period by the weighted average number of ordinary shares outstanding during the financial period.

(r) Comparatives

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

(s) 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 consolidated entity is cashflow positive.

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NOTES TO THE FINANCIAL STATEMENTS

3. IMPACT OF ADOPTION OF AIFRS

The impacts of adopting AIFRS on the total equity and loss as reported under Australian Accounting Standards applicable before 1 January 2005 ('AGAAP') are illustrated below.

	Notes	30-Jun-05	31-Dec-04	01-Jul-04
Reconciliation of total equity as presented under AGAAP to that under AIFRS				
Total equity under AGAAP		4,055,383	4,073,079	4,418,052
<i>Adjustments to retained earnings (net of tax):</i>				
Recognition of share-based payment expense	(a)	(7,150)	-	-
Exploration expenditure written off	(b)	(59,577)	(51,117)	(44,815)
<i>Adjustment to other reserves (net of tax):</i>				
Recognition of share-based payment expense	(a)	7,150	-	-
Total equity under AIFRS		<u>3,995,806</u>	<u>4,021,962</u>	<u>4,373,237</u>

		Year ended 30-Jun-05	Half-year ended 31-Dec-04
Reconciliation of net loss under AGAAP to that under AIFRS			
Net loss as reported under AGAAP		(1,121,697)	(341,645)
Share-based payment expense	(a)	(7,150)	-
Exploration expenditure written off	(b)	<u>(14,762)</u>	<u>(6,302)</u>
Net loss under AIFRS		<u>(1,143,609)</u>	<u>(347,947)</u>

Restated AIFRS Statement of Cash Flows for the year ended 30 June 2005

There are no differences between the cash flow statements presented under AIFRS and those presented under AGAAP.

(a) Share-based Payments

Under Accounting Standard AASB 2 *Share based Payments*, the consolidated entity recognises the fair value of options granted to employees as remuneration as an expense on a pro-rata basis over the vesting period in the income statement with a corresponding adjustment to equity. Share-based payment costs are not recognised under AGAAP. As a consequence, contributed equity increases by \$7,150 and an additional employee benefit expense of \$7,150 has been recognised in the income statement for the financial year ended 30 June 2005.

POLARIS METALS NL

NOTES TO THE FINANCIAL STATEMENTS

(b) Deferred Exploration and Evaluation Expenditure

Under Accounting Standard AASB 6 *Exploration and Evaluation of Mineral Resources*, exploration and evaluation takes place after legal rights to explore in a specific area have been obtained by the entity. Pre-exploration expenditures fall outside the scope of the standard, and as a consequence, capitalised exploration expenditure incurred prior to tenements being granted have been expensed and written off.

Under AASB 6, if the facts and circumstances suggest that the carrying amount of any capitalised exploration and evaluation assets may be impaired, the consolidated entity must perform impairment tests on those assets in accordance with AASB 136 "Impairment of Assets". Any impairment loss is to be recognised as an expense in accordance with AASB 136. Impairment testing has been carried out and there is no impact on the carrying amount of capitalised exploration and evaluation assets as at 31 December 2005.

(c) Income Tax

Under Accounting Standard AASB 112, *Income Taxes*, deferred tax balances are determined using the balance sheet method which calculates temporary differences based on the carrying amounts of an entity's asset and liabilities and their tax base. Under the previous accounting policy deferred tax balances were determined using the income statement method. There is no impact as a result of adoption of this standard since the deferred tax asset in respect of carried forward tax losses is greater than and can be offset against deferred tax liabilities with any excess only recognised if it is probable that future taxable profit will be available.

(d) Impairment of assets:

Under Accounting Standard AASB 136 *Impairment of Assets*, the recoverable amount of an asset is determined as the higher of its net selling price and value in use. Under the new policy it is likely that impairment of assets will be recognised sooner and that the amount of any write-downs may be greater. The entity's assets have been tested for impairment and there is no impact as a result of adoption of this standard.

POLARIS METALS NL

NOTES TO THE FINANCIAL STATEMENTS

4. ISSUED CAPITAL

	Consolidated	
	31 December	30 June
	2005	2005
	Number	Number
(a) Fully paid ordinary shares		
Balance at beginning of period	38,010,002	33,600,002
Issued during the half-year ended 31 December 2005	12,300,000	-
Issued during the financial year ended 30 June 2005	-	4,410,000
	50,310,002	38,010,002
Balance at end of period	50,310,002	38,010,002
(b) Options over ordinary shares		
<i>Exercise price of \$0.20 expiring on 31 December 2008:</i>		
Balance at beginning of period	20,749,977	20,749,977
Issued during the period	-	-
	20,749,977	20,749,977
Balance at end of period	20,749,977	20,749,977
<i>Exercise price of \$0.25 expiring on 31 December 2008:</i>		
Balance at beginning of period	3,650,000	3,000,000
Issued during the period	-	650,000
	3,650,000	3,650,000
Balance at end of period	3,650,000	3,650,000

5. SEGMENT INFORMATION

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

6. SUBSEQUENT EVENT

On 7 February 2006 Polaris Metals NL ("Polaris") agreed terms with Golden State Resources Limited ("Golden State") whereby Polaris can earn a 70% interest in the iron ore potential of Golden State's Johnston Range tenements in the Yilgarn Iron Province, Western Australia.

Under the agreement with Golden State, Polaris must make best endeavours to obtain the authorisation of the Minister for State Development to explore for iron ore and thereafter Polaris can earn its 70% interest by sole funding exploration for iron ore through to completion of an economic pre-feasibility study or through the expenditure of \$1,000,000, whichever is the greater. The minimum expenditure by Polaris in the first year is \$75,000.

At Golden State's option, Polaris may earn a further 10% interest through sole funding the cost of completion of a bankable feasibility study or the expenditure of an additional \$1,000,000 on the tenements, whichever is the greater. Should Polaris reach an 80% interest, Golden State may elect to contribute or to be diluted pro rata; and should Polaris reach a 90% interest Golden State may elect to exchange its 10% interest for a 2.5% gross royalty.

7. CONTINGENT LIABILITIES

There has been no change in contingent liabilities since the last annual reporting date.

POLARIS METALS NL
DIRECTORS' DECLARATION

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

In the opinion of the directors:

- (a) the financial statements and notes of the consolidated entity:
 - (i) give a true and fair view of the financial position as at 31 December 2005 and the performance for the half-year ended on that date of the consolidated entity; and
 - (ii) comply with Accounting Standard AASB 134 "Interim Financial Reporting" and Corporations Regulations 2001; 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.

On behalf of the Board

A handwritten signature in black ink, appearing to read 'K Schultz', with a long horizontal stroke extending to the right above the letters.

Kevin Schultz
Managing Director

Dated at Perth this 7th day of March 2006

7th March 2006

The Board of Directors
Polaris Metals NL
Level 2
123A Colin Street
West Perth
WA 6005

Ian K Macpherson CA

Robert W Parker CA

Craig A Vivian CA

Dear Sirs

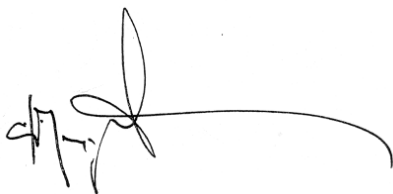
POLARIS METALS NL

In accordance with section 307C of the Corporations Act 2001, I am pleased to provide the following declaration of independence to the directors of Polaris Metals NL

As partner for the review of the financial statements of Polaris Metals NL for the half year ended 31st December 2005, I declare that to the best of my knowledge and belief, there have been no contraventions of:

- The auditor independence requirements of the Corporations Act 2001 in relation to the review; and
- Any applicable code of professional conduct in relation to the review.

Yours sincerely
ORD PARTNERS



Ian Keith Macpherson
Partner

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To the members of Polaris Metals NL

Scope

We have reviewed the financial report of Polaris Metals NL for the half-year ended 31 December 2005 as set out in pages 6 to 18. The company's directors are responsible for the financial report. The financial report includes the consolidated financial statements of the consolidated entity comprising the company and the entities it controlled at the end of the half-year or from time to time during the half-year. We have performed an independent review of the financial report in order to state whether, on the basis of the procedures described, anything has come to our attention that would indicate that the financial report is not presented fairly in accordance with Accounting Standard AASB 134: Interim Financial Reporting and other mandatory professional reporting requirements in Australia and statutory requirements, so as to present a view which is consistent with our understanding of the company's financial position, and performance as represented by the results of its operations and its cash flows, and in order for the company to lodge the financial report with the Australian Securities and Investments Commission/Australian Stock Exchange Limited.

Our review has been conducted in accordance with Australian Auditing Standards applicable to review engagements. A review is limited primarily to inquiries of company personnel and analytical procedures applied to the financial data. These procedures do not provide all the evidence that would be required in an audit, thus the level of assurance provided is less than given in an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

Independence

In conducting our review, we followed applicable independence requirements of Australian professional ethical pronouncements and the Corporations Act 2001.

In accordance with ASIC Class Order 05/83, we declare to the best of our knowledge and belief that the auditor's declaration set out in page 19 of the financial reports has not changed as at the date of providing our review opinion

Statement

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe the half-year financial report of Polaris Metals NL is not in accordance with:

- (a) the Corporations Act 2001, including:
 - (i) giving a true and fair view of the Consolidated Entity's financial position at 31 December 2005 and of its performance for the half-year ended on that date; and

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Robert W Parker CA

Craig A Vivian CA

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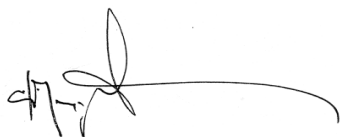


(ii) complying with Australian Accounting Standard AASB 134 “Interim Financial Reporting” and the Corporations Regulations 2001; and

(b) other mandatory professional reporting requirements in Australia.

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 K MACPHERSON

Partner

Dated this 7th day of March 2006.
Perth, Western Australia