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Jonathan Lea

MESSAGE FROM THE MD

The economic downturn of recent months has produced a new set of challenges for all mining companies and no less for Polaris. Management has responded by developing a strategy to preserve available cash resources while continuing to advance the Company's project development position.

As a result, a number of initiatives are now in place:

1. The Company is currently focused solely on advancing the Carina prospect, suspending work on other projects;
2. Divestment of low prospectivity assets has commenced;
3. Field work for the Yilgarn Project has been curtailed and the Carina camp demobilised;
4. Staffing numbers have been reduced to a core capability to focus on assessment of the data collected this year;
5. All discretionary expenditure has been curtailed while still continuing studies that are necessary for marketing iron ore such as the metallurgical test work; and,
6. Enhanced efforts to procure joint project funding partners are underway.

Using these means Polaris has sufficient cash reserves to last throughout 2009, should it be necessary, while still allowing the Carina project to advance through in-house studies.

While work has slowed, the market downturn provides Polaris with an opportunity to complete the assessment of the best Yilgarn Iron Ore Project development options and secure a funding partner to facilitate the next stage of the project.

The recent increase in tonnage and grade of the Carina deposit reinforces the positive feedback on our ore's quality and that it is acceptable to a range of offtake customers. Given the positive outcome of the prefeasibility study earlier in the year, I believe we are well down the track of becoming the State's next iron ore producer and are well placed to manage these difficult economic times.

I close in wishing all Polaris shareholders the compliments of the season and a safe and happy New Year.



Jonathan Lea
Managing Director

THE IRON ORE MARKET – DECEMBER 2008 PERSPECTIVE

Over a number of decades, the nature of markets has changed considerably – from physical places where information was exchanged and buying and selling occurred directly, to virtual exchanges through computers and intermediaries.

To inform the decision making process in these virtual markets, a number of markers and information filters have been developed over time, including:

- Quality standards – descriptions for different kinds of ore, that mean that the purchaser knows the levels of iron content and impurities in the product;
- Benchmark prices – standard prices for the purchase of standard quality ores;
- Market analysts – who collect information to bridge the direct gap between customer and vendor;
- Agents – of all sorts, some representing the customer, some representing the seller and some of whom have no direct representation at all; and
- Media commentary – which provides an endless analysis, assessment and speculation of who is doing what.

This veritable flood of information can be more confusing than helpful and often can obscure reality – particularly in the current market.

The normal market mechanisms have fallen over and the information we are receiving is really a description of that situation, rather than any useful assessment of the state of the iron ore market now, much less any view of the future.

There are times when hunkering down and getting on with business is the only option.

There are fundamentals to markets that never go away:

- People buy things they need – to consume them or to make something else to sell;
- If others do not want to buy their products, made using your material, they will not buy your iron ore;
- Customers do not want to pay for shipping and storage either



– particularly as storing a bulk commodity as iron ore is costly due to its size; and

- Although short term compromises can be reached, by reducing prices or by delaying shipments, there clearly is a limit to such arrangements.

Western style views of the importance of contract commitments in such circumstances do not have much validity nor do they offer much help. Approaches such as legal action against a customer – which could send them broke and when they are already buried in iron ore – doesn't help anyone.

Right now the steel business, which is where our iron ore ends up, has slowed significantly. While it may not have slowed as much as some are saying, it is certainly down 10% on last year and more than that on a month on month basis.

Our Chinese customers stocked up on iron ore to the tune of 90 million tonnes to cover what they saw as a delivery pause that would occur during the Olympics. This equates to about five to six months' worth at very high prices.

Australian producers took advantage of Chinese concerns by ramping the prices up 85% over the previous year - creating inflated and unsustainable prices.

The reality right now is that the market is not functioning. Customers do not need iron ore as their steel market is also not working. Stocks remain reported at around 60 million tonnes in China, still several months' worth.

This situation is being exacerbated by three key factors:

- The banks in the world are cutting the provision of credit facilities. This impinges directly

on commodity shippers who traditionally depend on bank letters of credit for the value of the goods they ship. Such letters are extremely difficult to obtain right now so shipping is much reduced;

- The pump priming programs of the Chinese government in particular will lead to huge infrastructure development and much more steel use will take time to bite – probably around two years away; and
- The renegotiation dance for the 2009 – 2010 benchmark prices for iron ore has commenced. Tradition here requires that the parties waltz around for some months before agreement and in the meantime issue wild statements meant to influence the other. The normal settlement date is the end of April 09 with often prices only agreed around June and backdated.

The Chinese are suggesting that the date be brought forward to December 31 as the end of the current contract period and that the price cuts be significant.

The big producers are responding by cutting capacity to show that they will not be intimidated.

The consensus view is that a price cut of 30%, assuming any agreement can be reached at all, and that the agreement will take a long while to achieve.

At that level Australian producers will be saved by the exchange rate as iron ore is sold in US dollars. A 30% cut would lead to a fines benchmark of USD63 per tonne of iron ore (AUD98). On this assumption, negotiations are expected to be rough going.

Market fundamentals will eventually take over again. The big question is when. Best guess is some stability will reappear around mid 2009 – until then, it's a case of sitting tight!



NEW MEMBER FOR POLARIS PROJECT TEAM

Ben Nicolson is a geologist with 15 years of global exploration and mining experience spanning 16 countries across nearly every continent.

Most recently Ben worked on the spectacular Fruta Del Norte epithermal gold and silver discovery in Ecuador, which at the time of the first resource announcement just 18 months after discovery, stood at over 14 million ounces gold.

He has also worked on several other world class projects. Whilst primarily gold and copper focused, Ben has experience in nickel, lead and zinc and is now adding iron ore to the list. Ben has a practical approach to all challenges and coupled with a love of field work, he strengthens Polaris' capacity for high quality exploration and project delineation.



RETIREMENT OF KEVIN SCHULTZ

Polaris Metals' inaugural Managing Director, Kevin Schultz stepped down from the Board on 25 November 2008 to focus on the Polaris spin-off Northern Uranium Limited.

Kevin relinquished his executive role in January 2008 and remained on the Polaris Board as a non-executive director ensuring a smooth transition of executive powers. His common sense, approachable nature and warm humour have made Kevin a pleasure to work with for everyone at Polaris.

Kevin, 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). Over 40 years his management of exploration programs and feasibility studies has ranged across a variety of mineral commodities including gold, iron ore and uranium.

Kevin has guided the Company from its initial ASX listing in April 2004 through the various stages of its evolution and growth. The Company's initial focus was on gold, nickel and iron ore exploration in the Southern Cross region of Western Australia and subsequently expanded its portfolio to include several new iron ore, uranium, and gold projects. Kevin played a significant role in the divestment of uranium tenements to Northern Uranium Limited in 2006 and gold and base metal assets to Southern Cross Goldfields Limited in 2008. Kevin was also behind the investment by steel producer Lion Holdings of Malaysia in the Company – now the second largest shareholder.

Kevin has been the driving force in developing Polaris to its current position, through the identification, acquisition and exploration of the current projects. Kevin's guidance has led Polaris to the brink of becoming an iron ore producer and deserves huge recognition for this achievement.

Kevin has always commanded a great deal of respect within the mining industry for his knowledge and ability as well as his energy and integrity. He has set a standard of achievement that we will all have difficulty trying to match.

Kevin is highly respected by all at Polaris and we wish him every success for the future and thank him for the considerable role that he has played in the Company's development.