STELLAR RESOURCES LIMITED AND CONTROLLED ENTITIES

STELLAR RESOURCES LIMITED
AND CONTROLLED ENTITIES

DIRECTORS' REPORT

Your Directors present their report on the consolidated entity consisting of Stellar Resources Limited and the entities it controlled for the half-year ended 31 December 2005.

Directors

The names of Directors who held office during or since the end of the half-year are:

Director	Position Held	Date Appointed
T J Burrowes	Executive Chairman	10 December 2004
B E Laws	Non Executive Director	10 December 2004
C G Anderson	Executive Director	10 December 2004
D J Isles	Executive Director	19 April 2004

Principal Activity

The principal activity of the economic entity during the period was mineral exploration.

Review of Operations

Stellar Resources Limited is a listed company, which was incorporated on 19 April 2004 and listed on the ASX on 28 April 2005. This report is for the six month period ending 31 December 2005.

In the six-month period ending 31 December 2005 the Company acquired the following wholly owned subsidiary:

Entity	**Date of Acquisition**	**Consideration**
Hillment Pty Ltd	3 October 2005	$612,000

Hillment Pty Ltd is the registered owner of exploration licence 3372, which contains the major proportion of the "Warrior" palaeochannel hosted uranium deposit, located west of Tarcoola in the Gawler Craton of central South Australia. Following the acquisition, the Company commissioned a trial of airborne electro-magnetic (EM) survey over the tenement to better define the geometry of the channel and controls on distribution of roll-front uranium mineralisation.

Exploration expenditure for the period was $1,867,910.

Financial Position

The net assets and cash reserves of the Economic Entity as at 31 December 2005 were $9,552,125 and $3,822,084 respectively. The Directors believe that the Economic Entity is in a strong financial position to pursue its outlined exploration program.

Significant changes in the State of Affairs

The following significant change to the state of the affairs of the Company occurred during the period:

> On 3 October 2005 the Company issued 1.6 million ordinary fully paid shares at an issue price of 32 cents per share as part consideration for the acquisition of Hillment Pty Ltd.

Adoption of Australian equivalents to International Financial Reporting Standards ("AIFRS")

This interim financial report has been prepared under AIFRS. A reconciliation of differences between previous GAAP and AIFRS has been included in Note 1(p) of this report.

Auditor's Independence Declaration

A copy of the independence declaration by the lead auditor under section 307C is included on page 3 to this half-year financial report.

This report is made in accordance with a resolution of the Board of Directors and is signed for and behalf of the directors by:

T J Burrowes
Chairman and Chief Executive Officer

Melbourne
Date 2 March 2006

Chartered Accountants
and Advisers

563 Bourke Street Melbourne 3000
DX 30937 Stock Exchange Melbourne
Telephone (613) 9615 8500
Facsimile (613) 9629 8235
Email: bdomel@bdomel.com.au
www.bdo.com.au

DECLARATION OF INDEPENDENCE BY BDO TO THE DIRECTORS OF STELLAR RESOURCES LIMITED

To the best of my knowledge and belief, there have been no contraventions of:

- the auditor independence requirements of the Corporations Act in relation to the audit; and
- any applicable code of professional conduct in relation to the audit.

Geoffrey R. Sincock

G R Sincock
Partner

BDO
Chartered Accountants

Melbourne

Date: 2 March 2006

Income Statement
for the Half-Year Ended 31 December 2005

	Consolidated Entity Half Year	
	2005	**2004**
	$	**$**
Revenue	129,032	42,352
Administration expenditure	(296,895)	(175,779)
Depreciation expenses	(4,858)	(387)
Exploration expenditure write-off	(204,301)	(20,983)
Employee option cost	(117,346)	(5,316)
Loss before income tax	(494,368)	(160,113)
Income tax expense	-	-
Loss after tax	(494,368)	(160,113)
Net loss for the period	(494,368)	(160,113)
Loss attributable to members of Stellar Resources Limited	(494,368)	(160,113)
Basic earnings per share (cents per share)	(1.0)	(0.9)
Diluted earnings per share (cents per share)	(1.0)	(0.9)

The accompanying notes form part of these financial statements.

STELLAR RESOURCES LIMITED
AND CONTROLLED ENTITIES

Balance Sheet
as at 31 December 2005

	Notes	Consolidated Entity 31 December 2005 $	30 June 2005 $
CURRENT ASSETS			
Cash and cash equivalents		3,822,084	5,226,876
Trade and other receivables		120,467	168,499
Prepayments		21,971	17,992
Total Current Assets		**3,964,522**	**5,413,367**
NON-CURRENT ASSETS			
Property, plant and equipment		89,467	82,317
Exploration expenditure		5,779,922	4,313,243
Total Non-Current Assets		**5,869,389**	**4,395,560**
TOTAL ASSETS		**9,833,911**	**9,808,927**
CURRENT LIABILITIES			
Trade and other payables		259,707	381,646
Provisions		22,079	10,134
Total Current Liabilities		**281,786**	**391,780**
TOTAL LIABILITIES		**281,786**	**391,780**
NET ASSETS		**9,552,125**	**9,417,147**
EQUITY			
Issued capital	2	10,413,312	9,901,312
Other reserves		168,481	51,135
Accumulated losses		(1,029,668)	(535,300)
TOTAL EQUITY		**9,552,125**	**9,417,147**

The accompanying notes form part of these financial statements.

STELLAR RESOURCES LIMITED
AND CONTROLLED ENTITIES

Cash Flow Statement
for the Half-Year Ended 31 December 2005

	Consolidated Entity Half Year 2005 $	Consolidated Entity Half Year 2004 $
CASH FLOWS USED IN OPERATING ACTIVITIES		
Payments to suppliers and employees	(305,603)	(175,229)
Interest received	124,032	42,352
Net cash outflow from operating activities	(181,571)	(132,877)
CASH FLOWS USED IN INVESTING ACTIVITIES		
Payments for exploration	(1,762,408)	(584,821)
Payments for property, plant and equipment	(12,008)	(4,580)
Net cash (outflow)/inflow from operating activities	(1,774,416)	(589,401)
CASH FLOWS FROM FINANCING ACTIVITIES		
Payment of share issues costs	-	(110,587)
Proceeds from share issues	512,000	7,934,597
Proceeds from unmarketable parcel sale	39,195	-
Repayment of borrowings	-	(2,934,597)
Net cash (outflow)/inflow from financing activities	551,195	4,889,413
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS HELD	(1,404,792)	4,167,135
Net cash and cash equivalents at beginning of period	5,226,876	924
NET CASH AND CASH EQUIVALENTS AT END OF PERIOD	3,822,084	4,168,059

The accompanying notes form part of these financial statements.

Statement of Changes in Equity
for the Half-Year Ended 31 December 2005

	Issued capital $	Accumulated losses $	Other reserves $	Total equity $
At 1 July 2004	10,000	(196,932)	-	(186,932)
Issue of share capital	7,934,597	-	-	7,934,597
Loss for the period	-	(160,113)	-	(160,113)
Share-based payment expense	-	-	5,316	5,316
At 31 December 2004	**7,944,597**	**(357,045)**	**5,316**	**7,592,868**
Issue of share capital	1,956,715	-	-	1,956,715
Loss for the period	-	(178,255)	-	(178,255)
Share-based payment expense	-	-	45,819	45,819
At 30 June 2005	**9,901,312**	**(535,300)**	**51,135**	**9,417,147**
Issue of share capital	512,000	-	-	512,000
Loss for the period	-	(494,368)	-	(494,368)
Share-based payment expense	-	-	117,346	117,346
At 31 December 2005	**10,413,312**	**(1,029,668)**	**168,481**	**9,552,125**

The accompanying notes form part of these financial statements.

Note 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The half-year consolidated financial statements are a general purpose financial report prepared in accordance with the requirements of the Corporations Act 2001, Australian Accounting Standard AASB 134: Interim Financial Reporting, Urgent Issues Group Interpretations and other authoritative pronouncements of the Australian Accounting Standards Board.

Stellar Resources Limited is a listed public company, incorporated and domiciled in Australia.

It is recommended that this financial report be read in conjunction with the annual financial report for the year ended 30 June 2005 and any public announcements made by Stellar Resources Limited and its controlled entities during the half-year in accordance with continuous disclosure requirements arising under the Corporations Act 2001.

As this is the first interim financial report prepared under Australian equivalents to International Financial Reporting Standards ("AIFRS"), the accounting policies applied are inconsistent with those applied in the 30 June 2005 annual report as this report was presented under previous Australian Generally Accepted Accounting Principles ("AGAAP"). Accordingly, a summary of the significant accounting policies under AIFRS has been included below. A reconciliation of equity and profit and loss between previous GAAP and AIFRS has been prepared per Note 1(p).

The half-year report does not include full disclosures of the type normally included in an annual financial report.

(a) Principles of Consolidation
A controlled entity is an entity Stellar Resources Limited has the power to control the financial and operating policies of so as to obtain benefits from its activities.

All controlled entities have a June financial year-end.

All inter-company balances and transactions between entities in the economic entity, including any unrealised profits or losses, have been eliminated on consolidation. Accounting policies of subsidiaries have been changed where necessary to ensure consistencies with those policies applied by the parent entity.

Where controlled entities have entered the economic entity during the year, their operating results have been included from the date control was obtained.

(b) Income Tax
The charge for current income tax expenses is based on the profit for the year adjusted for any non-assessable or disallowed items. It is calculated using tax rates that have been enacted or are substantively enacted by the balance sheet date.

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. No deferred income tax will be recognised from the initial recognition of an asset or liability, excluding a business combination, where there is no effect on the accounting or taxable profit or loss.

Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realised or liability is settled. Deferred tax is credited in the income statement except where it relates to items that may be credited directly to equity, in which case the deferred tax is adjusted directly against equity.

Deferred income tax assets are recognised to the extent that it is probable that future tax profits will be available against which deductible temporary difference can be utilised.

The amount of benefits brought to account or which may be realised in the future is based on the assumption that no adverse change will occur in income taxation legislation and the anticipation that the economic entity will derive sufficient future assessable income to enable the benefit to be realised and comply with the conditions of deductibility imposed by the law.

Note 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Revenue
Interest revenue is recognised on a proportional basis taking into account the interest rates applicable to the financial assets.

All revenue is stated net of the amount of goods and services tax (GST).

(d) Cash and Cash Equivalents
Cash and cash equivalents includes cash on hand, deposits held at call with banks, other short-term highly liquids investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within short-term borrowings in current liabilities on the balance sheet.

(e) Receivables
Trade receivables are recognised and carried at original invoice amount less a provision for any uncollectible debts. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off as incurred.

(f) Investments
All investments are initially recognised at cost, being the fair value of the consideration given and including acquisition charges associated with the investment.

After initial recognition, investments, which are classified as held for trading and available-for-sale, are measured at fair value. Gains or losses on investments held for trading are recognised in the income statement.

Gains or losses on available-for-sale investments are recognised as a separate component of equity until the investment is sold, collected or otherwise disposed of, or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is included in the income statement.

(g) Plant and Equipment
Plant and Equipment is stated at cost less accumulated depreciation and any impairment in value.

The carrying amount of plant and equipment is reviewed annually by Directors to ensure it is not in excess of the recoverable amount from these assets. The recoverable amount is assessed on the basis of the expected net cash flows that will be received from the assets employment and subsequent disposal. The expected net cash flows have been discounted to their present values in determining the recoverable amount. An asset’s carrying amount is written down immediately to its recoverable amount if the asset’s carrying amount is greater than its estimated recoverable amount.

Depreciation
The depreciable amount of all fixed assets including any capitalised lease assets is depreciated on a straight line basis over their useful lives to the economic entity commencing from the time the asset is held ready for use. The depreciation rates used for each class of depreciable assets are:

Class of Fixed Asset	Depreciation Period	Depreciation Rate
Plant and equipment	2 to 5 years	20% to 50%
Software	2.5 years	40%
Buildings	40 years	2.5%

(h) Exploration, Evaluation and Development Expenditure
Exploration, evaluation and development expenditure incurred is accumulated in respect of each identifiable area of interest. These costs are only carried forward to the extent that they are expected to be recouped through the successful development of the area or where activities in the area have not yet reached a stage that permits reasonable assessment of the existence of economically recoverable reserves.

Accumulated costs in relation to an abandoned area are written off in full in the year in which the decision to abandon the area is made.

Note 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(h) Exploration, Evaluation and Development Expenditure (continued)

When production commences, the accumulated costs for the relevant area of interest are amortised over the life of the area according to the rate of depletion of the economically recoverable reserves.

A regular review is undertaken of each area of interest to determine the appropriateness of continuing to carry forward costs in relation to that area of interest.

Costs of site restoration are provided over the life of the facility from when exploration commences and are included in the costs of that stage. Site restoration costs include the dismantling and removal of mining plant, equipment and building structures, waste removal and rehabilitation of the site in accordance with clauses of the mining permits. Such costs are determined using estimates of future costs, current legal requirements and technology on an undiscounted basis.

Any changes in the estimates for the costs are accounted for on a prospective basis. In determining the costs of site restoration there is uncertainty regarding the nature and extent of the restoration due to community expectations and future legislation. Accordingly the costs are determined on the basis that restoration will be completed within one year of abandoning a site.

(i) Goodwill

Goodwill on acquisition is initially measured at cost being the excess of the cost of the business combination over the acquirer's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities.

Following initial recognition, goodwill is measured at cost less any accumulated impairment losses.

Goodwill is not amortised.

Goodwill is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

As at the acquisition date, any goodwill acquired is allocated to each of the cash-generating units expected to benefit from the combination's synergies.

Impairment is determined by assessing the recoverable amount of the cash-generating unit to which the goodwill relates.

Where the recoverable amount of the cash-generating unit is less than the carrying amount, an impairment loss is recognised.

Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation.

Goodwill disposed of in this circumstance is measured on the basis of the relative values of the operation disposed of and the portion of the cash-generating unit retained.

(j) Payables

Liabilities for trade creditors and other amounts 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 Company.

(k) Employee Benefits

Provision is made for the Company'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. Other 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.

Note 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(k) Employee Benefits (continued)
Contributions are made by the Company to a defined-contribution employee superannuation fund and are charged as expenses when incurred.

(l) Share-based Payment Transactions
The Group provides benefits to employees (including directors) of the Group in the form of share-based payment transactions, whereby employees render services in exchange for shares or rights over shares ('equity-settled transactions'). These benefits are currently provided under the Employee Option Plan.

The cost of these equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer using a Black-Scholes model.

In valuing equity-settled transactions, no account is taken of any performance conditions, other than conditions linked to the price of the shares of Stellar Resources Limited ('market conditions').

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award ('vesting date').

The cumulative expense recognised for equity-settled transactions at each reporting date until vesting date reflects (i) the extent to which the vesting period has expired and (ii) the number of awards that, in the opinion of the directors of the Group, will ultimately vest. This opinion is formed based on the best available information at balance date. No adjustment is made for the likelihood of market performance conditions being met as the effect of these conditions is included in the determination of fair value at grant date.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified. In addition, an expense is recognised for any increase in the value of the transaction as a result of the modification, as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new award are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect, if any, of outstanding options is reflected as additional share dilution in the computation of earnings per share.

(m) Goods and Services Tax (GST)
Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable form the Australian Taxation Office. In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense. Receivables and payables in the statement of financial position are shown inclusive of GST.

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

Note 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(n) Earnings per share (continued)
Diluted EPS is calculated as net profit attributable to members, adjusted for:
- Costs of servicing equity (other than dividends) and preference share dividends;
- The after tax effect of dividends and interest associated with the dilutive potential ordinary shares that have been recognised as expenses; and
- Other non-discretionary changes in revenues or expenses during the period that would result from the dilution of potential ordinary shares;

divided by the weighted average number of ordinary shares and dilutive potential ordinary shares, adjusted for any bonus element.

(o) Comparative Figures
When required by Accounting Standards, comparative figures have been adjusted to conform to changes in presentation for the current financial period.

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

(i) Reconciliation of total equity as presented under AGAAP to that under AIFRS

		CONSOLIDATED	
	30 Jun 05	**31 Dec 04**	**1 Jul 04**
	$	**$**	**$**
Total equity under AGAAP	9,397,454	7,598,184	(186,932)
Write-back of goodwill amortisation (B)	19,693	–	–
Total equity under AIFRS	9,417,147	7,598,184	(186,932)

(ii) Reconciliation of profit before tax under previous AGAAP to that under AIFRS

	CONSOLIDATED	
	Period from 19 Apr 04 to 30 Jun 05	**Half-Year ended 31 Dec 04**
	$	**$**
Prior period loss before tax as previously reported	(503,858)	(351,729)
Recognition of share-based payment expense (A)	(51,135)	(5,316)
Write-back of goodwill amortisation (B)	19,693	–
Prior period loss before tax under AIFRS	(535,300)	(357,045)

(A) Share-based payment costs are charged to the income statement under AASB 2 Share-based Payment, but not under previous AGAAP. This has caused an increase in loss for the period.

(B) Goodwill is not amortised under AASB 3 Business Combinations, but was amortised under AGAAP. On consolidation the goodwill has been reclassified as capitalised exploration expenditure under AASB 6 Exploration for and Evaluation of Mineral Resources. This has caused a decrease in loss for the period.

Note 2. EQUITY SECURITIES ISSUED

	Half Year		Half Year	
	2005 Shares	2004 Shares	2005 $	2004 $
At 1 July	49,238,168	10,000	9,901,312	10,000
Issues of Ordinary Shares During the Half-Year	1,600,000	38,228,168	512,000	7,934,597
At 31 December	50,838,168	38,238,168	10,413,312	7,944,597

Note 3. CONTINGENT LIABILITIES

There have been no changes in contingent liabilities or contingent assets since the last annual reporting date, 30 June 2005.

Note 4. ACQUISITIONS OF SUBSIDIARIES

During the half-year, Stellar Resources Limited acquired 100% of the equity in Hillment Pty Ltd. The acquisition was effective on 3 October 2005 for $612,000. No part of the operations of Hillment Pty Ltd have or will be disposed of as part of the combination.

	Recognised on acquisition $
Exploration tenement	612,000
Consideration paid, satisfied in cash	612,000
Cash (acquired)	–
Net cash outflow	612,000

Note 5. EVENTS SUBSEQUENT TO BALANCE DATE

After balance date, the entity has agreed to issue 375,000 options under the Employee Option Plan. These option have an exercise price of 30 cents and will expire on 19 August 2009.

Note 6. STATEMENT OF OPERATIONS BY SEGMENT

The entity only operates in the Australian mineral exploration sector where the company is actively pursuing opportunities.

Directors' Declaration

The directors of the company declare that:

1. The financial statements, comprising the Income Statement, Balance Sheet, Statement of Cash Flows, Statement of Changes in Equity and accompanying notes, are in accordance with the Corporations Act 2001 and:

    a) comply with Accounting Standards and the Corporations Regulations 2001; and

    b) give a true and fair view of the consolidated entity's financial position as at 31 December 2005 and of its performance for the half-year ended on that date.

2. In the directors' opinion, there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of the Board of Directors and is signed for and behalf of the directors by:

T J Burrowes
Chairman

Melbourne
Date 2 March 2006

Chartered Accountants
and Advisers

563 Bourke Street Melbourne 3000
DX 30937 Stock Exchange Melbourne
Telephone (613) 9615 8500
Facsimile (613) 9629 8235
Email: bdomel@bdomel.com.au
www.bdo.com.au

INDEPENDENT REVIEW REPORT

To the members of Stellar Resources Limited

Scope

We have reviewed the financial report of Stellar Resources Limited for the half-year ended 31 December 2005 as set out on pages 4 to 14. The financial report includes the financial statements of the consolidated entity comprising the disclosing entity and the entities it controlled at the end of the half-year or from time to time during the half-year. The disclosing entity's directors are responsible for the financial report. 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, other mandatory professional reporting requirements in Australia and statutory requirements, so as to present a view which is consistent with our understanding of the consolidated entity's financial position, and performance as represented by the results of is operations and its cash flows, and in order for the disclosing entity to lodge the financial report with the Australian Securities & Investments Commission.

Our review has been conducted in accordance with Australian Auditing Standards applicable to review engagements. A review is limited primarily to inquiries of the disclosing entity's 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.

The independence declaration given to the directors in accordance with section 307C would be in the same terms if it had been given at the date of this report.

Statement

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Stellar Resources Limited 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 as at 31 December 2005 and of its performance for the half-year ended on that date; and

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

(b) other mandatory professional reporting requirements in Australia.

BDO
Chartered Accountants

Geoffrey R. Sincock.

G R Sincock
Partner

Melbourne

Date: 2 March 2006