



CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2012 and 2011
(U.S. dollars)

Polaris Minerals Corporation

Consolidated Statements of Financial Position

(Unaudited)
(thousands of U.S. dollars)

	March 31, 2012 \$	December 31, 2011 \$
Assets		
Current assets		
Cash	640	1,629
Trade and other receivables	1,374	2,402
Current tax assets	486	300
Inventories (note 3)	3,149	3,758
Other current assets	322	160
	<u>5,971</u>	<u>8,249</u>
Non-current assets		
Financial assets	1,264	1,290
Property, plant and equipment (note 4)	69,088	69,479
Investment in joint venture (note 5)	12,145	11,940
	<u>88,468</u>	<u>90,958</u>
Liabilities		
Current liabilities		
Trade and other payables	3,968	5,194
Current tax liabilities	3	3
Short-term financial liability (note 6)	-	5,757
Other current liabilities (note 13)	-	190
Current portion of finance leases	864	440
Current portion of long-term debt (note 7)	-	1,103
	<u>4,835</u>	<u>12,687</u>
Non-current liabilities		
Finance leases	663	1,166
Long-term debt (note 7)	13,752	5,072
Restoration provision	3,426	3,339
	<u>22,676</u>	<u>22,264</u>
Equity		
Share capital (note 8)	149,705	149,705
Contributed surplus (note 9)	22,351	21,150
Accumulated other comprehensive income	2,049	1,645
Deficit	(105,310)	(101,002)
Equity attributable to Polaris Minerals Corporation shareholders	<u>68,795</u>	<u>71,498</u>
Non-controlling interest	(3,003)	(2,804)
Total equity	<u>65,792</u>	<u>68,694</u>
	<u>88,468</u>	<u>90,958</u>
Going concern (note 2)		
Commitments and contingent liabilities (note 13)		

Approved by the Board of Directors

"Herbert Wilson"
Herbert Wilson, Director

"Paul Sweeney"
Paul Sweeney, Director

Polaris Minerals Corporation

Consolidated Statements of Loss

(Unaudited)
(thousands of US dollars, except per share amounts)

	Three months ended March 31,	
	2012	2011
	\$	\$
Sales	7,102	3,727
Cost of goods sold	(9,050)	(5,766)
Gross loss	(1,948)	(2,039)
Selling, general and administrative expenses	(1,461)	(1,593)
Foreign exchange gain	166	168
Share of income from joint ventures	163	31
Property holding costs	(162)	-
Other losses	(40)	(10)
	(1,334)	(1,404)
Loss before interest and income taxes	(3,282)	(3,443)
Interest income	2	89
Finance expenses (note 10)	(1,273)	(428)
	(1,271)	(339)
Loss before income taxes	(4,553)	(3,782)
Income tax expense	(40)	(160)
Net loss for the period	(4,593)	(3,942)
Net loss attributable to:		
Shareholders of the parent company	(4,308)	(3,704)
Non-controlling interest	(285)	(238)
	(4,593)	(3,942)
Net loss per share:		
Basic and diluted loss per common share	(0.08)	(0.07)
Weighted average number of common shares outstanding	53,397	53,290

Polaris Minerals Corporation

Consolidated Statements of Comprehensive Loss

(Unaudited)
(thousands of U.S. dollars)

	Three months ended March 31,	
	2012	2011
	\$	\$
Net loss for the period	(4,593)	(3,942)
Other comprehensive income		
Foreign currency translation	490	890
Comprehensive loss for the period	(4,103)	(3,052)
Comprehensive loss attributable to:		
Shareholders of the parent company	(3,904)	(2,958)
Non-controlling interest	(199)	(94)
	(4,103)	(3,052)

Polaris Minerals Corporation

Consolidated Statements of Changes in Equity

(Unaudited)
(thousands of U.S. dollars, except number of common shares)

	Attributable to equity holders of the Company							
	Number of common shares (000's)	Amount of common shares \$	Contributed surplus \$	Accumulated other comprehensive income (loss) \$	Deficit \$	Shareholders' equity \$	Non- controlling interest \$	Total \$
December 31, 2010	53,247	149,592	20,774	2,223	(83,215)	89,374	(1,376)	87,998
Options exercised	75	55	-	-	-	55	-	55
Share-based employee benefits	-	-	33	-	-	33	-	33
Other comprehensive income	-	-	-	746	-	746	144	890
Net loss	-	-	-	-	(3,704)	(3,704)	(238)	(3,942)
March 31, 2011	53,322	149,647	20,807	2,969	(86,919)	86,504	(1,470)	85,034
Options exercised	75	58	-	-	-	58	-	58
Share-based employee benefits	-	-	343	-	-	343	-	343
Other comprehensive income	-	-	-	(1,324)	-	(1,324)	(238)	(1,562)
Net loss	-	-	-	-	(14,083)	(14,083)	(1,096)	(15,179)
December 31, 2011	53,397	149,705	21,150	1,645	(101,002)	71,498	(2,804)	68,694
Warrants issued	-	-	1,126	-	-	1,126	-	1,126
Share-based employee benefits	-	-	75	-	-	75	-	75
Other comprehensive loss	-	-	-	404	-	404	86	490
Net loss	-	-	-	-	(4,308)	(4,308)	(285)	(4,593)
March 31, 2012	53,397	149,705	22,351	2,049	(105,310)	68,795	(3,003)	65,792

Polaris Minerals Corporation

Consolidated Statements of Cash Flows

(Unaudited)
(thousands of U.S. dollars)

	Three months ended March 31,	
	2012	2011
	\$	\$
Cash flows from operating activities		
Net loss	(4,593)	(3,942)
Amortization, depletion and accretion	1,622	1,183
Share-based employee benefits	75	33
Unrealized foreign exchange gain	(494)	(72)
Provision for annual minimum freight volume penalty (note 13)	-	120
Accrued interest	280	120
Share of loss (income) from investment in joint ventures	(171)	(31)
Loss on settlement of long-term debt (note 7)	765	-
Other losses	44	10
	<u>(2,472)</u>	<u>(2,579)</u>
Changes in non-cash working capital items (note 11)	(210)	(353)
	<u>(2,682)</u>	<u>(2,932)</u>
Cash flows from financing activities		
Proceeds from issue of common shares	-	55
Proceeds from issue of senior secured notes	15,216	-
Financing fees	(203)	-
Repayment of principal and interest on credit facility and senior secured notes	(13,165)	-
Finance lease payments	(110)	(204)
	<u>1,738</u>	<u>(149)</u>
Cash flows from investing activities		
Dividends received	-	31
Contribution to joint ventures	(35)	(90)
Loan repayments	-	249
Property, plant and equipment purchases	(63)	(115)
Proceeds on disposal of property, plant and equipment	-	250
Security deposit withdrawals	52	-
	<u>(46)</u>	<u>325</u>
Effect of foreign currency translation on cash	<u>1</u>	<u>53</u>
Decrease in cash	<u>(989)</u>	<u>(2,703)</u>
Cash - beginning of year	<u>1,629</u>	<u>5,311</u>
Cash - end of year	<u>640</u>	<u>2,608</u>
Supplemental cash flow information (note 11)		

Polaris Minerals Corporation

Notes to the Consolidated Financial Statements

(Unaudited)
(U.S. dollars, except where noted)

1. Nature and description of the Company

Polaris Minerals Corporation ("the Company") was incorporated on May 14, 1999 and is both incorporated and domiciled in Canada. The address of the Company's registered office is Suite 2740 - 1055 West Georgia Street, Vancouver, B.C., V6E 3R5. The Company's focus is threefold: the production, distribution and sales from the Orca Quarry; the development of new marine terminals along the west coast of North America; and the development of additional quarries.

2. Basis of preparation and going concern

Basis of preparation

These condensed consolidated interim financial statements have been prepared in accordance with IFRS as issued by the IASB applicable to the preparation of interim financial statements, including IAS 34, "Interim Financial Reporting". These condensed consolidated interim financial statements have been prepared using the same accounting policies and methods of computation as in the most recent annual financial statements and should be read in conjunction with the Company's annual financial statements for the year ended December 31, 2011, which have been prepared in accordance with IFRS as issued by the IASB.

Going concern

These consolidated financial statements are prepared in accordance with IFRS applicable to a going concern, which contemplate the realization of assets and settlement of liabilities in the normal course of business as they come due.

During the three months ended March 31, 2012, net loss attributable to shareholders of the Company was \$4.3 million (three months ended March 31, 2011 – net loss \$3.7 million), negative cash flow from operations was \$2.7 million (three months ended March 31, 2011 – negative \$2.9 million) and as at March 31, 2012, the Company has a deficit of \$105.3 million (December 31, 2011 - \$101.0 million). At March 31, 2012 the Company has working capital of \$1.1 million. The Company's losses continue to be negatively affected by the severe recession in the United States and particularly the low volume of demand for construction aggregates in the Company's main market, California. These circumstances create significant doubt about the Company's ability to meet its obligations as they come due and, accordingly, the appropriateness of the use of generally accepted accounting principles applicable to a going concern.

The Company's continuing operations depend on a number of factors beyond the Company's control, including continued improvement in the economic outlook and the recovery of demand for the Company's products, particularly in California. Until the market recovers, it will be difficult to generate positive cash flows and the Company may incur additional penalties under its shipping contract (note 13).

In March 2012, the Company completed a debt refinancing and issued CAD\$15.0 million in senior secured notes that mature December 31, 2016 (note 7). Proceeds from the issue of the notes were used to repay, including interest and fees, CAD\$6.2 million due on the bridge loan secured in November 2010 (note 6) and \$7.1 million due on the long-term debt with the Company's exclusive shipper (note 7). Net proceeds of CAD\$1.7 million are being used for general working capital purposes. The refinancing was undertaken to consolidate the Company's debt into a single, five year term facility and enable the Company to continue to meet its operating expenditures until the Pier B property held by the Cembra Long Beach LLC joint venture is sold (note 5).

The steps described above are subject to uncertainty and may not allow the Company to meet its obligations. The Company may be required to; raise equity capital; curtail, reduce or delay expenditures; or seek strategic alternatives to maximize the benefits of the Company's long lived assets. The success of these initiatives cannot be assured.

These financial statements do not reflect the adjustments to the carrying values of assets and liabilities and the reported expenses and balance sheet classifications that would be necessary if the Company were unable to realize its assets and settle its liabilities as a going concern in the normal course of operations. Such adjustments could be material.

Seasonality

Although the Company's sand and gravel quarry operates year-round, seasonal changes and other weather related conditions have an impact on production volumes and demand for the Company's products. As a consequence the Company's financial results for any individual quarter are not necessarily indicative of results to be expected for that year. Sales and earnings are typically sensitive to regional and local weather, market conditions, and, in particular, to cyclical variations in construction spending.

Polaris Minerals Corporation

Notes to the Consolidated Financial Statements

(Unaudited)
(U.S. dollars, except where noted)

3. Inventories

(in thousands)	March 31, 2012	December 31, 2011
	\$	\$
Construction aggregates	2,771	3,425
Components and consumable supplies	378	333
	3,149	3,758

At March 31, 2012 and December 31, 2011 construction aggregates are measured at net realizable value. Write-downs at March 31, 2012 totalled \$386,304 (December 31, 2011 - \$386,171).

4. Property, plant and equipment

(in thousands)	Orca Quarry			Richmond Terminal	Head Office	Long Beach Terminal Project	Other Terminal Projects	Total
	Property, plant & equipment	Equipment under finance lease	Exploration properties	Property, plant & equipment	Office equipment & leasehold improvement	Berth D-44 site development costs	Site development costs	
	\$	\$	\$	\$	\$	\$	\$	\$
Cost								
January 1, 2011	47,080	5,193	1,286	27,015	656	416	39	81,685
Additions	227	-	-	-	-	-	-	227
Restoration provision adjustments	383	-	-	-	-	-	-	383
Other adjustments	(180)	-	-	-	-	-	-	(180)
Disposals	(183)	-	-	-	-	-	-	(183)
Foreign exchange	(1,246)	(114)	(94)	-	(14)	-	-	(1,468)
December 31, 2011	46,081	5,079	1,192	27,015	642	416	39	80,464
Accumulated depreciation								
January 1, 2011	(2,567)	(1,994)	-	(1,476)	(417)	-	-	(6,454)
Depreciation	(2,824)	(522)	-	(1,523)	(105)	-	-	(4,974)
Disposals	28	-	-	-	-	-	-	28
Foreign exchange	345	58	-	-	12	-	-	415
December 31, 2011	(5,018)	(2,458)	-	(2,999)	(510)	-	-	(10,985)
Carrying amount								
December 31, 2011	41,063	2,621	1,192	24,016	132	416	39	69,479
Cost								
January 1, 2012	46,081	5,079	1,192	27,015	642	416	39	80,464
Additions	63	-	-	-	-	-	-	63
Disposals	(79)	-	-	-	-	-	-	(79)
Foreign exchange	1,386	98	28	-	13	-	-	1,525
March 31, 2012	47,451	5,177	1,220	27,015	655	416	39	81,973
Accumulated depreciation								
January 1, 2012	(5,018)	(2,458)	-	(2,999)	(510)	-	-	(10,985)
Depreciation	(833)	(165)	-	(455)	(125)	-	-	(1,578)
Disposals	35	-	-	-	-	-	-	35
Foreign exchange	(290)	(56)	-	-	(11)	-	-	(357)
March 31, 2012	(6,106)	(2,679)	-	(3,454)	(646)	-	-	(12,885)
Carrying amount								
March 31, 2012	41,345	2,498	1,220	23,561	9	416	39	69,088

Polaris Minerals Corporation

Notes to the Consolidated Financial Statements

(Unaudited)
(U.S. dollars, except where noted)

5. Investment in joint venture

Cemera Long Beach LLC ("Cemera") is a joint venture between the Company and Cemex originally established to develop a construction aggregates receiving terminal on Pier B, divided into Section A and Section B of the site, in the port of Long Beach, California. The Company, through its 70% owned Eagle Rock Aggregates Inc, paid \$7,843,835 for a 50% interest in Section A and \$7,382,433 for a 100% interest in Section B. The Company and Cemex, the joint venture partner, have a Strategic Alliance Agreement and a Joint Cooperation and Development Agreement which governs the direction, strategy and operation of the joint venture. During 2010, the Company secured a lease on an existing terminal facility at Pier D also in the Port of Long Beach; accordingly the land at Pier B is surplus to the Company's requirements. Cemera has committed to a plan to sell the Pier B property; however, the ultimate timing of the sale is uncertain.

The following details the Company's share of its investment in Cemera:

	March 31, 2012	December 31, 2011
(in thousands)	\$	\$
Assets		
Current assets	182	41
Property	12,086	12,086
	12,268	12,127
Liabilities		
Current liabilities	123	187
	123	187

	Three months ended March 31,	
	2012	2011
(in thousands)	\$	\$
Income (loss)	163	(32)

6. Short term financial liabilities

	March 31, 2012	December 31, 2011
(in thousands)	\$	\$
Subordinated secured credit facility		
Principal outstanding	-	4,917
Accrued interest	-	840
	-	5,757

At December 31, 2011, the Company maintained a subordinated, non-revolving credit facility for working capital and general corporate purposes in the amount of CAD\$5.0 million, with interest at 15% per annum. The facility was secured by a general security agreement providing a second lien over the assets of the Company and contained certain covenants similar to those found in an arms-length bank financing. The credit facility was classified as a financial liability measured at amortized cost and carried net of unamortized discount from par value. The discount was amortized using the effective interest method, at an effective rate of 17.35%, over the life of the facility to November 17, 2011, at which time the Company and its lenders extended the maturity of the credit facility originally due November 17, 2011 to February 29, 2012 for an arrangement fee of 2% of the outstanding balance. The interest rate remained at 15% until December 31, 2011; on January 1, 2012, it increased to 17.5% and on February 1, 2012 it increased to 20%. For the three months ended March 31, 2012, non-cash accretion of the discount, included in interest expense was \$nil (three months ended March 31, 2011 – \$25,016). In conjunction with obtaining the credit facility, the Company issued 625,000 warrants to the lenders.

On March 2, 2012, the Company repaid in full, without corresponding gain or loss, the credit facility, including interest and fees.

Polaris Minerals Corporation

Notes to the Consolidated Financial Statements

(Unaudited)
(U.S. dollars, except where noted)

7. Long-term debt

(in thousands)	March 31, 2012	December 31, 2011
	\$	\$
Senior secured notes, due December 31, 2017. Quarterly interest payments at 7.5% (per annum). Effective interest rate 10.6%. Principal paid in twelve quarterly payments commencing March 31, 2015.	-	6,175
Senior secured notes, due December 31, 2016. Semi-annual interest payments at 12% (per annum). Effective interest rate 15.54%.	13,752	-
	13,752	6,175
Current portion	-	1,103
Non-current portion	13,752	5,072
	13,752	6,175

Senior secured notes, due December 31, 2017

As part of the restructuring of its shipping arrangements in 2010 the Company issued 7.5% per annum, senior secured notes due December 31, 2017 with interest payable quarterly. Principal outstanding on the notes at December 31, 2011 totalled \$6,969,113. The notes were secured by a first priority lien over the assets of the Company, including shares of certain subsidiaries, and contained certain covenants similar to those found in an arms-length bank financing.

At December 31, 2011, \$1.1 million of principal of the notes was classified as current due to a mandatory prepayment clause contained in the credit agreement.

At December 31, 2011, the notes were classified as financial liabilities measured at amortized cost and carried net of unamortized discount from par value. The discount was being amortized by the effective interest method over the life of the notes using an effective rate of 10.6%. For the three months ended March 31, 2012, non-cash accretion of the discount which is included in interest expense, was \$20,061 (three months ended March 31, 2011 – \$26,883).

The notes were repayable by the Company, in whole or in part, at its option, at any time without premium or penalty. In March 2012, the Company repaid the notes and accrued interest. Upon settlement, the unamortized discount of \$765,421 was recorded to finance expenses for the three months ended March 31, 2012.

Senior secured notes, due December 31, 2016

On March 2, 2012, the Company completed a debt refinancing and issued CAD\$15 million in senior secured notes that mature December 31, 2016.

The notes are senior secured obligations of the Company that have a first charge against the assets of the Company other than cash and accounts receivable and contain certain non-financial affirmative and restrictive covenants similar to those found in a bank financing. The Company is not held to any financial performance covenants. The notes bear interest at a rate of 12% per annum, payable semi-annually beginning June 30, 2012 and may be redeemed by the Company at any time without penalty. The notes also require a mandatory repayment of CAD\$5.0 million in the event that the Company completes an equity financing or disposes of any asset for proceeds of greater than CAD\$5.0 million. The Company has estimated that both prepayment features have minimal or nil estimated fair value and thus no amount has been recorded at inception or as at March 31, 2012. In conjunction with the senior secured notes, the Company issued 13,200,000 warrants to the lenders (note 9).

The notes have been classified as financial liabilities and initially recorded at fair value, which was established in proportion to the combined fair value of the senior secured notes and warrants (note 9). The notes are subsequently carried at amortized cost and amortized by the effective interest method over the life of the notes using an effective rate of 15.54%. For the three months ended March 31, 2012, non-cash accretion included in interest expense, was \$27,236 (three months ended March 31, 2011 – nil).

Polaris Minerals Corporation

Notes to the Consolidated Financial Statements

(Unaudited)
(U.S. dollars, except where noted)

8. Share capital

The Company has unlimited common shares without par value. At March 31, 2012, there were 53,397,102 common shares issued and outstanding (December 31, 2011 - 53,397,102).

9. Contributed surplus

(in thousands)	March 31, 2012	December 31, 2011
	\$	\$
Share-based employee benefits	14,289	14,214
Warrants	8,062	6,936
	22,351	21,150

Share-based employee benefits

The Company's stock options at March 31, 2012 and changes for the period are as follows:

	Number outstanding	Weighted average exercise price (CAD\$)
At January 1, 2011	3,411,345	\$7.76
Granted	1,015,000	\$0.94
Exercised	(150,000)	\$0.75
Forfeited	(499,636)	\$8.43
At December 31, 2011 and March 31, 2012	3,776,709	\$6.11

At March 31, 2012, the following stock options are outstanding and exercisable:

Options outstanding				Options exercisable			
Exercise price (CAD\$)	Number of options outstanding	Weighted average exercise price (CAD\$)	Weighted average remaining contractual life (years)	Number of options exercisable	Weighted average exercise price (CAD\$)	Weighted average remaining contractual life (years)	
\$0.94	1,015,000	\$0.94	9.21	338,336	\$0.94	9.21	
\$1.00 - \$2.00	657,500	\$1.88	6.27	640,833	\$1.88	6.23	
\$2.50 - \$4.00	345,000	\$3.47	2.15	345,000	\$3.47	2.15	
\$4.56 - \$5.60	332,709	\$4.76	2.45	332,709	\$4.76	2.45	
\$8.69	85,000	\$8.69	5.88	85,000	\$8.69	5.88	
\$11.41	455,000	\$11.41	0.76	455,000	\$11.41	0.76	
\$13.75	886,500	\$13.75	5.51	886,500	\$13.75	5.51	
	3,776,709	\$6.11	5.50	3,083,378	\$7.27	4.67	

Polaris Minerals Corporation

Notes to the Consolidated Financial Statements

(Unaudited)
(U.S. dollars, except where noted)

9. Contributed surplus (continued)

Warrants

In conjunction with the senior secured notes issued March 2, 2012 (note 8), the Company issued 13,200,000 common share purchase warrants that are exercisable at a price of \$0.44 per share until December 31, 2012, \$0.50 per share until December 31, 2013, \$0.55 per share until December 31, 2014, \$0.60 per share until December 31, 2015 and \$0.65 per share until December 31, 2016. At the date of issue the estimated fair value of the warrants was \$1,125,780, net of issue costs, with a weighted average fair value of \$0.085 per warrant. Fair value of the warrants has been determined using the Black Scholes option pricing model allocated in proportion to the combined fair value of the senior secured notes and warrants. The following assumptions have been used for the Black-Scholes option pricing model:

Average risk free rate	1.15 %
Expected life	0.84 – 4.84 years
Expected volatility	30 %
Expected dividends	–

The Company's warrants at March 31, 2012 and changes for the period are as follows:

	Number of warrants outstanding	Weighted average exercise price (CAD\$)
January 1, 2011	9,387,500	\$2.63
Expired	(7,812,500)	\$2.25
December 31, 2011	1,575,000	\$4.52
Issued	13,200,000	\$0.44
March 31, 2012	14,775,000	\$0.87

At March 31, 2012, the following warrants are outstanding and exercisable:

Number of warrants outstanding and exercisable	Expiry date	Weighted average exercise price (CAD\$)	Weighted average remaining contractual life (years)
950,000	August 17, 2013	\$6.50	1.38
500,000	November 17, 2015	\$1.50	3.63
125,000	November 19, 2015	\$1.50	3.64
13,200,000	December 31, 2016	\$0.44	4.76
14,775,000		\$0.87	4.49

10. Finance expense

(in thousands)	Three months ended March 31,	
	2012	2011
	\$	\$
Interest	440	346
Amortization of discount	47	52
Accretion	21	30
Loss on settlement of long-term debt (note 7)	765	-
	1,273	428

Polaris Minerals Corporation

Notes to the Consolidated Financial Statements

(Unaudited)
(U.S. dollars, except where noted)

11. Supplemental cash flow information

(in thousands)	Three months ended March 31,	
	2012	2011
	\$	\$
<i>Changes in non-cash working capital items</i>		
Trade and other receivables	1,024	(198)
Current tax assets	(186)	(42)
Inventories	588	189
Other current assets	(165)	92
Trade and other payables	(1,281)	(519)
Current tax liabilities	-	125
Other current liabilities	(190)	-
	(210)	(353)
<i>Interest and taxes paid</i>		
Interest paid	1,133	39
Taxes paid	330	158

12. Related party transactions

During the three months ended March 31, 2012, directors of the Company or of subsidiaries of the Company, either directly or through a company controlled by them, provided to the Company, services at a cost of \$97,651 (three months ended March 31, 2011 - \$106,936) which are included in general and administrative expenses. At March 31, 2012, accounts payable of \$30,292 (December 31, 2011 - \$32,012) were due to companies controlled by common directors.

Transactions with related parties are recorded at the price agreed between the parties.

13. Commitments and contingencies

Shipping Tonnage

The Company's Contract of Affreightment, effective from January 1, 2010 with a term of 20 years, requires the Company to ship minimum tonnages per year, commencing on January 1, 2010, in the amount of 1,543,000 short tons escalating to 5,787,000 short tons per annum over seven years. The 2012 minimum shipping commitment is 1,984,000 short tons. The Company has the option in any given year to increase or decrease the annual commitment by 10% without penalty. Failure by the Company to ship its annual cargo commitment will result in a dead-freight charge equal to 75% of the freight rate for the unshipped tons. Minimum freight volume penalties are payable annually in the year in which freight volumes do not meet the minimum volume requirements. The Company and its shipper have agreed in principle, subject to definitive documentation, that the penalty rate for 2011 to 2016 can be reduced to 25% if the Company achieves certain revised business targets.

At March 31, 2012, an accrual was not recorded for penalties associated with the annual minimum freight volume, as the Company anticipates meeting the requirement for 2012 (December 31, 2011 - \$190,000).