Polaris
MINERALS CORPORATION

Annual report for year ended December 31, 2012

Management's Discussion and Analysis

Audited Financial Statements

Management's Discussion and Analysis
Year Ending December 31, 2012

The following discussion and analysis of the financial condition and operations of Polaris Minerals Corporation (the "Company") has been prepared by management as of March 18, 2013, and should be read in conjunction with the Company's audited annual consolidated financial statements for the year ended December 31, 2012, which have been prepared in accordance with International Financial Reporting Standards ("IFRS"). This Management's Discussion and Analysis contains "forward-looking statements" that are subject to risk factors set out in a cautionary note contained herein. All amounts are in United States dollars unless otherwise noted.

Highlights

- **Sales and Revenue in 2012 increased by 30% and 37% respectively over the previous year;**
- **During the fourth quarter of 2012, the Company concluded the sale of the Pier B land and entered into a new major supply contract for California;**
- **The Company has strengthened its balance sheet and at December 31, 2012, had working capital of $7.2 million compared with a working capital deficit of $4.4 at December 31, 2011. Net debt was $2.9 million at December 31, 2012, compared with net debt of $11.9 million at December 31, 2011;**
- **Gross loss, EBITDA and Adjusted EBITDA metrics all showed considerable improvement in 2012 compared with the prior year.**

Results of Operations

The Company incurred a net loss attributable to shareholders of $12.2 million ($0.23 per share loss) for the year ending December 31, 2012, compared to a net loss attributable to shareholders of $17.8 million ($0.33 per share loss) for the comparable year of 2011.

The positive trend of increased sales volumes in the major San Francisco Bay market continued. Since commencing operations, the Company's results have been impacted by the severe economic recession that saw demand fall dramatically in all target markets. The losses reported have resulted from low sales volumes and the inability to raise prices and recover cost inflation. However, commencing in the fourth quarter of 2011 there has been a recovery in demand in the Company's major market, which continued through 2012. Further advances are anticipated in 2013 together with supply and demand conditions in the San Francisco market that will enable price increases to be achieved.

Revenue for the year ending December 31, 2012 increased by 37% to $32.2 million, compared with $23.4 million for the comparable year in 2011. Aggregate sales for the year were 2,236,000 tons, a 30% increase over sales of 1,727,000 tons for 2011.

(000's, except per ton amounts)	2012		2011	
	Tons	$	Tons	$
Sales	2,236	32,196	1,727	23,438
Gross loss		(5,288)		(6,744)
Gross loss per ton		*(2.36)*		*(3.91)*

For the year ended December 31, 2012, the Company incurred a gross loss of $5.3 million compared with a gross loss of $6.7 million in 2011. The gross loss per ton was $2.36 for the year ended December 31, 2012, a $1.55/ton improvement over the gross loss per ton of $3.91 for 2011, a significant reduction.

Average revenue per ton is influenced on a quarter by quarter basis by the shipping fuel surcharges, the distribution of tonnage delivered to the various California terminals, and the varying percentage between delivered and ex-quarry sales. Further, the volume of tons sold in any particular quarter can be significantly affected, positively or negatively, by the timing of specific voyages delivering product into San Francisco Bay.

Shipping Fuel Surcharges

As a consequence of the Company's two major supply agreements in northern California, the Company absorbs changes in the cost of shipping fuel during a quarter and then passes the cost, or benefit, through to the customer during the following quarter. The commencement selling prices to both customers reflected actual fuel costs at the time of entering into the contracts.

The Company's sensitivity to changes in fuel prices is as follows: for every $10 movement per metric tonne in the price of Low Sulphur Fuel Oil ("LSFO"), the main fuel required to be used in shipping since August, 2012, the Company's delivered price is impacted, positively or negatively, by approximately 3.7 cents per ton.

North American Emission Control Area

On August 1, 2012, the USA EPA and Environment Canada established a North American Emission Control Area (the "ECA") of 200 nautical miles around the US and Canadian coasts. All vessels operating within the ECA must now use Low Sulphur Fuel Oil (LSFO) which has a limit of 1% sulphur. On January 1, 2015 the allowable sulphur content further reduces to 0.1%. This action significantly increased the cost of shipping for the Company from August 1st although this is a timing issue since these costs are passed on by the Company to customers through oil pass-through clauses in the Company's sales agreements. Unfortunately, Pacific northwest fuel suppliers had only limited quantities of LSFO available at the time of implementation of the ECA and consequently the increase in freight costs were significantly higher than had been previously projected by our shipper.

The objective of the ECA is to reduce emissions from ships that might be harmful to coastal environments, a principle supported by marine cargo shippers including CSL International, the Company's exclusive shipper. However, the US EPA directed that the ECA be 200 miles offshore without the benefit of new research which clearly establishes that an ECA limit beyond 50 miles provides no further benefit to coastal environments. This new regulation has adversely impacted many freight movements in North America and these coastal regions would actually be seriously impacted by the increased air pollution and road congestion that would arise should millions of tons per annum of products, including construction aggregate, be forced to use shore-based truck or rail transportation rather than ships. A Coalition of Short-Sea Shippers, coupled with the Maritime Industrial Transportation Alliance, are actively pressing for reconsideration and that the ECA be modified to 50 miles for smaller, short-sea, coastal vessels which would include those operated by CSL. The Company is engaged with the National Stone and Sand and Gravel Association to support the coastal shippers in achieving a modification to the ECA regulations thus enabling the current economic benefits to be maintained in the vital supply of construction aggregates to coastal cities, without negatively impacting the coastal environment.

Other Charges

During the year ended December 31, 2012, selling, general and administrative expenses of $4.8 million, decreased 14.3% compared with $5.6 million in the same period of 2011. The decrease in 2012 general and administrative costs is principally due reductions in professional fees, wages and benefits, stock based compensation and amortization. Selling, general and administrative expenses were particularly high during the first half of 2011 due to the transition to the new IFRS accounting standards.

The majority of the Company's sales and shipping costs are denominated in US dollars. Costs at the Orca Quarry are incurred in Canadian dollars and as such are susceptible to fluctuations in foreign exchange rates upon reporting. Additionally, fixed quarry costs per ton fluctuate significantly with the level of production.

Segmented Analysis

The Company operates in one segment: the development and operation of construction aggregate properties and projects located in the United States and Canada.

Polaris Minerals Corporation

US dollars, except where noted. The Unit of weight is US short tons.

Selected Annual Information

($000's, except per share amounts)	2012	2011	2010
Sales	32,196	23,438	18,017
Net loss attributable to shareholders	(12,238)	(17,787)	(13,104)
per share (basic and diluted)	*($0.23)*	*($0.33)*	*($0.25)*
Total assets	80,153	90,958	107,609
Total non-current liabilities	11,155	9,577	8,248

See *Results of Operations* section for discussion of annual and general trends.

Summary of Quarterly Results

The selected financial information set out below is based on and derived from the unaudited consolidated financial statements of the Company for each of the quarters listed:

($000's)	2012				2011			
	Dec 31	Sept 30	June 30	Mar 31	Dec 31	Sept 30	June 30	Mar 31
Revenue	8,305	9,130	7,659	7,102	6,984	6,774	5,953	3,727
Loss before interest and income taxes	(2,034)	(3,176)	(2,116)	(3,282)	(5,504)	(2,952)	(5,397)	(3,443)
Net loss attributable to shareholders of Polaris	(2,631)	(3,413)	(1,886)	(4,308)	(5,224)	(3,472)	(5,387)	(3,704)
Basic and diluted net loss per share	(0.05)	(0.06)	(0.04)	(0.08)	(0.09)	(0.07)	(0.10)	(0.07)
(000 Tons)								
Sales	571	632	535	498	506	484	448	289
Aggregate production	619	511	615	536	590	452	423	267

See *Customers* section for discussion of quarterly and general trends.

Liquidity and Capital Resources

Continuing Operations and Liquidity Risk

The Company's continuing operations and liquidity 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. Assuming the market continues to recover, it may be increasingly possible for the Company to generate positive cash flows and avoid penalties under its shipping contract. Management has taken initiatives to improve the Company's financial position and cash flow. In March 2012, a debt refinancing was completed by the issuance of CAD$15.0 million in senior secured notes (the "Notes") that mature December 31, 2016. Proceeds from the issue of the Notes were used to repay all outstanding debt, including interest and fees, comprising CAD$6.2 million due on the bridge loan secured in November 2010 and $7.1 million due on the long-term debt with the Company's exclusive shipper. Net proceeds of CAD$1.7 million remained for general working capital purposes. The refinancing consolidated the Company's debt into a single, five year term facility. In November, 2012 Cemera Long Beach LLC ("Cemera") closed the Pier B land sale at a price of $19.5 million, from which the Company has received $12.3 million from a total of approximately $12.4 million, net of closing costs and commissions. Due to a mandatory pre-payment clause contained in the Notes, CAD$5 million of the net proceeds were used to reduce the Company's outstanding debt with a further CAD$0.6 million used to pay the deferred June 2012 interest payment. In December 2012, the holders of the 13.2 million common share purchase warrants issued on March 1, 2012, exercised the warrants in full which generated cash receipts to the Company of CAD$5.8 million of which CAD$1.9 million was used to further reduce the Company's debt to CAD$8.1 million and the retained balance for general working capital purposes. The Company may be further required to: seek additional sources of financing; curtail, reduce or delay expenditures; or look for strategic alternatives to maximize the benefits of the Company's long lived assets. The success of any of these initiatives cannot be assured.

Working Capital

At December 31, 2012, the Company had working capital of $7.2 million that included cash of $5.5 million. Comparatively, at December 31, 2011 the Company had negative working capital of $4.4 million and cash of $1.6 million. During the fourth quarter of 2012, the Company's working capital position was significantly improved through the sale of the Pier B land and exercise of warrants noted below.

Operating, Financing and Investing Activities

For the year ended December 31, 2012, cash increased $3.9 million compared with a decrease of $3.7 million for the year ended December 31, 2011.

Operating activities used cash of $6.1 million in the year compared to cash used of $6.6 million in 2011. Continuing generally low levels of demand and selling prices for aggregate products, as a consequence of the severe economic recession, particularly in California, continued to use cash for operations and the Company may need to obtain additional financing for its operations.

For the year ended December 31, 2012 financing activities used cash of $1.3 million compared to cash used by financing activities of $0.8 million for the same period in 2011. In March 2012, CAD$15.0 million in senior secured notes were issued that mature December 31, 2016. Proceeds were used to repay all outstanding debt, including interest and fees, comprising CAD$6.2 million due on the bridge loan secured in November 2010 and $7.1 million due on the long-term debt with the Company's exclusive shipper. The refinancing consolidated the Company's debt into a single, five year term facility. In November 2012, due to a mandatory pre-payment clause contained in the notes, CAD$5 million of the net proceeds from the Pier B land sale were used to reduce the Company's outstanding debt with a further CAD$0.6 million used to pay the deferred June 2012 interest payment. In December 2012, 13.2 million common share purchase warrants were exercised and generated cash receipts of CAD$5.8 million, of which CAD$1.9 million was used to further reduce the Company's debt to CAD$8.1 million.

Investing activities during the year ended December 31, 2012, provided cash of $11.2 million compared to $3.8 million for 2011. During the year ended December 31, 2012 the Company's cash position was strengthened when in November it received $12.3 million from a total of $12.4 million of proceeds from the Pier B land sale. During the year ended December 31, 2011 the Company received cash in June 2011 of $2.35 million as an early pre-payment in full on its outstanding loan to a third party and in September 2011 received CAD$1.2 million for the sale of its remaining interests in the Numas Warrior berthing tugboat which operates at the Orca Quarry

The Company will need to obtain additional financing to continue with its strategic plan which includes the development of terminals in southern California, the development of the leased site in the Port of Long Beach being the first priority. The Company's longer term plans include the potential construction of a marine aggregate terminal in the Port of San Diego and also the construction of the Eagle Rock Quarry near Port Alberni on Vancouver Island, BC. (see *Risks and Uncertainties*).

Contractual Obligations, Commitments and Contingencies

Commitments

As at December 31, 2012, the Company's contractual obligations are outlined in the following table:

(in thousands)	**Within 1 year $**	**Between 1 – 2 years $**	**Between 2 – 3 years $**	**Between 3 – 4 years $**	**Between 4 – 5 years $**	**Over 5 years $**
Trade and other payables	5,005	-	-	-	-	-
Finance leases	695	494	-	-	-	-
Long-term debt	-	-	-	8,042	-	-
Commitments relating to operating and through-put agreements	1,676	2,118	1,568	1,011	1,011	10,053
Restoration provision	-	-	-	14	-	4,007
	7,376	2,612	1,568	9,067	1,011	14,060

Lease and through-put agreements

For the Richmond Terminal the Company has a 20 year ground lease with Levin Enterprises Inc. and a 20 year facilities use agreement with Pacific Atlantic Terminals LLC, both ending January 2028, however, the Company has the option to extend the ground lease for two additional ten-year periods to 2048. Base rent and through-put charges based on minimum aggregate volumes purchased and/or sold through the Richmond Terminal, are payable in monthly payments.

In July 2010, the Company entered into a lease at commercial annual rates, with L.G. Everist, Inc. for Berth D-44, an 8.3 acre site in the Port of Long Beach, California. The lease has an initial term of five years with three additional five-year extension options, exercisable by the Company, which would extend the tenure to June 30, 2030.

Shipping Tonnage

The Company's Contract of Affreightment ("CoA"), 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 2013 minimum shipping commitment is 2,979,000 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 within 15 days of the yearend in which freight volumes do not meet the minimum volume requirements in the CoA. The Company and its shipper agreed in principle, subject to definitive documentation, that the penalty rate for 2011 until 2016 can be reduced to 25% if the Company achieves certain revised business targets. For the 2011 fiscal year the Company recorded a $190,000 penalty associated with the annual minimum freight volume commitment. For 2012 the Company met its minimum volume requirement and, therefore, no accrual was necessary.

Strategic alliance and supply agreements

The Company has a long-term alliance with Cemex Inc. ("Cemex"), an international construction materials company. The alliance consists of a 10 year strategic alliance agreement, a standstill agreement, a 20 year supply and distribution agreement for northern California and a 10 year joint cooperation and development agreement. These agreements were executed with an effective date of September, 25, 2007. The Company also has a 20 year aggregates supply agreement with Shamrock Materials Inc., a well established construction aggregates consumer located in the San Francisco Bay area that commenced in April 2007. See "Commitments and contingencies" (note 24) in the Company's December 31, 2012 financial statements for additional disclosures.

The supply and distribution agreement with Cemex, for their northern California exclusive territory, contained both target tonnages that would be expected to be purchased in normal economic conditions and also minimum tonnages that each party was required to supply, or purchase, as appropriate. During 2008 the minimum tonnage was exceeded but in 2009 it quickly became apparent that the magnitude of the collapse in demand in California was such that the contract numbers were unrealistic in the short term. Because this change was forced by circumstances beyond the control or influence of either party, it was agreed that revised tonnage commitments would be negotiated on an annual basis to reflect market conditions prevailing at the time. A similar situation arose with the Shamrock supply agreement with market changes effectively representing a "force majeure" situation. Tonnage expectations are now negotiated annually.

Non-GAAP Measures

Adjusted Loss

The Company has prepared a calculation of adjusted loss for the period in order to better reflect underlying business performance by removing certain non-cash adjustments from its IFRS calculation of loss as it believes this may be a useful indicator to investors. Adjusted loss may not be comparable to other similarly titled measures of other companies.

($000's, except per share amounts)	2012	2011
Net loss for the period attributable to shareholders of Polaris	(12,238)	(17,787)
Adjustments		
Provision for of provision for annual minimum volume penalties	-	190
Share-based employee benefits	197	376
Write-down (gain) on property included in share of loss (income) from joint venture	(368)	2,091
Loss on settlement of loans	1,055	2,195
Adjusted net loss for the period	(11,354)	(12,935)
per share	*(0.21)*	*(0.24)*

EBITDA and Adjusted EBITDA

EBITDA, adjusted EBITDA, EBITDA per share and adjusted EBITDA per share ("EBITDA Metrics") are non-GAAP financial measures. EBITDA and EBITDA per share represent net income, excluding income tax expense, interest expense and amortization and accretion. Adjusted EBITDA and adjusted EBITDA per share better reflects the underlying business performance of the Company by removing certain non-cash adjustments from its calculation of EBITDA and EBITDA per share. The Company believes that the EBITDA Metrics trends are valuable indicators of whether its operations are generating sufficient operating cash flow to fund working capital needs and to fund capital expenditures. The Company uses the results depicted by the EBITDA Metrics for these purposes, an approach utilized by the majority of public companies in the construction materials sector. The EBITDA Metrics are intended to provide additional information, do not have any standardized meaning prescribed by IFRS and should not be considered in isolation or as a substitute for measures of performance prepared in accordance with IFRS. These measures are not necessarily indicative of operating profit or cash flow from operations as determined under IFRS. Other companies may calculate these measures differently. The following table reconciles these non-GAAP measures to the most directly comparable IFRS measure.

($000's except per share amounts)	2012	2011
Net loss for the period attributed to shareholders of Polaris	(12,238)	(17,787)
Interest expense	2,145	1,615
Income tax expense	(549)	361
Amortization, depletion and accretion	5,510	5,187
EBITDA	(5,132)	(10,624)
per share	*(0.10)*	*(0.20)*
Adjustments		
Provision for (reversal of) annual minimum volume penalties	-	190
Share-based employee benefits	197	376
Write-down (gain) on property included in share of loss (income) from joint venture	(368)	2,091
Loss on settlement of loans	1,055	2,195
Adjusted EBITDA	(4,248)	(5,772)
per share	*(0.08)*	*(0.11)*

Overview of the Company, Operations, Markets and Outlook

MARKET OUTLOOK AND RECENT DEVELOPMENTS

Sales in 2012 were 2.24 million tons, a 30% increase over 2011. The increase is due to substantial growth in demand from the San Francisco Bay area markets attributable to two factors; improving infrastructure and private housing and private commercial expenditures, particularly in the area between San Francisco and San Jose, which is benefiting from the success of the “high-tech” industry and also sales to new ready mixed concrete customers.

On December 13, 2012, the Company entered into a new supply contract with an international construction materials company that already imports aggregates by ocean-going vessels into the San Francisco Bay. The contract is for an initial period of three years with two option periods of three years each which could extend the contract to a total of nine years. Under this new contract aggregates are loaded at Orca Quarry into vessels chartered by the customer and sales commenced in February 2013.

In northern California, at the end of 2011, supplies commenced to two new ready mixed concrete producers and aggregate production ceased at a major local quarry. The resulting widening of the supply base, coupled with increasing building and construction activity, represents the most encouraging business climate experienced by the Company for five years. During April 2012, the State broke ground on a $3.2 billion extension of the BART transportation system into San Jose and announced funding for 19 road construction projects worth $5 billion, the majority of which are around San Francisco Bay and San Jose. There now appears to be a firm belief that the US construction sector, including private housing, has entered a period of recovery. A revised forecast of cement consumption was issued by the Portland Cement Association in April, 2012 which anticipated demand for cement increasing by 3.7% in 2012, followed by a 7.6% increase in 2013 and a further 14.1% in 2014.

In 2012, the Company achieved price increases and began to recover pricing incentives granted in 2011. The Company was also able to take advantage of the strong increase in northern California’s demand to better focus on situations where Orca aggregate’s premium quality can begin to be reflected in higher average selling prices. The Company believes that the current increased level of demand being experienced by its California customers is the result of investment factors specific to the greater San Francisco area which should continue ahead of the broader US construction recovery now being forecast. On June 29, 2012, Congress passed a Surface and Transportation Reauthorization Bill (“MAP-21”) which will fund the nation’s roads, bridges and mass transit systems until the end of 2014. This action removed a three-year gridlock during which period funding uncertainty, at both federal and state levels, had contributed to the major decline in construction activity. Additionally States are now able to apply for funding assistance under the Transportation Infrastructure Finance and Innovation Act (TIFIA) which provides $1.75 billion of Federal credit assistance over the next two years for nationally or regionally significant surface transportation projects. Each dollar of Federal funds can provide up to $10 in TIFIA credit assistance, leverage up to $30 in transportation infrastructure investment.

In respect of private sector construction investment, the Company believes that the encouraging signs of a resurgence in private housing will continue although this sector is less influential on the demand for Orca Quarry materials than private commercial investment. Nevertheless, increased multiple occupancy unit construction activity in the San Francisco area is being experienced which, coupled with strong private commercial activity, is proving beneficial to demand.

Local reserves of construction aggregate continue to decline, albeit at a reduced rate and the development of new replacement quarries is still strongly opposed by local residents in most markets, especially those crucial to our business. A good example is the proposed large new granite quarry in Riverside County north of San Diego, which was voted down after a lengthy and expensive legislative procedure including an appeal. Transportation costs by road and rail, to supplement local shortages, will continue to increase and marine transportation alternatives, for which the Company is well positioned, remain viable. This view was endorsed in the January 2011 San Diego Region Aggregate Supply Study prepared under the direction of SANDAG (San Diego Area Governments) who stated; “One of the challenges facing this region is how to meet the increasing demand for aggregate at a time when the local supply is shrinking”, this being particularly with reference to materials necessary to meet planned public sector expenditure. The report highlighted the need for further land based resources, coupled with the requirement to import materials by ship, train or barge and supports the Company’s consideration of a marine aggregate terminal to supply this market.

In Hawaii, the Company is focusing on major infrastructure projects where the ability of Orca Quarry materials to meet stringent performance requirements provides strong technical and economic justification for their usage. Of particular interest is the construction of, the Honolulu Light Rail Project, the commencement of which is slated to start after the resolution of a court challenge to the validity of the environmental impact assessment for the project. The initial term of the Company’s supply agreement with its Hawaiian customer has expired although sales are continuing at previous levels under normal purchase and supply arrangements. Throughout 2012 the Company received strong interest from Hawaiian contractors and specifiers to compliment Orca sand with Orca course aggregate. This is a positive development which is expected to benefit sales in 2013.

Sales to the Company's previously contracted Vancouver based customer remain depressed, however, supplies to a new customer in the same market, and also to Alaska, both of which collect from the quarry in their own barges, are largely offsetting the original Vancouver business.

OPERATIONS

Quarry Properties

The Orca Quarry is situated to the west of the town of Port McNeill, British Columbia, and commenced shipments of high quality sand and gravel construction aggregates to west coast ready mix concrete producers in March 2007. Mineral extraction takes place from the East Cluxewe deposit which contained a reserve of 134 million tons at the commencement of operations in 2007. Estimates of remaining reserves are contained in the Company's Annual Information Form.

The Company has also explored additional lands in the Orca Quarry area, over which it has certain rights, referred to as the East Cluxewe Extension and West Cluxewe deposits. After due consideration of the resource, environmental and permitting factors relative to these areas, the Company anticipates that, following completion of extraction of the East Cluxewe deposit, working the East Cluxewe Extension deposit, which is contiguous with its current operations, will the first priority to be followed by the West Cluxewe deposit. The necessary permits for working these additional deposits will be sought much nearer the time when they will be required.

The Company also owns the rights to develop the Eagle Rock Quarry Project, a very large granite resource located on deep tidewater alongside the Alberni Inlet near Port Alberni, British Columbia. The Eagle Rock Quarry received its mine permit in 2003 and in 2008 renewed the Environmental Assessment Certificate from the Province of BC, which now expires in September 2013. The Company continues to seek market outlets which would support the development of the quarry to produce crushed rock construction aggregate products. This high quality aggregate is anticipated to be ideal for asphalt manufacture and over time is expected to be a significant source of coarse aggregate for use in concrete when it will complement Orca Quarry which produces a high proportion of natural sand. The effects of the recession have made it difficult to predict when it might be possible to advance this project to a construction phase.

Marine Terminals

The Company is still at a relatively early stage of development of its marine receiving terminals despite having commenced production in 2007. Opportunities to develop suitable marine terminals are scarce and access, whether through owned and operated or third party facilities, is a key component in the logistical chain. The Company currently delivers construction aggregate to four terminals in San Francisco Bay. The Richmond Terminal, owned and operated by the Company, has a permitted capacity of 1.5 million tons per year and serves the north and east Bay areas. The Redwood City terminal in southwest San Francisco Bay and the Pier 92 terminal near downtown San Francisco are owned and operated by the Company's strategic alliance partner, Cemex, with a combined annual capacity of well over 1.5 million tons. The Landing Way Depot, on the Petaluma River in Sonoma County, owned and operated by Landing Way Depot, Inc., has an annual capacity of approximately 1.25 million tons and serves the requirements of Shamrock Materials Inc.

The Company's strategic objectives include the development of marine terminals in southern California. To further this objective, the Company, together with Cemex, formed a joint venture company, Cemera Long Beach, LLC ("Cemera"), to develop a marine aggregates terminal in the Port of Long Beach, California. In 2008 Cemera purchased a 12.4 acre parcel of freehold land in the Port of Long Beach, California, known as the Pier B site. This land was acquired with the intention of developing a major receiving and distribution terminal for aggregates from the Company's quarry properties. However, in the third quarter of 2009, the Company secured an option to lease an existing marine aggregate importing terminal also in the Port of Long Beach, California, at Berth D-44 and in July 2010 exercised this option and entered into a five year lease with renewal at the Company's option for a further three, five-year, periods to a total of 20 years. This 8.3 acre site is privately owned and has operated for many years receiving construction aggregates from barges with storage in open stockpiles. The site, which was permitted to receive and distribute up to 3 million tons of construction aggregates per year, is located on a deepwater channel and is close to Interstate 710, which services the greater Los Angeles area. Previously aggregates were delivered by barges and the Company is now engaged in modifying the permits to enable delivery by Panamax size vessels. The Ports of Long Beach and Los Angeles are currently engaged in major construction projects designed to enhance their ability to receive and efficiently handle much larger container vessels. As a consequence, the demand for concrete aggregate to meet these massive construction projects will increase significantly. To mitigate the already over-congested road access and egress from these Ports, the benefits of marine imported aggregates have been recognized and the Company is increasingly confident that the Berth D-44 terminal will play an important part in meeting future demand as construction activity increases in the Los Angeles Basin area and delivered aggregate prices return to pre-depression levels.

In July 2011, the Company's Strategic Alliance Partner, Cemex Inc. formally advised that it would be unable to participate in the development of the Berth D-44 site in Long Beach due to capital investment constraints. Management had been anticipating this position, which is not unwelcome, and is engaged in reviewing possible alternate marketing relationships that may prove stronger in this particular market area, while maintaining the ability to supply Cemex requirements on an arms-length basis. The eventual capital cost of bringing this terminal into full operation is estimated at $4 million, however, the Company is presently exploring options to more economically commence the delivery of aggregates by utilizing part of the site and offsetting leasing costs through short-term sub-let arrangements.

Effective May 25, 2012, Cemera Long Beach LLC entered into a Purchase and Sale Agreement for the Pier B freehold land. This agreement afforded the prospective buyer a 90 day due diligence period to be followed by a further 30 days for closing the purchase. The sale was finally completed on November 29, 2012 at which time the Company received $12.5 million of cash being two thirds of the net proceeds.

The Company, through its jointly owned subsidiary company, Cemera San Diego, LLC, is also pursuing an opportunity in the Port of San Diego for the development of a marine aggregate terminal to service the San Diego market, which has significant aggregate supply deficiencies. On August 4, 2009, The Port of San Diego granted Cemera San Diego, LLC, an exclusive negotiating agreement (the "ENA") for an option to lease and develop an approximate 100,000 square foot building located at the Tenth Avenue Marine Terminal for the purpose of receiving and distributing aggregates. On February 28, 2010, the ENA expired; however, the Port of San Diego issued a comfort letter in succession to the ENA and the parties continue to negotiate in good faith to agree on the terms of the option to lease. The Company is actively reviewing marketing and development possibilities although it is unlikely that operational status in this unique location will be achieved before 2015/16.

SHIPPING

The Company is currently shipping its products from Vancouver Island, British Columbia, to San Francisco Bay by self-unloading Panamax vessels provided by CSL International Inc ("CSL"). The Company's new customer and existing customers in Hawaii and British Columbia, are supplied on an ex-quarry basis into vessels or barges provided by them.

On arrival in San Francisco Bay, CSL's vessels are partially unloaded while at anchor ("lightered") into barges provided by Shamrock Materials Inc. under the terms of a twenty-year aggregate supply agreement, or onto a barge operated by an independent towing contractor on behalf of Cemex. After lightering, the balance of the cargo may be unloaded at Cemex's Redwood City terminal or at the Company's Richmond Terminal. These arrangements offer the most economic shipping solution by utilizing fully loaded Panamax vessels from Vancouver Island to San Francisco Bay. It is anticipated that the increasing demand for Orca Quarry products in northern California, similar to levels experienced during 2008, will assist in maximizing shipping efficiency.

Sales to Hawaii are made via CSL self-discharging vessels contracted by the Company's Hawaiian customer. The lower mainland of British Columbia is supplied with sand and gravel using barges provided by the customer.

CUSTOMERS

The Company's Strategic Alliance with Cemex, which was established in 2007, provides for the joint development of new port receiving terminals on the US west coast that will ultimately be required to achieve the Orca Quarry's permitted production of 6.6 million tons per year. Either company may proceed with a legitimate terminal development project should the alliance partner decline the right to participate for any reason. Cemex, a public company, headquartered in Mexico, is one of a small number of major international cement manufacturers and a significant producer of construction aggregate and ready mix concrete, in markets throughout the world.

A second long-term supply agreement commenced with Shamrock Materials in 2007. Orca Quarry products are unloaded from Panamax vessels, at anchorage in San Francisco Bay, into Shamrock's own barges for transportation to an aggregate terminal situated at Petaluma, CA. Shamrock Materials is a well-established private company supplying ready mixed concrete in the north San Francisco Bay area.

The Company maintains a close relationship with the management of both Shamrock and Cemex, which together accounted for approximately 93% of the Company's sales in 2012.

The Company also supplies customers in Hawaii and British Columbia, which are substantial private companies with whom management maintains a working relationship.

SALES AND SEASONALITY

The Company's sand and gravel quarry operates year-round, however, sales demand is seasonal due to the impact of poor weather conditions, particularly in the first, or winter, quarter which 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.

Related Party Transactions

During the year ended December 31, 2012, directors, either directly or through a company controlled by them, provided to the Company, services at a cost of $415,845 (year ended December 31, 2011 - $402,064) which are included in general and administrative expenses. At December 31, 2012, accounts payable of $29,535 (December 31, 2011 - $32,012) were due to companies controlled by common directors.

During the year ended December 31, 2011, a related party provided tug berthing services to the Company at a cost of $852,865. In September 2011 the Company sold its interest in the related party.

Fourth Quarter 2012

For the three months ended December 31, 2012, the Company had a net loss attributable to shareholders of Polaris of $2.6 million compared to a net loss of $5.2 million in the fourth quarter of 2011.

Revenue for the quarter ended December 31, 2012 was $8.3 million on sales of 571,000 tons, compared to $7.0 million on sales of 506,000 tons in the fourth quarter of 2011. Gross margin for the fourth quarter of 2012 was a loss of $1.0 million compared to a loss of $1.7 million in the three months ended December 31, 2011, or a loss of $1.75 per ton in the fourth quarter of 2012 versus a loss of $3.27 per ton for the comparative quarter in 2011.

Total selling, general and administrative expenses were $1.1 million during the quarter ended December 31, 2012 (2011 - $1.3 million). The decrease in 2012 general and administrative costs is principally due to a reductions in professional fees, wages and benefits, stock based compensation and amortization.

Significant accounting judgments and estimates

The preparation of financial statements requires management to use judgment in applying its accounting policies and estimates and assumptions about the future. Estimates and other judgments are continuously evaluated and are based on management's experience and other factors, including expectations about future events that are believed to be reasonable under the circumstances. The following discusses the most significant accounting judgments and estimates that the company has made in the preparation of the financial statements:

(i) Determination of mineral reserves
Reserves are estimates of the amount of product that can be economically and legally extracted from the Company's properties. In order to estimate reserves, estimates are required about a range of geological, technical and economic factors, including quantities, production techniques, production costs, capital costs, transport costs, demand, prices and exchange rates. Estimating the quantity of reserves requires the size, shape and depth of deposits to be determined by analyzing geological data. This process may require complex and difficult geological judgments to interpret the data. As a result, management will form a view of forecast sales prices, based on current and long-term historical average price trends. Changes in the proven and probable reserves estimates may impact the carrying value of property, plant and equipment, restoration provisions, recognition of deferred tax amounts and depreciation, depletion and amortization.

(ii) Asset values and impairment charges
If the recoverable amount of an asset or cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount. An impairment loss is recognized immediately in the statement of comprehensive income. Management's determination of recoverable amounts include estimates of sales volumes and prices, costs to sell, recoverable reserves, operating costs and capital costs, which are subject to certain risks and uncertainties that may affect the recoverability of an asset's costs. Although management has made its best estimate of these factors, it is possible that changes could occur that could adversely affect management's estimate of the net cash flow to be generated from its assets or cash-generating units.

For quarrying property interests the Company considers both external and internal sources of information in assessing whether there are any indications of impairment. External sources of information the Company considers include changes in the market, economic and legal environment in which the Company operates that are not within its control and affect the recoverable amount of quarrying property interests. Internal sources of information the Company considers include indications of economic performance of the assets. In determining the recoverable amounts of the Company's quarrying property interests, the Company's management makes estimates of the discounted future after-tax cash flows expected to be derived from the Company's properties, costs to sell the quarrying properties and the appropriate discount rate. Reductions in price forecasts, increases in estimated future costs of production, increases in estimated future non-expansionary capital expenditures, reductions in the amount of recoverable reserves and resources, and/or adverse current economics can result in a write-down of the carrying amounts of the Company's quarrying interests.

(iii) Estimated Reclamation and Closure Costs
The Company's provision for reclamation and closure cost obligations represents management's best estimate of the present value of the future cash outflows required to settle the liability which reflects estimates of future costs, inflation, and assumptions of risks associated with the future cash outflows, and the applicable risk-free interest rates for discounting the future cash outflows. Changes in the above factors can result in a change to the provision recognized by the Company. Changes to reclamation and closure cost obligations are recorded with a corresponding change to the carrying amounts of related quarrying properties. Adjustments to the carrying amounts of related quarrying properties can result in a change to future depletion expense.

Accounting standards and amendments issued but not yet adopted

Unless otherwise noted, the following revised standards and amendments are effective for annual periods beginning on or after January 1, 2013 with earlier application permitted. The company has assessed that the impact of these standards and amendments has no effect on the Company's current accounting policies.

(i) IFRS 9, *Financial Instruments,* was issued in November 2009 and addresses classification and measurement of financial assets. It replaces the multiple category and measurement models in IAS 39 for debt instruments with a new mixed measurement model having only two categories: amortized cost and fair value through profit or loss. IFRS 9 also replaces the models for measuring equity instruments. Such instruments are either recognized at fair value through profit or loss or at fair value through other comprehensive income. Where equity instruments are measured at fair value through other comprehensive income, dividends are recognized in profit or loss to the extent that they do not clearly represent a return of investment; however, other gains and losses (including impairments) associated with such instruments remain in accumulated comprehensive income indefinitely. Requirements for financial liabilities were added to IFRS 9 in October 2010 and they largely carried forward existing requirements in IAS 39, *Financial Instruments – Recognition and Measurement,* except that fair value changes due to credit risk for liabilities designated at fair value through profit and loss are generally recorded in other comprehensive income. The effective date of IFRS 9 is January 1, 2015.

(ii) IFRS 10, *Consolidated Financial Statements*, requires an entity to consolidate an investee when it has power over the investee, is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Under existing IFRS, consolidation is required when an entity has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. IFRS 10 replaces *SIC-12, Consolidation—Special Purpose Entities* and parts of IAS 27, *Consolidated and Separate Financial Statements*.

(iii) IFRS 11, *Joint Arrangements*, requires a venturer to classify its interest in a joint arrangement as a joint venture or joint operation. Joint ventures will be accounted for using the equity method of accounting whereas for a joint operation the venturer will recognize its share of the assets, liabilities, revenue and expenses of the joint operation. Under existing IFRS, entities have the choice to proportionately consolidate or equity account for interests in joint ventures. IFRS 11 supersedes IAS 31, *Interests in Joint Ventures*, and SIC-13, *Jointly Controlled Entities—Non-monetary Contributions by Venturers.*

(iv) IFRS 12, *Disclosure of Interests in Other Entities*, establishes disclosure requirements for interests in other entities, such as subsidiaries, joint arrangements, associates, and unconsolidated structured entities. The standard carries forward existing disclosures and also introduces significant additional disclosure that address the nature of, and risks associated with, an entity's interests in other entities.

(v) IFRS 13, *Fair Value Measurement*, is a comprehensive standard for fair value measurement and disclosure for use across all IFRS standards. The new standard clarifies that fair value is the price that would be received to sell an asset, or paid to transfer a liability in an orderly transaction between market participants, at the measurement date. Under existing IFRS, guidance on measuring and disclosing fair value is dispersed among the specific standards requiring fair value measurements and does not always reflect a clear measurement basis or consistent disclosures.

(vi) There have been amendments to existing standards, including IAS 27, *Separate Financial Statements* (IAS 27), and IAS 28, *Investments in Associates and Joint Ventures* (IAS 28). IAS 27 addresses accounting for subsidiaries, jointly controlled entities and associates in non-consolidated financial statements. IAS 28 has been amended to include joint ventures in its scope and to address the changes in IFRS 10 – 13.

(vii) IFRIC 20, *Stripping Costs in the Production Phase of a Surface Mine*, sets out the accounting for overburden waste removal (stripping) costs in the production phase of a mine. Stripping activity may create two types of benefit: i) inventory produced and ii) improved access to ore. Stripping costs associated with the former should be accounted for as a current production cost in accordance with IAS 2,*Inventories*. The latter should be accounted for as an addition to or enhancement of an existing asset.

Financial Instruments and Related Risk

Fair value of financial instruments

The carrying amounts and fair values of financial instruments are as follows:

	December 31, 2012		**December 31, 2011**	
(in thousands)	**Carrying amount $**	**Fair value $**	**Carrying amount $**	**Fair value $**
Loans and receivables				
Cash	5,537	5,537	1,629	1,629
Trade and other receivables	2,304	2,304	2,231	2,231
Security deposits	1,130	1,130	1,152	1,152
Other long-term receivables	141	141	138	138
Other financial liabilities				
Short term credit facility	-	-	5,757	5,757
Senior secured notes	7,232	7,561	6,175	6,175

The fair values of cash, trade and other receivables, security deposits, and the short term credit facility, approximate their carrying values due to their short-term maturities.

At each reporting date the fair value of the senior secured notes, which are carried at amortized cost, have been estimated by discounting the anticipated future cash flows using a valuation model that incorporated management's best estimate of the Company's credit risk and relevant market interest rates.

Credit risk

Credit risk is the risk that the Company will incur a loss due to a customer or other third party failing to discharge their obligation due to the Company. The Company maintains demand deposit accounts as well as term deposits, with major banks in Canada and the USA. The Company has five significant customers, two of which at December 31, 2012 comprise 100% (2011 – 100%) of trade receivables. The Company's largest customer is one of the world's largest international construction materials companies and the remaining customers are significant construction materials companies within their markets of San Francisco, and Hawaii.

The Company's maximum exposure to credit risk is comprised of the following:

(in thousands)	2012 $	2011 $
Cash	5,537	1,629
Trade and other receivables	2,304	2,231
Security deposits	1130	1,152
Other long-term receivables	141	138
	9,112	5,150

At December 31, 2012, no allowance for credit losses has been recorded against accounts receivable. No collateral or other form of security is held in respect of the amounts that comprise the Company's exposure to credit risk.

Liquidity Risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations associated with financial liabilities. The Company manages its liquidity risk by continuing to seek sources of financing at appropriate costs of capital.

A maturity analysis of the undiscounted cash flows of the Company's financial liabilities at December 31, 2012 is as follows:

(in thousands)	Within 1 year $	Between 1 – 2 years $	Between 2 – 3 years $	Between 3 – 4 years $	Between 4 – 5 years $	Over 5 years $
Trade and other payables	5,005	-	-	-	-	-
Finance leases	695	494	-	-	-	-
Long-term debt	-	-	-	8,042	-	-
	5,700	494	-	8,042	-	-

Market Risks

Foreign currency risk

The Company reports in US dollars while operating in both the United States and Canada. The Canadian operations use the Canadian dollar as their functional currency while the US operations have a US dollar functional currency. As a result, the Company is exposed to foreign currency gains and or losses affecting net income and cumulative translation adjustments which affect other comprehensive income. The Company does not use any derivative instruments to reduce its exposure to fluctuations in foreign currency exchange rates.

For the year ended December 31, 2012 a $0.01 change in the US/Canadian exchange rate, assuming all other variables did not change, would not have a material effect on net gain/(loss).

Interest rate risk

The Company's interest rate risk arises primarily from the interest received on demand deposit accounts which are at floating rates. The Company's long-term debt borrowings are at fixed rates. For the year ended December 31, 2012 a 100 basis point change in interest rates, assuming all other variables did not change, would not have a material effect on annual interest income.

Capital Stock

As at the date of this report, the Company had unlimited common shares authorized, of which 66,745,602 were issued and outstanding. The Company also has 2,919,209 options outstanding, exercisable into 2,919,209 common shares, of which 2,580,876 are currently vested, and 1,575,000 warrants outstanding, all of which are vested.

Risks and Uncertainties

Investment in the securities of the Company involves a high degree of risk and should be regarded as speculative due to the nature of the Company's business. The Company has incurred losses and expects to incur further losses. Prior to making an investment in the Company's securities, prospective investors should carefully consider the information described in this Management Discussion and Analysis, and documents incorporated by reference, including the risk factors set out below. Such risk factors could have a material adverse effect on, among other things, the operating results, earnings, properties, business and condition (financial or otherwise) of the Company.

The Company's operations will require further capital

The quarrying, processing and development of the Company's properties and terminals, including the property at Berth D-44 in the Port of Long Beach and any future terminals which may be acquired and developed by the Company, will require substantial additional financing. Failure to obtain sufficient financing may result in delaying or indefinite postponement of development or production of the Company's properties and terminals or even a loss of those property interests. There can be no assurance that additional capital or other types of financing will be available if needed or that, if available, the terms of such financing will be favourable to the Company. Any future financing may be dilutive to existing shareholders.

Current global financial conditions and liquidity risk

Current global financial conditions have been subject to increased volatility and access to financial markets has been severely restricted. These factors may impact the ability of the Company to obtain equity or debt financing in the future and, if obtained, on terms favourable to the Company. If these increased levels of volatility and market turmoil continue, the Company's operations and the value and price of the Common Shares could continue to be adversely affected.

The Company's continuing operations and liquidity 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. Assuming the market continues to recover, it may be increasingly possible for the Company to generate positive cash flows and avoid penalties under its shipping contract. Management has taken initiatives to improve the Company's financial position and cash flow. In March 2012, a debt refinancing was completed by the issuance of CAD$15.0 million in senior secured notes (the "Notes") that mature December 31, 2016. Proceeds from the issue of the Notes were used to repay all outstanding debt, including interest and fees, comprising CAD$6.2 million due on the bridge loan secured in November 2010 and $7.1 million due on the long-term debt with the Company's exclusive shipper. Net proceeds of CAD$1.7 million remained for general working capital purposes. The refinancing consolidated the Company's debt into a single, five year term facility. In November, 2012 Cemera Long Beach LLC ("Cemera") closed the Pier B land sale at a price of $19.5 million, from which the Company has received $12.3 million from a total of approximately $12.4 million, net of closing costs and commissions. Due to a mandatory pre-payment clause contained in the Notes, CAD$5 million of the net proceeds were used to reduce the Company's outstanding debt with a further CAD$0.6 million used to pay the deferred June 2012 interest payment. In December 2012, the holders of the 13.2 million common share purchase warrants issued on March 1, 2012, exercised the warrants in full which generated cash receipts to the Company of CAD$5.8 million of which CAD$1.9 million was used to further reduce the Company's debt to CAD$8.1 million and the retained balance for general working capital purposes. The Company may be further required to: seek additional sources of financing; curtail, reduce or delay expenditures; or look for strategic alternatives to maximize the benefits of the Company's long lived assets. The success of any of these initiatives cannot be assured.

Reliance on Certain Customers

The Company generates the major proportion of its revenue from sales to two customers, Cemex and Shamrock. The ability of these customers to continue in business could have a material effect on the Company and no assurance can be given in that respect.

The Company may not secure additional construction aggregates sales volumes and prices projected for the Orca Quarry

The value and price of the Common Shares, the Company's financial results, and the Company's development and quarrying activities may be significantly adversely affected if the Company does not secure the sales volumes and prices of construction aggregates intended for the Orca Quarry. Demand for construction aggregates products in the Company's target markets fluctuates and is affected by numerous factors beyond the Company's control such as private sector residential and commercial construction, and public sector construction, including roads, bridges, services, and other infrastructure. The supply of construction aggregates to the Company's target markets may also fluctuate and may be affected by new or expanded local production, or supplies of construction aggregates brought into the target markets by road, rail or vessel. Depending on the sales volumes and prices of construction aggregates, cash flow from quarrying operations may not be sufficient and the Company could be forced to discontinue production and may lose its interest in, or may be forced to sell, some or all of its properties. Future production from the Company's Orca Quarry is dependent on applicable construction aggregates sales volumes and prices being sufficient to make materials extraction from the Orca Quarry economic.

In addition to adversely affecting the Company's financial condition, declining construction aggregates sales volumes and prices can impact operations by requiring a reassessment of the feasibility of the Orca Quarry. Such a reassessment may be the result of a management decision or may be required under financing arrangements related to the Orca Quarry. The need to conduct such a reassessment may cause substantial delays or may interrupt operations until the reassessment can be completed.

The assumptions made in AMEC's financial analysis of the Orca Project may no longer be reasonable

The financial analysis completed by AMEC of the Orca Project detailed in the 43-101 technical report relies on certain underlying assumptions which may no longer be reasonable as a result of the global economic recession since 2008. The analysis undertaken by AMEC was completed in 2008. The cash flow projections were based on various assumptions including assumptions on the capital costs, operating costs, production and sales volumes and sales revenues over the life of the project which were reasonable at the time the financial analysis was completed. Since 2008, the actual sales values suggest that these assumptions made may no longer be reasonable. Therefore, undue reliance should not be given to AMEC's financial analysis of the Orca Project.

The Company must secure access to discharge points and additional shipping volumes for its products

The Company's business plan includes discharges of Orca Quarry construction aggregates to barges, the Richmond Terminal and to Cemex through its Strategic Alliance with Cemex. Although the Company has access to certain terminals through its Strategic Alliance, there is no certainty that its strategic alliance will secure further joint terminals to meet the increasing deliveries and sales incorporated by the Company in its business plan. If the Company is unable to continue to secure access to additional discharge terminals, or acquire its own discharge terminals, its revenues, operations and financial condition could be materially adversely affected.

Polaris, through a subsidiary Quality Rock Holdings Ltd, and subsidiaries of the Hupacasath and the Ucluelet, First Nations, executed a shareholders' agreement (the "Eagle Rock Shareholders Agreement") governing the affairs of Eagle Rock Materials Ltd. When the Eagle Rock Shareholders Agreement was entered into in 2002, it did not contemplate the construction or use of the Richmond Terminal or other terminals by third parties (including the Orca Partnership) prior to the construction of the Eagle Rock Quarry Project. In addition, the Eagle Rock Shareholders Agreement did not contemplate the marketing, shipment and sale of construction aggregates from other projects prior to the commencement of operations at the Eagle Rock Quarry Project. Eagle Rock Aggregates, Inc., a subsidiary of Eagle Rock Materials Ltd., holds the Richmond Terminal Lease, the building permit for the Richmond Terminal, the corresponding easement and facilities use agreements, and the Company's other potential port interests. Eagle Rock Aggregates, Inc. also holds the marketing interests of the Company and it is expected that it will continue to manage the Company's operations in the United States, including the shipment and sale of construction aggregates from the Orca Quarry.

The parties to the Eagle Rock Shareholders Agreement have been negotiating and will continue to negotiate the terms and conditions of an arrangement with respect to Eagle Rock Aggregates, Inc. and the financing, construction, and operation of the Richmond Terminal, and the purchase, shipping, distribution and sales of construction aggregates from the Orca Partnership. There is no certainty when or if an agreement will be reached.

The Company's NCoA has sufficient volume capacity to transport approximately 5.787 million short tons of construction aggregates per annum by 2017. To achieve the anticipated sales from the Orca Quarry and the Eagle Rock Quarry Project, the Company will have to secure additional shipping capacity. If the Company is unable to secure the additional shipping volumes, or fails to meet the contracted annual minimum volumes, its revenues, operations and financial condition could be materially adversely affected.

The quarrying industry is competitive

The quarrying industry is competitive and the Company faces strong competition from other quarrying companies, or prospective quarrying companies, in connection with the supply of construction aggregates to the Company's target markets. A number of these companies may have greater financial resources, operational experience and technical capabilities than the Company. As a result of this competition, the Company may be unable to maintain quarrying operations on terms it considers acceptable or at all. Consequently, the Company's revenues, operations and financial condition could be materially adversely affected.

Government regulation and assessments may adversely affect the Company

The Company's construction aggregates quarrying, processing, and development activities are subject to extensive laws governing prospecting, quarrying, development, production, taxes, labour standards and occupational health, quarry safety, waste disposal, toxic substances, land use, environmental protection and remediation, endangered and protected species, water use, aboriginal rights, land claims of First Nations and local people and other matters. No assurance can be given that new rules and regulations will not be enacted or that existing rules and regulations will not be applied in a manner which could limit, curtail or prevent production, development or exploration. Amendments to current laws, regulations and permits governing operations and activities of quarrying and exploration companies, or more stringent implementation thereof, could have a material adverse impact on the Company and cause increases in exploration expenses, capital expenditures or production costs or reduction in levels of production at producing properties or require abandonment or delays in development of new quarrying properties. Failure to comply with the conditions set out in any permit or failure to comply with the applicable statutes and regulations may result in orders to cease or curtail production, development or exploration.

The Company's title to its properties may be subject to disputes or other claims including land title claims of First Nations

Although the Company has exercised the usual due diligence with respect to determining title to properties in which it has a material interest, there is no guarantee that title to such properties will not be challenged or impugned. Title to and the area of resource claims may be disputed. The Company's construction aggregates property interests may be subject to prior unregistered agreements or transfers, aboriginal rights, or, in the case of the Orca Quarry, treaty rights, and title may be affected by undetected defects. There may be valid challenges to the title of the Company's properties, which, if successful, could impair their development and/or operations.

First Nations in British Columbia have made claims of aboriginal rights and title to substantial portions of land and water in the Province including areas where the Company's operations are situated, creating uncertainty as to the status of competing property rights. The Supreme Court of Canada has held that aboriginal groups may have a spectrum of aboriginal rights in lands that have been traditionally used or occupied by their ancestors; however, such aboriginal rights or title are not absolute and may be infringed by government in furtherance of a legislative objective, subject to meeting a justification test. However, a decision of the Supreme Court of Canada casts doubt on the Provincial Government's ability to justify infringements of treaty rights. Additionally, a case from the British Columbia Supreme Court calls into question whether the Province can justify an infringement of aboriginal title. The effect on any particular lands will not be determinable until the exact nature of historical use, occupancy and rights in any particular piece of property have been clarified. First Nations are seeking settlements including compensation from governments with respect to these claims, and the effect of these claims cannot be estimated at this time. The Federal Government and Provincial Government have been seeking to negotiate settlements with aboriginal groups throughout British Columbia in order to resolve many of these claims. Any settlements that may result from these negotiations may involve a combination of cash, resources, grants of conditional rights to gather food on public lands, and some rights of self-government. The issues surrounding aboriginal title and rights are not likely to be resolved by the Federal Government or Provincial Government in the near future.

In a landmark decision in 2004, the Supreme Court of Canada determined that there is a duty on government to consult with and, where appropriate, accommodate First Nations where government decisions may impact on claimed, but as yet unproven, aboriginal rights or title. This decision also provided much needed clarification of the duties of consultation and accommodation. The Court found that third parties are not responsible for consultation or accommodation of aboriginal interests and that this responsibility lies with government. However, government permits, including environmental and mine permits, will not be granted by provincial and federal agencies unless they are satisfied that the duty to consult and accommodate has been fully met. In 2005, the Supreme Court of Canada confirmed this duty exists with respect to claimed treaty rights. A decision of the Supreme Court of Canada casts doubt on the Provincial Government's ability to justify infringements of treaty rights.

The Tseshaht First Nation has asserted traditional rights and title over the Eagle Rock Quarry Project site. The Hupacasath First Nation and the Ucluelet First Nation, who are shareholders of Eagle Rock Materials Ltd., have also asserted traditional rights and title over the Eagle Rock Quarry Project site. The Company has agreed, pursuant to the Eagle Rock Shareholders Agreement, to seek the participation of the Tseshaht in the Eagle Rock Quarry Project. The Company has been engaged in negotiations with the Tseshaht, however, to date there has been no agreement with respect to any participation. The terms of any participation have not been agreed upon, and the Tseshaht may, therefore, seek to dispute the Company's title in the Eagle Rock Quarry Project, despite the fact that the Company has received the environmental assessment certificate for the Eagle Rock Quarry Project. Any such dispute could delay or, if resolved in a manner adverse to the Company, impair the development and operation of the Eagle Rock Quarry Project.

Quarrying involves a degree of risk

Quarrying operations involve a degree of risk. The Company's operations will be subject to all the hazards and risks normally encountered in the development and production of construction aggregates, including, without limitation, unusual and unexpected geologic formations, seismic activity, pit-wall failures, cave-ins, flooding and other conditions involved in the extraction of material, any of which could result in damage to, or destruction of, quarries and other producing facilities, damage to life or property, environmental damage and legal liability. In addition to these risks stated above, processing operations are subject to various hazards, including, without limitation, equipment failure, labour disputes and industrial accidents. Should any of these risks occur, it may result in increased cost of production, delays, write-down of an industrial property, work stoppages, legal liability or injury or death to personnel, all of which may have an adverse effect on the Company's operations and financial condition.

Construction aggregates resources are estimates only

There is no certainty that the construction aggregates resource represented at the Company's properties will be realized or that such resource can be economically quarried. Mineral resources, which are not mineral reserves, do not have demonstrated economic viability. Until a deposit is actually mined and processed, the quantity of construction aggregates resources must be considered as estimates only. There is a risk that the actual deposits encountered and the economic viability of the deposits may differ materially from the resource estimates. Any material change in quantity of construction aggregates resources may affect the economic viability of the Company's properties.

The volume of construction aggregates quarried and processed may not be the same as currently anticipated in the Company's resource estimates. Any material reductions in estimates of construction aggregates resources, or of the Company's ability to extract these construction aggregates, could have a material adverse effect on the Company's results of operations and financial condition.

Currency fluctuations may adversely affect the Company's revenues

The effects on operating revenues and, hence, on cash flows, of the foreign exchange rate and the escalation of the Canadian dollar against the U.S. dollar are significant. The Company does not currently have any intention to enter into hedging contracts in connection with foreign currencies. The appreciation of the Canadian dollar against the U.S. dollar would increase Canadian dollar costs, due to stronger Canadian dollars being converted into U.S. dollars, and could materially and adversely affect the Company's U.S. dollar-reported operational profitability and financial condition.

The Company currently depends on a single property

The Company's only material mineral producing property is the East Cluxewe Deposit. Unless the Company acquires or develops additional material properties or projects, the Company will be solely dependent upon the operation of the Orca Quarry for its revenue and profits, if any.

The actual costs of reclamation are uncertain

The actual costs of reclamation included in the Company's plan for the Orca Quarry are estimates only and may not represent the actual amounts required to complete all reclamation activity. It is not possible to determine the exact amount that will be required, and the amount that the Company is required to spend could be materially different than current estimates. Reclamation bonds or other forms of financial assurance represent only a portion of the total amount of money that will be spent on reclamation over the life of the operation of the Orca Quarry. Although the Company has included estimated reclamation amounts in its plan for the Orca Quarry, it may be necessary to revise the planned expenditures, and the operating plan for the Orca Quarry, in order to fund required reclamation activities. Any additional amounts required to be spent on reclamation may have a material adverse affect on the Company's financial condition and results of operations.

The Company will require other construction aggregates resources in the future

According to the 43-101 technical report for the Orca Quarry Project, the Orca Quarry has an estimated quarry life of 17 years, which may not prove to be accurate. Because quarries have limited lives based on proven and probable construction aggregates reserves, in the longer term, the Company will have to replace and expand its construction aggregates resources as the Orca Quarry depletes. The Company's ability to maintain or increase its annual production of construction aggregates will be dependent almost entirely on its ability to bring new quarries into production.

There is, however, a risk that depletion of reserves will not be offset by future discoveries of mineral reserves. Exploration for minerals is highly speculative in nature and the projects involve many risks. Many projects are unsuccessful and there are no assurances that current or future exploration programs will be successful. Further, significant costs are incurred to establish mineral reserves and to construct mining and processing facilities. Development projects have no operating history upon which to base estimates of future cash flow and are subject to the successful completion of feasibility studies, obtaining necessary government permits, obtaining title or other land rights and availability of financing. In addition, assuming discovery of an economic reserve, depending on the type of mining operation involved, many years may elapse from the initial phases of drilling until commercial operations are commenced. Accordingly, there can be no assurances that the Company's current work programs will result in any new commercial mining operations or yield new reserves to replace and/or expand current reserves.

The Company's operations are subject to environmental risks

All phases of the Company's operations are subject to Federal, Provincial and local environmental regulation in the various jurisdictions in which it operates which could potentially make operations expensive or prohibit them all together. These regulations mandate, among other things, the maintenance of air and water quality standards and land reclamation. They also set forth limitations on the generation, transportation, storage and disposal of solid and hazardous waste. Environmental legislation is evolving in a manner which will require stricter standards and enforcement, increased fines and penalties for non-compliance, more stringent environmental assessments of proposed projects and a heightened degree of responsibility for companies and their officers, directors and employees. There is no assurance that future changes in environmental regulation, if any, will not adversely affect the Company's operations or prevent operations all together. Environmental hazards may exist on the properties on which the Company holds and will hold interests which are unknown to the Company at present and which have been caused by previous or existing owners or operators of the properties.

Government approvals and permits are currently, and may in the future be, required in connection with the Company's operations, which could potentially make operations expensive or prohibit them altogether. To the extent such future approvals are required and not obtained, the Company may be curtailed or prohibited from restarting or continuing its quarrying operations or from proceeding with planned exploration or development of construction aggregates properties.

Failure to comply with applicable laws, regulations and permitting requirements may result in enforcement actions thereunder, including orders issued by regulatory or judicial authorities causing operations to cease or be curtailed, and may include corrective measures requiring capital expenditures, installation of additional equipment, or remedial actions. Parties engaged in quarrying operations or in the development of construction aggregates properties may be required to compensate those suffering loss or damage by reason of the quarrying activities and may have civil or criminal fines or penalties imposed for violations of applicable laws or regulations.

The Company does not insure against all risks

The Company's insurance will not cover all the potential risks associated with a quarrying company's operations. The Company may also be unable to maintain insurance to cover these risks at economically feasible premiums. Insurance coverage may not continue to be available or may not be adequate to cover any resulting liability. Moreover, insurance against risks such as environmental pollution or other hazards as a result of exploration and production is not generally available to the Company or to other companies in the quarrying industry on acceptable terms. The Company might also become subject to liability for environmental occurrences pollution or other hazards which may not be insured against or which the Company may elect not to insure against because of premium costs or other reasons. Losses from these events may cause the Company to incur significant costs that could have a material adverse effect upon its financial condition and results of operations.

Certain groups are opposed to quarrying

In North America there are organizations opposed to quarrying, particularly open pit quarries such as the Orca Quarry and the Eagle Rock Quarry Project. The Company believes it has the support of representatives from the community and First Nation groups nearest these quarries and from various levels of government in British Columbia having jurisdiction over these quarries. Although the Company believes that it is complying with all environmental laws and permitting obligations in conducting its business, there is a risk that those opposed to its operation at these quarries will attempt to interfere with the Company's operations, whether by legal process, regulatory process or otherwise. Such interference could have an impact on the Company's ability to operate its properties in the manner that is most efficient or appropriate, if at all, and any such impact could materially adversely affect the financial condition and results of operations of the Company.

The Company is dependent on its key personnel

The Company is dependent upon certain of its executive management team. The loss of the services of its executive officers could have a material adverse effect on the Company. The Company's ability to manage its development and operating activities, and hence its success, will depend in large part on the efforts of its executive officers and other members of management of the Company. The Company faces intense competition for qualified personnel, and there can be no assurance that it will be able to attract and retain such personnel. The Company does not yet have in place formal programs for succession or training of management.

The Company's growth will require new personnel

The Company initially experienced significant growth in its number of employees as a result of the development of its construction aggregate production and marine export business and may experience significant growth in the future as the Company develops its aggregate resource. The Company will be required to recruit additional personnel and to train, motivate and manage its employees. The Company may also have to adopt and implement new systems in all aspects of its operations. There can be no assurance that the Company will be able to recruit or retain personnel required to execute its programs or to manage these changes successfully.

The Company may not meet minimum freight contract volumes

The Company's freight contract, which was amended and restated in March 2010, provides for minimum annual volumes of construction aggregates that increase during the years of the contract. If the Company is unable to secure sufficient sales volumes to meet those minimum freight volumes, its revenues, operations and financial condition could be materially adversely affected.

The Company's directors and officers may have conflicts of interest

Certain of the directors and officers of the Company also serve as directors, officers and/or significant shareholders of other companies involved in natural resource exploration and development and consequently there exists the possibility for such directors and officers to be in a position of conflict.

Controls and Procedures

Disclosure Controls and Procedures

Disclosure Controls and Procedures ("DC&P") are designed to provide reasonable assurance that information required to be disclosed is recorded, processed, summarized and reported within the time periods specified in accordance with the Canadian securities legislation, and include controls and procedures designed to ensure that information required to be disclosed is accumulated and communicated to management, including the CEO and CFO, as appropriate to allow timely decisions regarding required disclosure.

As at December 31, 2012, an evaluation of the design and effectiveness of the Company's DC&P was carried out under the supervision and with the participation of management including its certifying officers. Based on that evaluation, the Company's certifying officers concluded that the design and operation of the Company's DC&P were effective as at December 31, 2012 and would provide reasonable assurance that material information relating to the Company and its consolidated subsidiaries would be made known to them by others within those entities during the period in which the annual filings were prepared, and that information required to be disclosed by the Company would be recorded, processed, summarized and reported within the time periods specified in the applicable securities legislation.

Internal Controls over Financial Reporting

Internal Controls over Financial Reporting ("ICFR") is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with Canadian GAAP. ICFR can only provide reasonable assurance and may not prevent or detect misstatements. Projections of an evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate due to changes in conditions, or that the degree or compliance with the policies and procedures may deteriorate. As at December 31, 2012, an evaluation of the design and effectiveness of the Company's internal controls over financial reporting was carried out under the supervision and with the participation of the Company's management including its certifying officers. This evaluation included confirmation of the Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") control framework used to design the ICFR. Based on the evaluation, the CEO and CFO found the Company's ICFR to be effective. During the year ended December 31, 2012, there were no changes in the Company's internal controls over financial reporting that have materially affected, or are reasonably likely to materially affect, the internal control over financial reporting. Based on their inherent limitation, disclosure controls and procedures and internal control over financial reporting may not prevent or detect misstatements, errors or fraud. Control systems, no matter how well conceived or operated, can provide only reasonable, but not absolute, assurance that the objectives of the control systems are met.

Cautionary Note Regarding Forward Looking Statements

This Management's Discussion and Analysis release contains "forward-looking statements" and "forward-looking information" within the meaning of applicable securities laws. These statements and information appear in a number of places in this document and include estimates, forecasts, information and statements as to management's expectations with respect to, among other things the future financial or operating performance of the Company, costs and timing of the development of the construction aggregate quarry, the timing and amount of estimated future production, costs of production, capital and operating expenditures, requirements for additional capital, government regulation of quarrying operations, environmental risks, reclamation expenses, and title disputes. Often, but not always, forward-looking statements and information can be identified by the use of words such as "may", "will", "should", "plans", "expects", "intends", "anticipates", "believes", "budget", and "scheduled" or the negative thereof or variations thereon or similar terminology. Forward-looking statements and information are necessarily based upon a number of estimates and assumptions that, while considered reasonable by management, are inherently subject to significant business, economic and competitive uncertainties and contingencies. Readers are cautioned that any such forward-looking statements and information are not guarantees and there can be no assurance that such statements and information will prove to be accurate and actual results and future events could differ materially from those anticipated in such statements. Important factors that could cause actual results to differ materially from the Company's expectations are disclosed under the heading "Risks and Uncertainties" in the Company's Annual Report and under the heading "Risk Factors" in the Company's Annual Information Form (AIF) in respect of its financial year-ended December 31, 2012, both of which are filed with Canadian regulators on SEDAR (www.sedar.com). The Company expressly disclaims any intention or obligation to update or revise any forward-looking statements and information whether as a result of new information, future events or otherwise. All written and oral forward-looking statements and information attributable to us or persons acting on our behalf are expressly qualified in their entirety by the foregoing cautionary statements.

Other Information

Additional information related to the Company is available for viewing on SEDAR at www.sedar.com and at the Company's website at www.polarmin.com.

Glossary of Terms

Ton – the unit of weight used in the US consisting of 2,000 imperial pounds, often referred to as a 'Short Ton'.

Metric Tonne – a unit of weight commonly used in Canada and worldwide in shipping operations consisting of 1,000 kilograms (2,205 imperial pounds).

Polaris Minerals Corporation

CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2012 and 2011

(U.S. dollars)

Management's Responsibility for Financial Reporting

The consolidated financial statements of Polaris Minerals Corporation have been prepared by and are the responsibility of the board of directors and management of the Company. The consolidated financial statements are prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board and reflect management's best estimates and judgement based on currently available information. Management has developed and maintains a system of internal controls to provide assurance, on a reasonable and cost effective basis, that the Company's assets are safeguarded, transactions are authorized and financial information is accurate and reliable.

The Audit Committee of the Board of Directors, consisting of three independent directors, meets periodically with management and the independent auditors to review the scope and results of the annual audit, and to review the financial statements and related financial reporting matters prior to submitting the financial statements to the Board for approval.

The consolidated financial statements have been audited by the Company's independent auditors, PricewaterhouseCoopers LLP, who are appointed by the shareholders. Their report outlines the scope of their audit and gives their opinion on the consolidated financial statements.

"Herbert Wilson"
Herbert Wilson
President and Chief Executive Officer

"Darren McDonald"
Darren McDonald
Vice President, Finance

March 18, 2013

Independent Auditor's Report

To the Shareholders of Polaris Minerals Corporation:

We have audited the accompanying consolidated financial statements of Polaris Minerals Corporation and its subsidiaries, which comprise the consolidated statements of financial position as at December 31, 2012 and December 31, 2011 and the consolidated statements of loss, comprehensive (loss) income, changes in equity and cash flows for the years ended December 31, 2012 and 2011, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Polaris Minerals Corporation and its subsidiaries as at December 31, 2012 and December 31, 2011 and their financial performance and their cash flows for the years then ended in accordance with International Financial Reporting Standards.

" PricewaterhouseCoopers LLP"

Chartered Accountants
Vancouver, British Columbia
March 18, 2013

Polaris Minerals Corporation

Consolidated Statements of Financial Position

(thousands of U.S. dollars)

	December 31 2012 $	December 31 2011 $
Assets		
Current assets		
Cash	5,537	1,629
Trade and other receivables (note 4)	2,438	2,402
Current tax assets	686	300
Inventories (note 5)	4,069	3,758
Other current assets	172	160
	12,902	8,249
Non-current assets		
Financial assets (note 6)	1,271	1,290
Property, plant and equipment (note 7)	65,852	69,479
Investments in joint ventures (note 8)	128	11,940
	80,153	90,958
Liabilities		
Current liabilities		
Trade and other payables (note 9)	5,005	5,197
Short-term financial liability (note 10)	-	5,757
Other current liabilities (note 11)	-	190
Current portion of finance leases (note 12)	695	440
Current portion of long-term debt (note 13)	-	1,103
	5,700	12,687
Non-current liabilities		
Finance leases (note 12)	494	1,166
Long-term debt (note 13)	7,232	5,072
Restoration provision (note 14)	3,429	3,339
	16,855	22,264
Equity		
Share capital (note 15)	156,772	149,705
Contributed surplus (note 16)	21,347	21,150
Accumulated other comprehensive income	2,109	1,645
Deficit	(113,240)	(101,002)
Equity attributable to Polaris Minerals Corporation shareholders	66,988	71,498
Non-controlling interest (note 17)	(3,690)	(2,804)
Total equity	63,298	68,694
	80,153	90,958

Continuing operations (note 2)

Commitments and contingent liabilities (note 24)

Subsequent event (note 12)

Approved by the Board of Directors

"Paul Sweeney"
Paul Sweeney, Director

"Herb Wilson"
Herb Wilson, Director

– See Accompanying Notes –

Polaris Minerals Corporation

Consolidated Statements of Loss

For the years end December 31, 2012 and 2011

(thousands of US dollars, except per share amounts)

	2012 $	2011 $
Sales	32,196	23,438
Cost of goods sold (note 18)	(37,484)	(30,182)
Gross loss	(5,288)	(6,744)
Selling, general and administrative expenses	(4,761)	(5,565)
Foreign exchange (loss) gain	9	(153)
Share of income (loss) from joint ventures (note 8)	323	(2,138)
Property holding costs	(885)	(498)
Other losses (note 18)	(6)	(2,198)
	(5,320)	(10,552)
Loss before interest and income taxes	(10,608)	(17,296)
Finance income	40	151
Finance expense (note 19)	(2,145)	(1,615)
Finance charges	(1,055)	-
	(3,160)	(1,464)
Loss before income taxes	(13,768)	(18,760)
Income tax recovery (expense) (note 21)	549	(361)
Net loss for the year	(13,219)	(19,121)
Net loss attributable to:		
Shareholders of the parent company	(12,238)	(17,787)
Non-controlling interest	(981)	(1,334)
	(13,219)	(19,121)
Net loss per share:		
Basic and diluted loss per common share	(0.23)	(0.33)
Weighted average number of common shares outstanding	53,506	53,367

– See Accompanying Notes –

Polaris Minerals Corporation

Consolidated Statements of Comprehensive (Loss) Income

For the years ended December 31, 2012 and 2011

(thousands of U.S. dollars)

	2012 $	2011 $
Net loss for the year	(13,219)	(19,121)
Other comprehensive (loss) income		
Foreign currency translation	559	(672)
Comprehensive loss for the year	(12,660)	(19,793)
Comprehensive loss attributable to:		
Shareholders of the parent company	(11,775)	(18,365)
Non-controlling interest	(885)	(1,428)
	(12,660)	(19,793)

Polaris Minerals Corporation

Consolidated Statements of Changes in Equity

For the years ended December 31, 2012 and 2011

(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	150	113	-	-	-	113	-	113
Share-based employee benefits	-	-	376	-	-	376	-	376
Other comprehensive income	-	-	-	(578)	-	(578)	(94)	(672)
Net loss	-	-	-	-	(17,787)	(17,787)	(1,334)	(19,121)
December 31, 2011	53,397	149,705	21,150	1,645	(101,002)	71,498	(2,804)	68,694
Common shares issued	149	90	-	-	-	90	-	90
Warrants issued	-	-	1,126	-	-	1,126	-	1,126
Warrants exercised	13,200	6,977	(1,126)	-	-	5,851	-	5,851
Share-based employee benefits	-	-	197	-	-	197	-	197
Other comprehensive loss	-	-	-	464	-	464	95	559
Net loss	-	-	-	-	(12,238)	(12,238)	(981)	(13,219)
December 31, 2012	66,746	156,772	21,347	2,109	(113,240)	66,988	(3,690)	63,298

– See Accompanying Notes –

Polaris Minerals Corporation

Consolidated Statements of Cash Flows

For the years ended December 31, 2012 and 2011

(thousands of U.S. dollars)

	2012 $	2011 $
Cash flows from operating activities		
Net loss	(13,219)	(19,121)
Amortization, depletion and accretion	5,510	5,187
Share-based employee benefits	197	376
Unrealized foreign exchange loss (gain)	87	270
Provision for annual minimum freight volume penalty (note 11)	-	190
Interest	1,546	1,470
Share of loss (income) from investment in joint ventures	(323)	2,138
Loss on settlement of long term debt (note 13)	925	2,195
Other losses	68	-
	(5,209)	(7,295)
Changes in non-cash working capital items (note 22)	(892)	689
	(6,101)	(6,606)
Cash flows from financing activities		
Proceeds from issue of common shares	5,838	113
Proceeds from issue of senior secured notes	15,216	-
Financing fees	(203)	-
Interest paid	(3,259)	(131)
Repayment of principal on credit facility and senior secured notes	(18,411)	-
Finance lease payments	(450)	(736)
	(1,269)	(754)
Cash flows from investing activities		
Dividends received	-	194
Contribution to joint ventures	(95)	(260)
Proceeds from sale of land in joint venture	12,281	-
Settlement of loans	-	3,727
Property, plant and equipment purchases	(1,044)	(106)
Proceeds on disposal of property, plant and equipment	-	213
Security deposit withdrawals	52	-
	11,194	3,768
Effect of foreign currency translation on cash	84	(90)
Increase (decrease) in cash	3,908	(3,682)
Cash - beginning of year	1,629	5,311
Cash - end of year	5,537	1,629

Supplemental cash flow information (note 22)

– See Accompanying Notes –

(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 of aggregates from the Orca Quarry; the development of new aggregate marine terminals along the west coast of North America; and the development of additional aggregate quarries.

2. Basis of preparation

These consolidated financial statements have been prepared in compliance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") The Company has consistently applied the same accounting policies in all periods presented.

These financial statements were approved by the board of directors for issue on March 19, 2013.

Continuing operations and liquidity risk

The Company's continuing operations and liquidity 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. Assuming the market continues to recover, it may be increasingly possible for the Company to generate positive cash flows and avoid penalties under its shipping contract (note 24). Management has taken initiatives to improve the Company's financial position and cash flow. In March 2012, a debt refinancing was completed by the issuance of CAD$15.0 million in senior secured notes (the "Notes") that mature December 31, 2016 (note 13). Proceeds from the issue of the Notes were used to repay all outstanding debt, including interest and fees, comprising CAD$6.2 million due on the bridge loan secured in November 2010 (note 10) and $7.1 million due on the long-term debt with the Company's exclusive shipper (note 13). Net proceeds of CAD$1.7 million remained for general working capital purposes. The refinancing consolidated the Company's debt into a single, five year term facility. In November 2012, Cemera Long Beach LLC ("Cemera") closed the Pier B land sale at for proceeds of $19.5 million, from which the Company has received $12.3 million from a total of approximately $12.4 million, net of closing costs and commissions. Due to a mandatory pre-payment clause contained in the Notes, CAD$5 million of the net proceeds were used to reduce the Company's outstanding debt with a further CAD$0.6 million used to pay the deferred June 2012 interest payment (note 13). In December 2012, the holders of the 13.2 million common share purchase warrants issued on March 1, 2012, exercised the warrants in full which generated cash receipts to the Company of CAD$5.8 million of which CAD$1.9 million was used to further reduce the Company's debt to CAD$8.1 million and the balance retained for general working capital purposes. The Company may be further required to: seek additional sources of financing; curtail, reduce or delay expenditures; or look for strategic alternatives to maximize the benefits of the Company's long lived assets. The success of any of these initiatives cannot be assured.

3. Summary of significant accounting policies

Basis of measurement

These financial statements have been prepared on a historical cost basis except for financial instruments classified as fair value through profit or loss, which are stated at their fair value.

Principles of consolidation

These consolidated financial statements include the financial statements of the Company and the entities controlled by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those of the Company.

Inter-company balances and transactions, including any unrealized income and expenses arising from intercompany transactions, are eliminated in preparing the consolidated financial statements.

(U.S. dollars, except where noted)

3. Significant accounting policies *(continued)*

The consolidated financial statements include the accounts of the Company and its subsidiaries ("Group"). The subsidiaries and the Company's ownership interests therein, are as follows:

Company	Location	Ownership interest	Status
Eagle Rock Materials Ltd.	Canada	70 %	Consolidated subsidiary
Eagle Rock Aggregates, Inc.	United States	70 %	Consolidated subsidiary
Quality Rock Holdings Ltd.	Canada	100 %	Consolidated subsidiary
Polaris Aggregates Inc.	United States	100 %	Consolidated subsidiary
Orca Sand & Gravel Limited Partnership	Canada	88 %	Consolidated subsidiary
Orca Sand & Gravel Ltd.	Canada	88 %	Consolidated subsidiary
Quality Sand & Gravel Ltd.	Canada	100 %	Consolidated subsidiary
5329 Investments Ltd.	Canada	100 %	Consolidated subsidiary
Orca Finance Ltd.	Canada	100 %	Consolidated subsidiary
Polaris Materials Inc.	United States	100 %	Consolidated subsidiary
Cemera Long Beach LLC	United States	(1)	Equity accounted joint venture

(1) Refer to note 8 for the description of the ownership interest in Cemera Long Beach LLC.

Significant accounting judgments and estimates

The preparation of financial statements requires management to use judgment in applying its accounting policies and estimates and assumptions about the future. Estimates and other judgments are continuously evaluated and are based on management's experience and other factors, including expectations about future events that are believed to be reasonable under the circumstances. The following discusses the most significant accounting judgments and estimates that the company has made in the preparation of the financial statements:

(i) Determination of mineral reserves
Reserves are estimates of the amount of product that can be economically and legally extracted from the Company's properties. In order to estimate reserves, estimates are required about a range of geological, technical and economic factors, including quantities, production techniques, production costs, capital costs, transport costs, demand, prices and exchange rates. Estimating the quantity of reserves requires the size, shape and depth of deposits to be determined by analyzing geological data. This process may require complex and difficult geological judgments to interpret the data. As a result, management will form a view of forecast sales prices, based on current and long-term historical average price trends. Changes in the proven and probable reserves estimates may impact the carrying value of property, plant and equipment, restoration provisions, recognition of deferred tax amounts and depreciation, depletion and amortization.

(ii) Asset values and impairment charges
If the recoverable amount of an asset or cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount. An impairment loss is recognized immediately in the statement of income (loss). Management's determination of recoverable amounts include estimates of sales volumes and prices, costs to sell, recoverable reserves, operating costs and capital costs, which are subject to certain risks and uncertainties that may affect the recoverability of an asset's costs. Although management has made its best estimate of these factors, it is possible that changes could occur that could adversely affect management's estimate of the net cash flow to be generated from its assets or cash-generating units.

For quarrying property interests the Company considers both external and internal sources of information in assessing whether there are any indications of impairment. External sources of information the Company considers include changes in the market, economic and legal environment in which the Company operates that are not within its control and affect the recoverable amount of quarrying property interests. Internal sources of information the Company considers include indications of economic performance of the assets. In determining the recoverable amounts of the Company's quarrying property interests, the Company's management makes estimates of the discounted future after-tax cash flows expected to be derived from the Company's properties, costs to sell the quarrying properties and the appropriate discount rate. Reductions in price forecasts, increases in estimated future costs of production, increases in estimated future non-expansionary capital expenditures, reductions in the amount of recoverable reserves and resources, and/or adverse current economics can result in a write-down of the carrying amounts of the Company's quarrying interests.

(iii) Estimated Reclamation and Closure Costs
The Company's provision for reclamation and closure cost obligations represents management's best estimate of the present value of the future cash outflows required to settle the liability which reflects estimates of future costs, inflation, and assumptions of risks associated with the future cash outflows, and the applicable risk-free interest rates for discounting the future cash outflows. Changes in the above factors can result in a change to the provision recognized by the Company. Changes to reclamation and closure cost obligations are recorded with a corresponding change to the carrying amounts of related quarrying properties. Adjustments to the carrying amounts of related quarrying properties can result in a change to future depletion expense.

(U.S. dollars, except where noted)

3. Significant accounting policies *(continued)*

Foreign currency translation

The Company's presentation currency is the United States dollar ("U.S. dollar"). The functional currency of the Company and for each subsidiary of the Company is the currency of the primary economic environment in which it operates.

The functional currency of aggregate sales and terminal operations is the US dollar. The Company translates non-US dollar balances for these operations into US dollars as follows:

(i) Property, plant and equipment using historical rates;
(ii) Other assets and liabilities using the closing exchange rate as at the balance sheet date with translation gains and losses recorded in net income for the period; and
(iii) Income and expenses using the average exchange rate for the period, except for expenses that relate to nonmonetary assets and liabilities measured at historical

The functional currency of the quarrying operations and the corporate head office is the Canadian dollar. The Company translates these operations into US dollars as follows:

(i) Assets and liabilities using the closing exchange rate as at the balance sheet date with translation gains and losses recorded in other comprehensive income; and
(ii) Income and expenses using the average exchange rate for the period with translation gains and losses recorded in other comprehensive income

Inventories

Construction aggregates inventory is stated at the lower of average cost and net realizable value. Cost for construction aggregates inventory is determined on an average cost basis. Such costs include fuel, freight in, depreciation, depletion, repair parts and supplies, raw materials, direct labour and production overhead. Consumable supplies are stated at the lower of cost and net realizable value. Costs for consumable supplies are determined on a first-in, first-out basis.

When inventories have been written down to net realizable value ("NRV"), the Company makes a new assessment of NRV in each subsequent period. If circumstances that caused the write-down no longer exist, the remaining amount of the write-down is reversed.

Property, plant and equipment

Expenditures incurred to develop new aggregate properties or marine receiving terminals are capitalized. Costs are written down to the recoverable amount if impaired, or written off if the property or interest is sold, allowed to lapse or abandoned.

Developed property, plant and equipment are carried at cost less accumulated depreciation and depletion and accumulated impairment. Capitalized costs for quarries are depleted using a unit of production method over the estimated economic life of the quarry to which they relate following the commencement of operations. Capitalized costs for marine receiving terminals are amortized over the useful lives of the underlying interests following the commencement of operations. Depreciation related to production is included in the calculation of gross margin.

Property, plant and equipment is depreciated or depleted over its estimated useful life using the following rates:

Quarry property costs	Units of production
Property, plant & equipment	3 to 25 years
Equipment under finance lease	10 years
Office equipment	3 to 10 years
Leasehold improvements	Life of lease

The cost of equipment held under finance leases is equal to the lower of the net present value of the minimum lease payments or the fair value of the leased property at the inception of the lease and is amortized over the term of the lease, except when there is reasonable certainty that the leased assets will be purchased at the end of the lease, in which case they are amortized over the estimated useful life. Equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on disposal of the asset, determined as the difference between the net disposal proceeds and the carrying amount of the asset, is recognized in statement of income (loss).

Where an item of plant and equipment comprises significant components with different useful lives, the components are accounted for as separate items of plant and equipment. Expenditures incurred to replace a component of an item of property, plant and equipment that is accounted for separately, including major inspection and overhaul expenditures are capitalized.

(U.S. dollars, except where noted)

3. Significant accounting policies *(continued)*

Useful lives, residual values and depreciation methods are reassessed annually for all property, plant and equipment with the impact of any changes in estimate accounted for on a prospective basis.

Impairment of long-lived assets

At each financial position reporting date the carrying amounts of the Company's assets are reviewed to determine whether there is any indication that those assets are impaired. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment, if any. The recoverable amount is the higher of fair value less costs to sell and the value in use. Fair value is determined as the amount that would be obtained from the sale of the asset in an arm's length transaction between knowledgeable and willing parties. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Future cash flows are based on expected future production, estimated aggregate prices, and estimated operating, capital, and reclamation costs. Assumptions underlying future cash flow estimates are subject to risks and uncertainties. Any differences between significant assumptions used and actual market conditions and/or the Company's performance could have a material effect on the Company's financial position and results of operations.

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount and the impairment loss is recognized in the statement of income (loss) for the period. For the purposes of impairment testing, exploration and evaluation assets are allocated to cash-generating units to which the exploration activity relates. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash generating unit to which the asset belongs.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognized immediately in the statement of income (loss).

Operating segments

The Company operates in one segment, the development and operation of construction aggregate properties and projects in western North America.

Environmental rehabilitation and decommissioning

The Company recognizes liabilities for statutory, contractual, legal or constructive obligations associated with the retirement of property, plant and equipment. The Company records the present value of any environmental rehabilitation and decommissioning costs as a long-term liability in the period in which the related environmental disturbance occurs, based on the net present value of the estimated future costs that are required by current legal and regulatory requirements. Discount rates using a pre-tax rate that reflect the time value of money and the risks specific to the obligation are used to calculate the net present value. The net present value of future rehabilitation cost estimates arising from the decommissioning of plant and other site preparation work is capitalized to quarrying assets along with a corresponding increase in the rehabilitation provision in the period incurred. The rehabilitation asset is depreciated on the same basis as quarrying assets.

The liability is accreted over time through periodic charges to profit or loss and it is reduced by actual costs of decommissioning and reclamation. The present value of the liability is added to the carrying amount of the capitalized mineral property. This capitalized amount will be amortized over the estimated useful life of the asset. The obligation is adjusted at the end of each fiscal period to reflect the passage of time and changes in the estimated future costs underlying the obligation.

Provisions

Provisions are recorded when a present legal or constructive obligation exists as a result of past events where it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

Share based payments

The Company applies the fair value method of accounting for all stock option awards to employees and others providing similar services. Under this method the Company recognizes a compensation expense for all share options awarded based on the fair value of the options on the date of grant which is determined by using a Black-Scholes option pricing model. Accordingly, the fair value of all share options granted, and estimated to eventually vest, is recorded, over the vesting period, as a charge to the statement of income (loss) and a credit to contributed surplus. At the end of each reporting period, the Company revises its estimate of the number of equity instruments expected to vest. The impact of the revision of original estimates, if any, is charged to the statement of income (loss) such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to contributed surplus. Consideration paid on exercise of share options in addition to the fair value attributed to stock options granted is credited to share capital.

(U.S. dollars, except where noted)

3. Significant accounting policies *(continued)*

Income taxes

Income tax on the profit or loss for the periods presented comprises current and deferred tax. Income tax is recognized in the statement of income (loss) except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

Current income taxes are calculated based on taxable income for the current year at enacted or substantially enacted statutory tax rates.

Deferred income taxes are calculated using the liability method of accounting. Temporary differences arising from the difference between the tax basis of an asset or liability and its carrying amount on the balance sheet are used to calculate deferred income tax liabilities or assets. Deferred income tax assets and liabilities are measured using enacted or substantially enacted tax rates and laws that are expected to apply when the temporary differences are expected to reverse. Deferred income tax assets are recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized.

Temporary differences are not provided for the initial recognition of assets or liabilities that affect either accounting or taxable profit; and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and 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.

Investment in joint ventures

The Company conducts a portion of its business through joint ventures under which the joint venture participants are bound by contractual agreements establishing joint control over the ventures. The Company accounted for the joint venture in Cemera Long Beach LLC using the equity method, whereby the Company recorded the initial costs of the joint venture and the carrying amount is increased or decreased to recognise the Company's share of the profit or loss of the joint venture after the date of acquisition. The Company also accounted for its interest in the joint venture for 0791304 B.C. Ltd. using the equity method prior to the sale of its interest during 2011.

Financial instruments

All financial assets are initially recorded at fair value and designated upon inception into one of the following four categories:

i. Held to maturity - measured at amortized cost.

ii. Available-for-sale - measured at fair value.

iii. Loans and receivables - measured at amortized cost.

iv. Fair-value-through-profit-or-loss ("FVTPL") - measured at fair value with gains and losses recognized through statement of income (loss).

Financial assets classified as available-for-sale are measured at fair value with gains and losses recognized in other comprehensive income (loss) except for impairment losses. Interest calculated using the effective interest method and foreign exchange gains and losses on monetary items, will be recognised in profit and loss. Transaction costs associated with FVTPL financial assets are expensed as incurred, while transaction costs associated with all other financial assets are included in the initial carrying amount of the asset. Cash, trade and other receivables, loans and advances and security deposits are designated as loans and receivables.

All financial liabilities are initially recorded at fair value and designated upon inception as FVTPL or other financial liabilities. Financial liabilities classified as other financial liabilities are initially recognized at fair value less directly attributable transaction costs. After initial recognition, other financial liabilities are subsequently measured at amortized cost using the effective interest rate method. The effective interest rate method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that discounts estimated future cash payments through the expected life of the financial liability. The Company's trade and other payables, debt and amount due under line of credit facilities are classified as other financial liabilities.

(U.S. dollars, except where noted)

3. Significant accounting policies *(continued)*

Revenue recognition

Revenue from the sale of construction aggregates, net of any discounts, is recognized on the sale of products at the time the Company has transferred to the buyer the significant risks and rewards of ownership; the Company retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold; the amount of revenue can be measured reliability; it is probable that the economic benefits associated with the transaction will flow to the entity; and the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Capitalized interest

Interest costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalized as construction in progress until the related assets are placed into service, at which time they are transferred to property, plant and equipment. Interest costs incurred after the asset has been placed into service are charged to operations.

Earnings per share

Earnings per share are calculated using the weighted average number of common shares outstanding during the year. The calculation of diluted earnings per share assumes that outstanding options and warrants are exercised and the proceeds are used to repurchase shares of the Company at the average market price of the shares for the period. The effect is to increase the number of shares used to calculate diluted earnings per share and is only recognized when the effect is dilutive.

Accounting standards and amendments issued but not yet adopted

Unless otherwise noted, the following revised standards and amendments are effective for annual periods beginning on or after January 1, 2013. The company has assessed that the impact of these standards and amendments has no effect on the Company's current accounting policies.

(i) IFRS 9, *Financial Instruments,* was issued in November 2009 and addresses classification and measurement of financial assets. It replaces the multiple category and measurement models in IAS 39 for debt instruments with a new mixed measurement model having only two categories: amortized cost and fair value through profit or loss. IFRS 9 also replaces the models for measuring equity instruments. Such instruments are either recognized at fair value through profit or loss or at fair value through other comprehensive income. Where equity instruments are measured at fair value through other comprehensive income, dividends are recognized in profit or loss to the extent that they do not clearly represent a return of investment; however, other gains and losses (including impairments) associated with such instruments remain in accumulated comprehensive income indefinitely. Requirements for financial liabilities were added to IFRS 9 in October 2010 and they largely carried forward existing requirements in IAS 39, *Financial Instruments – Recognition and Measurement,* except that fair value changes due to credit risk for liabilities designated at fair value through profit and loss are generally recorded in other comprehensive income. The effective date of IFRS 9 is January 1, 2015.

(ii) IFRS 10, *Consolidated Financial Statements*, requires an entity to consolidate an investee when it has power over the investee, is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Under existing IFRS, consolidation is required when an entity has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

(iii) IFRS 11, *Joint Arrangements*, requires a venturer to classify its interest in a joint arrangement as a joint venture or joint operation. Joint ventures will be accounted for using the equity method of accounting whereas for a joint operation the venturer will recognize its share of the assets, liabilities, revenue and expenses of the joint operation. Under existing IFRS, entities have the choice to proportionately consolidate or equity account for interests in jointly controlled entities.

(iv) IFRS 12, *Disclosure of Interests in Other Entities*, establishes disclosure requirements for interests in other entities, such as subsidiaries, joint arrangements, associates, and unconsolidated structured entities. The standard carries forward existing disclosures and also introduces significant additional disclosure that address the nature of, and risks associated with, an entity's interests in other entities.

(v) IFRS 13, *Fair Value Measurement*, is a comprehensive standard for fair value measurement and disclosure for use across all IFRS standards. The new standard clarifies that fair value is the price that would be received to sell an asset, or paid to transfer a liability in an orderly transaction between market participants, at the measurement date. Under existing IFRS, guidance on measuring and disclosing fair value is dispersed among the specific standards requiring fair value measurements and does not always reflect a clear measurement basis or consistent disclosures.

(vi) There h*ave been amendments to* existing standards, including IAS 27, *Separate Financial Statements* (IAS 27), and IAS 28, *Investments in Associates and Joint Ventures* (IAS 28). IAS 27 addresses accounting for subsidiaries, jointly controlled entities and associates in non-consolidated financial statements. IAS 28 has been amended to include joint ventures in its scope and to address the changes in IFRS 10 – 13.

(U.S. dollars, except where noted)

3. Significant accounting policies *(continued)*

(vii) IFRIC 20, *Stripping Costs in the Production Phase of a Surface Mine*, sets out the accounting for overburden waste removal (stripping) costs in the production phase of an open pit mine or quarry. Stripping activity may create two types of benefit: i) inventory produced and ii) improved access to ore. Stripping costs associated with the former should be accounted for as a current production cost in accordance with IAS 2,*Inventories*. The latter should be accounted for as an addition to or enhancement of an existing asset.

4. Trade and other receivables

(in thousands)	December 31, 2012 $	December 31, 2011 $
Trade receivables	2,260	2,227
Accrued interest	5	3
Other taxes receivable	134	171
Other receivables	39	1
	2,438	2,402

5. Inventories

(in thousands)	December 31, 2012 $	December 31, 2011 $
Construction aggregates	3,793	3,425
Components and consumable supplies	276	333
	4,069	3,758

Construction aggregates at December 31, 2011 were measured at net realizable value. Write-downs at December 31, 2011 totalled $386,171.

6. Financial assets

(in thousands)	December 31, 2012 $	December 31, 2011 $
Loans and receivables measured at amortized cost:		
Orca quarry security deposits	1,130	1,152
Other long-term receivables	141	138
Total financial assets	1,271	1,290

Orca Quarry security deposits

The Company maintains CAD$1,124,099 (December 31, 2011 - CAD$1,171,677) in interest-bearing term deposits for irrevocable standby letters of credit and safekeeping agreements required by performance bonds on the Orca Quarry. The deposits are automatically renewed each year until returned to the Company upon completion of the performance bond, as such, their carrying value approximates fair value. As at December 31, 2012, deposits bear interest at a rate of 0.45% to 1.25% (December 31, 2011 - 0.40% to 1.25%).

(U.S. dollars, except where noted)

7. Property, plant and equipment

(in thousands)	Orca Quarry			Richmond Terminal	Head Office	Long Beach Terminal Project	Other Terminal Projects	
	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	**Total**
	$	**$**	**$**	**$**	**$**	**$**	**$**	**$**
Cost								
January 1, 2011	47,080	5,193	1,286	27,015	656	416	39	81,685
Additions	227	-	-	-	-	-	-	227
Environmental rehabilitation 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	569	434	-	26	-	-	-	1,029
Environmental rehabilitation adjustments	(70)	-	-	-	-	-	-	(70)
Disposals	(103)	(244)	-	-	-	-	-	(347)
Foreign exchange	937	116	31	-	16	-	-	1,100
December 31, 2012	47,414	5,385	1,223	27,041	658	416	39	82,176
Accumulated depreciation								
January 1, 2012	(5,018)	(2,458)	-	(2,999)	(510)	-	-	(10,985)
Depreciation	(3,200)	(546)	-	(1,621)	(58)	-	-	(5,425)
Disposals	40	239	-	-	-	-	-	279
Foreign exchange	(119)	(64)	-	-	(10)	-	-	(193)
December 31, 2012	(8,297)	(2,829)	-	(4,620)	(578)	-	-	(16,324)
Carrying amount December 31, 2012	39,117	2,556	1,223	22,421	80	416	39	65,852

(U.S. dollars, except where noted)

8. Investments in joint ventures

The Company conducted a portion of its business through joint ventures under which the venturers are bound by contractual arrangements establishing joint control. The Company records its investments in joint ventures using the equity method.

0791304 B.C. Ltd.

Combined with the settlement of its loans due from 0791304 BC Ltd in September 2011, the Company sold its 33.3% equity interest in 0791304 BC Ltd.

Cemera Long Beach LLC.

Cemera Long Beach LLC ("Cemera") is a joint venture between the Company and Cemex originally established to develop a construction aggregates receiving terminal on a freehold site situated on Pier B, in the port of Long Beach, California, which is considered to be divided into Section A and Section B. The Company, through its 70% owned Eagle Rock Aggregates Inc subsidiary, 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, its joint venture partner, have a Strategic Alliance Agreement and a Joint Cooperation and Development Agreement which governed the direction, strategy and operation of the joint venture.

On November 30, 2012, Cemera closed the sale of the Pier B land for cash consideration of $19.5 million. The Company will receive a total of $12.4 million, net of closing costs and commissions, from the sale proceeds. Under the terms of the senior secured notes due December 31, 2016 (note 13), CAD$5.0 million of the proceeds were used to pay down, without penalty, one third of the outstanding principal.

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

	December 31, 2012	December 31, 2011
(in thousands)	$	$
Assets		
Current assets	161	41
Property	-	12,086
	161	12,127
Liabilities		
Current liabilities	33	187
	33	187

	December 31, 2012	December 31, 2011
(in thousands)	$	$
(Loss) income	323	(2,293)

For the years ended December 31, 2012 and 2011, Cemera had no revenue.

(U.S. dollars, except where noted)

9. Trade and other payables

(in thousands)	December 31, 2012 $	December 31, 2011 $
Trade payables	3,542	3,449
Accrued liabilities	1,463	1,748
	5,005	5,197

10. Short term financial liabilities

(in thousands)	December 31, 2012 $	December 31, 2011 $
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. On March 2, 2012, the Company repaid the credit facility in full including interest and fees, without incurring a gain or loss.

11. Other current liabilities

Annual minimum freight volume provision

The Company is committed to an exclusive shipping contract which requires the Company to ship certain minimum tonnages (note 24). The Company provides for obligations where freight volumes are not anticipated to, or do not, meet the minimum volume requirements. The following table summarizes the movements in the provision for the years ended December 31, 2012 and 2011:

(in thousands)	2012 $	2011 $
As at January 1	190	795
Provisions settled or reversed	(190)	(795)
New or revised provisions	-	190
As at December 31	-	190

For the year ended December 31, 2012, the Company met the annual minimum volume requirements of the shipping contract, therefore an accrual has not been recorded at December 31, 2012 (December 31, 2011 - $190,000).

(U.S. dollars, except where noted)

12. Finance leases

Included in property, plant and equipment is quarrying equipment that the Company has acquired pursuant to lease agreements. The Company's lease agreements terminate between February 2013 and 2016. The quarrying equipment is the security for the indebtedness.

Future minimum lease payments are as follows:

(in thousands)	$
2013 (CAD$ 734)	738
2014 (CAD$ 514)	517
Total minimum lease payments	1,255
Less: Interest portion	66
Present value of capital lease obligations	1,189
Less: current portion	695
Non-current portion	494

In February 2013 the Company refinanced CAD$439,913 of leases on quarrying equipment at 5.90% interest. The new lease has been accounted for as a finance lease and terminates February 2016. Monthly lease payments are CAD$13,298. The quarrying equipment is the security for the indebtedness.

13. Long-term debt

	December 31, 2012	December 31, 2011
(in thousands)	$	$
Senior secured notes, due December 31, 2017. Quarterly interest payments at 7.5% (per annum). Effective interest rate 10.6%.	-	6,175
Senior secured notes, due December 31, 2016. Semi-annual interest payments at 12% (per annum). Effective interest rate 15.71%.	7,232	-
Carrying amount	7,232	6,175
Current portion	-	1,103
Non-current portion	7,232	5,072
	7,232	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. 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. In March 2012, the Company repaid the notes and accrued interest without premium or penalty. Upon settlement, the unamortized discount of $765,421 was recorded to finance charges.

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 Company has estimated that the early redemption feature has minimal or nil estimated fair value and thus no amount has been recorded at inception or as at December 31, 2012. In conjunction with the senior secured notes, the Company issued 13,200,000 warrants to the lenders (note 16).

(U.S. dollars, except where noted)

13. Long-term debt *(continued)*

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 16). The notes are subsequently carried at amortized cost and amortized by the effective interest method over the life of the notes. For the year ended December 31 2012, non-cash accretion of the discount which is included in interest expense, was CAD$263,322 (December 31, 2011 – nil).

During 2012, the Company and the holders of the notes agreed to defer the interest payment due on June 30, 2012, with that interest payment made upon the completion of the sale of the Pier B land. As compensation, the Company paid a fee of CAD$89,100 by issuing, on July 4, 2012, 148,500 common shares at the June 28, 2012 closing price of CAD$0.60. Due to a mandatory prepayment clause contained in the credit agreement, one third of the outstanding principal, $CAD5.0 million, was repaid without penalty when the sale of the Pier B land closed on November 30, 2012 (note 8).

On December 31, 2012, a further $CAD1.9 million of principal was repaid with proceeds received from the exercise of warrants (note 16).

14. Restoration provision

The Company has restoration and decommissioning obligations associated with its operating quarry and processing plant. The following table summarizes the movements in the provision for the years ended December 31, 2012 and 2011:

	2012	**2011**
(in thousands)	**$**	**$**
As at January 1	3,339	2,911
New or revised provisions	(70)	383
Accretion	85	113
Foreign exchange	75	(68)
As at December 31	3,429	3,339

The measurement of the liability assumes undiscounted estimated future cash flows needed to settle the liability of approximately CAD$4.0 million. These amounts are expected to be expended throughout the quarry life to 2035.

These estimated future cash flows were discounted at a risk-free rate of 2.45% (2011 – 2.49%) after applying an inflation rate of 2.04% (2011 - 2.04%).

15. Share capital

The Company has unlimited common shares without par value. At December 31, 2012, there were 66,745,602 common shares issued and outstanding (December 31, 2011 - 53,397,102).

On July 4, 2012, the Company issued 148,500 common shares at CAD$0.60 each as settlement of the fee for the deferral of the June 30, 2012 interest payment (note 13).

On December 31, 2012, 13,200,000 common shares were issued at CAD$0.44 on the exercise of warrants expiring December 31, 2016 (note 16).

(U.S. dollars, except where noted)

16. Contributed surplus

(in thousands)	December 31, 2012 $	December 31, 2011 $
Share-based employee benefits	14,411	14,214
Warrants	6,936	6,936
	21,347	21,150

Share-based employee benefits

The Company established an incentive stock option plan ("the Plan") on April 23, 2001. The Board of Directors ("the Board") determines the exercise price of an option, but the price shall not be less than the closing price on the trading day immediately preceding the date it is granted. Vesting and other terms are at the discretion of the Board. The Plan also prohibits the reduction of the exercise price of any outstanding options without prior shareholder approval. The Board administers the Plan, whereby it may from time to time grant options to directors, senior officers, employees, consultants, personal holding companies and certain registered plans. At December 31, 2012, the maximum options to be allowed outstanding under the plan are 6,674,560 (December 31, 2011 – 5,339,710). All options are exercisable in Canadian dollars.

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

	Number outstanding	Weighted average exercise price (CAD$)
At December 31, 2010	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	3,776,709	$6.11
Forfeited	(365,000)	$9.37
Expired	(50,000)	$1.00
At December 31, 2012	3,361,709	$5.84

At December 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	8.46	676,664	$0.94	8.46
$1.00 - $2.00	552,500	$1.95	6.23	552,500	$1.95	6.23
$2.50 - $4.00	285,000	$3.53	1.40	285,000	$3.53	1.40
$4.56 - $5.60	307,709	$4.76	1.59	307,709	$4.76	1.59
$8.69	85,000	$8.69	5.13	85,000	$8.69	5.13
$11.41	415,000	$11.41	0.01	415,000	$11.41	0.01
$13.75	701,500	$13.75	4.76	701,500	$13.75	4.76
	3,361,709	$5.84	4.97	3,023,373	$6.38	4.57

Warrants

In conjunction with the senior secured notes issued March 2, 2012 (note 13), the Company issued 13,200,000 common share purchase warrants exercisable at a price of CAD$0.44 per share until December 31, 2012, CAD$0.50 per share until December 31, 2013, CAD$0.55 per share until December 31, 2014, CAD$0.60 per share until December 31, 2015 and CAD$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. The fair value of the warrants was determined using the Black-Scholes option pricing model allocated in proportion to the combined fair value of the senior secured notes and warrants.

(U.S. dollars, except where noted)

16. Contributed surplus *(continued)*

The following assumptions were 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	–

On December 31, 2012 the full 13.2 million warrants were exercised at CAD$0.44 for proceeds of $5.8 million.

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

	Number of warrants outstanding	Weighted average exercise price (CAD$)
December 31, 2010	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
Exercised	(13,200,000)	$0.44
December 31, 2012	1,575,000	$4.52

At December 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	0.63
500,000	November 17, 2015	$1.50	2.88
125,000	November 19, 2015	$1.50	2.89
1,575,000		$4.52	1.52

17. Non-controlling interest

The Company holds an 88% interest in the Orca Sand and Gravel Partnership formed to develop the Orca quarry, with the remaining 12% interest held by the Namgis First Nation. Non-controlling interest consists of the minority interest's share of the equity in the partnership offset by the capital contributions loaned to the minority interest by the Company, with the balance of its interest as follows:

(in thousands)	$
Balance – December 31, 2011	(1,376)
Non-controlling interest share of net loss	(1,334)
Non-controlling interest share of other comprehensive loss	(94)
Balance – December 31, 2011	(2,804)
Non-controlling interest share of net loss	(981)
Non-controlling interest share of other comprehensive income	95
Balance - December 31, 2012	(3,690)

At the request of the Namgis and in order to enable the Namgis to make their required equity contributions to the partnership once a construction decision was made, the Company advanced a total of $8,032,337 during the period from 2006 to 2007, at interest rates reflective of the equity nature of the loans. The Company's sole recourse for repayment is to the distributions receivable by the Namgis from the partnership, after repayment of any approved third party who has loaned the Namgis funds for equity contributions. Reflective of the equity nature of the funding, the balance of the loans offset the minority interest's share of equity. Due to the uncertainty associated with the recoverability, the Company has never recognized corresponding interest of $3,526,446 on the Namgis loans.

17. Non-controlling interest *(continued)*

(U.S. dollars, except where noted)

The loans to the Namgis were restructured during the year ended December 31, 2009 and included; a suspension of interest until the Company's volumes substantially increase, reduced interest rates upon recommencement of interest being charged, repayment of the loans are permitted at anytime, and upon achieving positive cash flow in Orca Sand and Gravel Limited Partnership the Namgis may elect that up to one-half of the amount to which they are entitled under the partnership agreement be paid in cash.

18. Expenses by nature

	2012	2011
(in thousands)	$	$
Cost of materials and consumables	4,354	3,058
Change in inventories	(1,073)	(666)
Salaries, wages, and employee benefits	5,447	5,455
Share based employee benefits	197	376
Reversal of annual minimum freight volume penalty (note 11)	-	190
Amortization, depletion and depreciation	5,510	5,187
Distribution costs	20,456	15,221
Royalties and through-put	3,142	2,569
Utilities and rental payments	1,842	2,189
Professional and consulting fees	862	907
Operations support	1,413	1,169
Other	95	92
Total cost of goods sold, sales costs, general expenses, and administrative costs	42,245	35,747

For the year ended December 31, 2011 a loss of $68,000 is included in other gains and losses as a result of the settlement and sale of its combined interests in 0791304 BC Ltd. In addition as a result of an early payment in full on its loan to a third party debtor, a loss of $2.13 million is also included in other gains and losses for the year ended December 31, 2011.

19. Finance expense

	2012	2011
(in thousands)	$	$
Interest on debt	1,776	1,395
Amortization of discount	283	107
Accretion of restoration provision	85	113
	2,145	1,615

20. Compensation of key management

Key management personnel include the members of the Board of Directors and the Senior leadership team. Compensation for key management personnel (including directors) was as follows:

	2012	2011
(in thousands)	$	$
Salaries and other benefits	1,477	1,542
Share based benefits	153	312
	1,630	1,854

(U.S. dollars, except where noted)

21. Income taxes

Income tax expense differs from the amount that would result from applying statutory income tax rates to the loss before provision for income taxes due to the following:

(in thousands)	2012 $	2011 $
Loss before income taxes	(13,768)	(18,760)
Combined federal and provincial income tax rates	25.00%	26.50%
Income tax recovery based on the above rates	(3,442)	(4,971)
Non-deductible expenses	125	131
Difference in foreign tax rates	(314)	(437)
Future tax benefit to the non-controlling interest	162	251
Foreign exchange and other items	(394)	402
Amounts provided for in prior years	(554)	214
Income tax benefits not previously recognized	1	(3)
Income tax benefits not recognized	3,867	4,774
Income tax expense	(549)	361
Represented by:		
Current income tax expense	(549)	361
Future income tax expense	-	-
	(549)	361

The combined federal and provincial income tax rates declined due to a reduction in income tax rates in Canada.

Unrecognized deferred tax assets

The components of the Company's net unrecognized tax asset (liability) are as follows:

(in thousands)	December 31, 2012 $	December 31, 2011 $
Non-capital losses	20,561	17,582
Property, plant and equipment	11,552	11,445
Asset retirement obligation	875	835
Share issuance costs	132	275
Capital leases	297	401
Unrealized foreign exchange losses	2,579	1,919
Capital losses	417	408
Other	(223)	(169)
	36,190	32,696

The majority of the unrecognized deferred tax assets, other than non-capital losses, have no expiry date.

(U.S. dollars, except where noted)

21. Income taxes *(continued)*

As at December 31, 2012 the Company has tax losses for income tax purposes in Canada and the United States which may be used to reduce future taxable income. The income tax benefit, if any, of these losses have not been recorded in these consolidated financial statements because of the uncertainty of their recovery. A portion of the losses in the US are subject to limitation. The future expiration dates are as follows:

(in thousands)	Canada $	United States $	Total $
2022	-	5	5
2023	-	20	20
2024	2,398	401	2,799
2025	188	998	1,186
2026	3,260	136	3,396
2027	7,136	206	7,342
2028	6,554	2,620	9,174
2029	10,576	-	10,576
2030	18,154	-	18,154
2031	9,909	1,659	11,568
2032	8,558	3,541	12,099
	66,733	9,586	76,319
Capital losses, no expiry date	3,335		3,335

22. Supplemental cash flow information

(in thousands)	2012 $	2011 $
Changes in non-cash working capital items		
Trade and other receivables	(40)	(550)
Current tax assets	(387)	(145)
Inventories	(335)	(649)
Other current assets	(9)	274
Trade and other payables	(121)	1,759
	(892)	689
Taxes paid		
Taxes paid	399	567

23. Related party transactions

During the year ended December 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 $415,845 (year ended December 31, 2011 - $402,064) which are included in general and administrative expenses. At December 31, 2012, accounts payable of $29,535 (December 31, 2011 - $32,012) were due to companies controlled by common directors.

During the year ended December 31, 2011, a related party provided tug berthing services to the Company at a cost of $852,865. In September 2011 the Company sold its interest in the related party.

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

(U.S. dollars, except where noted)

24. Commitments and contingencies

Shipping Tonnage

The Company has a Contract of Affreightment ("NCoA") which is effective from January 1, 2010 with a term of 20 years. The NCoA 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 2013 minimum shipping commitment is 2,979,000 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 in the NCoA. The Company and its shipper have agreed in principle, subject to definitive documentation, that the penalty rate for 2011 until 2016 can be reduced to 25% if the Company achieves certain revised business targets.

Operating and through-put agreements

The following minimum payments are required under operating leases, rent, equipment rentals, car leases, and aggregate through-put commitments as at December 31, 2012:

(in thousands)	**$**
2013	1,676
2014	2,118
2015	1,568
2016	1,011
2017	1,011
Thereafter	10,053
	17,437

The Company has a 20 year ground lease agreement and a 20 year facilities use agreement, both ending January 2028, for the site of the Richmond Terminal. Base rent and through-put charges based on minimum aggregate volumes purchased and/or sold through the Richmond Terminal, are payable in monthly payments. Additionally, the Company has a lease for an 8.3 acre site on Berth D-44 in the Port of Long Beach, California, with an initial term of five years and three additional five-year extension options, exercisable by the Company, which would extend the tenure to June 30, 2030.

Cemex Inc strategic alliance

The Company has a long-term alliance with Cemex, an international construction materials company. The alliance consists of a strategic alliance agreement, a supply and distribution agreement, joint cooperation and development agreements and a standstill agreement.

The ten year strategic alliance agreement, entered into in September 2007, sets out the exclusivity between the Company and Cemex for the purchase and distribution of marine supplied construction aggregates, sand, gravel and crushed rock, on the west coast of the United States along with terms for new terminal and quarry development related to those products. An alliance committee, comprised of two members from each company, oversees the ongoing operations of the alliance. The agreement has an option to be extended for additional ten-year terms upon mutual agreement by the Company and Cemex.

The twenty year supply and distribution agreement for marine transported construction aggregates, entered into in September 2007, provides for Cemex to be the exclusive marketer of the Company's sand and gravel and for the Company to be the exclusive supplier to Cemex for its own internal use and for sales to third parties in northern California (excluding the counties of Marin, Sonoma, Mendocino and Napa). The agreement provides for a market pricing mechanism which is adjusted annually. It also provides for annual minimum tonnage purchase and supply commitments; however, previous minimum tonnage commitments are no longer being applied, with supply commitments being negotiated annually. This agreement automatically renews for two ten-year periods, subject to not exceeding the life of the Orca Quarry and a five-year termination notice.

(U.S. dollars, except where noted)

24. Commitments and contingencies *(continued)*

The ten year joint cooperation and development agreements, entered into in September 2007, provide a mechanism through which the Company and Cemex will work together to pursue and develop new construction aggregate marine receiving terminals in Washington, Oregon and California (except for the counties of Marin, Sonoma, Mendocino and Napa). A development committee, comprised of two members from each company, will use their best efforts to identify terminals opportunities that are acceptable to both companies. Each new terminal development will be entered into contemporaneously with a supply and distribution agreement which sets out the exclusive area served by that terminal. In the event that either party does not wish to pursue a proposed terminal development, the proposing party is free to pursue the development of that terminal unencumbered, but with the loss of exclusivity for supply or distribution, as the case may be, related to the area served by that terminal. The agreement has an option to be extended for additional ten-year terms upon mutual agreement by the Company and Cemex.

Shamrock Materials Inc. supply agreement

In October 2005, the Company, through its subsidiary, Eagle Rock Aggregates Inc., entered into a long-term, twenty year, aggregates supply agreement (“ASA”) with Shamrock Materials Inc. (“Shamrock”), a well established construction aggregates consumer located in the San Francisco Bay area. The ASA may be further extended by three 5 year periods, at the option of Shamrock. The ASA has granted Shamrock the exclusive right to promote, market, resell and distribute sand and gravel within a defined territory (the counties of Marin, Sonoma, Mendocino and Napa). In return, the Company has the right to be the exclusive provider of imported sand and gravel to Shamrock within the same territory. The ASA provides for the purchase and supply of minimum annual volumes of sand and gravel from the Orca Quarry for distribution within the defined area in San Francisco Bay. However, previous minimum tonnage commitments are no longer being applied, with supply commitments being negotiated annually. Prices for the supply of sand and gravel pursuant to the ASA will be reviewed on an annual basis and adjusted to accommodate variations in the costs and changes in market prices for similar products within the defined area. Any adjustments based on changes to market prices will be shared by Shamrock and the Company according to an agreed formula. The ASA delivery schedules contemplate that a portion of a fully-laden vessel will be discharged into Shamrock’s barges at anchorage, and the balance discharged and sold at the Company’s Richmond Terminal and at Cemex’s existing land-based discharge terminals.

25. Segment reporting

The Company operates in one segment: the development and operation of construction aggregates properties and projects located in western North America. The Company’s sales were to two customers in Canada and three customers in the United States of America comprising 100% of the Company’s sales.

The customers with significant sales are as follows:

(in thousands)	2012 $	2011 $
Customer A	24,176	16,596
Customer B	6,331	4,708

Sales by geographic area are as follows:

(in thousands)	2012 $	2011 $
United States	31,962	22,932
Canada	234	506
	32,196	23,438

Property, plant and equipment by geographic area are as follows:

(in thousands)	December 31, 2012 $	December 31, 2011 $
United States	22,876	24,471
Canada	42,976	45,008
	65,852	69,479

(U.S. dollars, except where noted)

26. Capital management

The Company's objectives when managing capital is to safeguard the entity's ability to continue as a going concern in order to continue development of its aggregates and port terminal properties and to maintain a flexible capital structure which optimizes the cost of capital at an acceptable risk level (note 2).

The Company considers its share capital, contributed surplus, accumulated other comprehensive income, and deficit as capital, which at December 31, 2012 totalled $67.0 million (2011 - $71.5 million).

The Company manages its capital structure in order to ensure sufficient resources are available to meet day to day operating requirements and to have the financial ability to grow its operations through terminal and quarry development. Methods used by the Company to manage its capital, taking into consideration changes in economic conditions, include issuing new share capital or obtaining debt financing. The Company is not subject to any externally imposed capital requirements.

27. Financial instruments

Fair value of financial instruments

The carrying amounts and fair values of financial instruments are as follows:

	December 31, 2012		December 31, 2011	
(in thousands)	Carrying amount $	Fair value $	Carrying amount $	Fair value $
Loans and receivables				
Cash	5,537	5,537	1,629	1,629
Trade and other receivables	2,304	2,304	2,231	2,231
Security deposits (note 6)	1,130	1,130	1,152	1,152
Other long-term receivables	141	141	138	138
Other financial liabilities				
Short term credit facility	-	-	5,757	5,757
Senior secured notes	7,232	7,561	6,175	6,175

The fair values of cash, trade and other receivables, and security deposits, approximate their carrying values due to their short-term maturities.

At each reporting date the fair value of the senior secured notes, which are carried at amortized cost, is estimated by discounting the anticipated future cash flows using a valuation model that incorporated management's best estimate of the Company's credit risk and relevant market interest rates.

Credit risk

Credit risk is the risk that the Company will incur a loss due to a customer or other third party failing to discharge their obligation due to the Company. The Company maintains demand deposit accounts as well as term deposits, with major banks in Canada and the USA. The Company has five significant customers, two of which at December 31, 2012 comprise 100% (2011 – 100%) of trade receivables. The Company's largest customer is one of the world's largest international construction materials companies and the remaining customers are significant construction materials companies within their markets of San Francisco and Hawaii.

(U.S. dollars, except where noted)

27. Financial instruments *(continued)*

The Company's maximum exposure to credit risk is comprised of the following:

(in thousands)	2012 $	2011 $
Cash	5,537	1,629
Trade and other receivables	2,304	2,231
Security deposits	1,130	1,152
Other long-term receivables	141	138
	9,112	5,150

At December 31, 2012, no allowance for credit losses has been recorded against accounts receivable. No collateral or other form of security is held in respect of the amounts that comprise the Company's exposure to credit risk.

Liquidity Risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations associated with financial liabilities. The Company manages its liquidity risk by continuing to seek sources of financing at appropriate costs of capital (note 2).

A maturity analysis of the undiscounted cash flows of the Company's financial liabilities at December 31, 2012 is as follows:

(in thousands)	Within 1 year $	Between 1 – 2 years $	Between 2 – 3 years $	Between 3 – 4 years $	Between 4 – 5 years $	Over 5 years $
Trade and other payables	5,005	-	-	-	-	-
Finance leases	695	494	-	-	-	-
Long-term debt	-	-	-	8,042	-	-
	5,700	494	-	8,042	-	-

Additional information regarding liquidity risk is disclosed in note 2.

Market Risks

Foreign currency risk

The Company reports in US dollars while operating in both the United States and Canada. The Canadian operations use the Canadian dollar as their functional currency while the US operations have a US dollar functional currency. As a result, the Company is exposed to foreign currency gains and or losses affecting net income and cumulative translation adjustments which affect other comprehensive income. The Company does not use any derivative instruments to reduce its exposure to fluctuations in foreign currency exchange rates.

For the year ended December 31, 2012 a $0.01 change in the US/Canadian exchange rate, assuming all other variables did not change, would not have a material effect on net gain/(loss).

Interest rate risk

The Company's interest rate risk arises primarily from the interest received on demand deposit accounts which are at floating rates. The Company's long-term debt borrowings are at fixed rates.

For the year ended December 31, 2012 a 100 basis point change in interest rates, assuming all other variables did not change, would not have a material effect on annual interest income.

Directors:

Terrence A. Lyons, Chairman [1]

Eugene P. Martineau [1, 2]

Marco A. Romero [1, 2]

Paul B. Sweeney [1, 2]

Herbert G. A. Wilson

1. Audit Committee
2. Governance, Compensation and Nominating Committee

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President & Chief Executive Officer

Darren K. McDonald
Vice President, Finance

Kenneth M. Palko
Vice President, Operations

William B. Terry
Chief Executive Officer, Eagle Rock Aggregates, Inc.

David F. Singleton
President, Eagle Rock Aggregates, Inc.

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