2008 ANNUAL REPORT

Polaris
MINERALS CORPORATION

To be a successful exporter of construction aggregates YOU NEED TO HAVE:

A permitted deposit of high quality construction aggregate adjacent to deep water

Reliable, efficient and cost-effective transportation logistics

Table of Contents

Strategically located port receiving terminals in key markets

Long-term supply agreements with well established customers

We are Polaris Minerals Corporation and we have all these qualities... **ROCK ON...**

2008 HIGHLIGHTS

- Sold 2.32 million tons of sand and gravel, double the 1.15 million tons sold in 2007, the Company's first year of operations.
- Began commercial operations at the Richmond Terminal in San Francisco Bay with a throughput of 320,000 tons.
- Purchased 12.4 acres of land on Pier B, in the Port of Long Beach, together with Strategic Alliance partner Cemex.
- Launched a CAD$25 million bought deal financing in December and used the net proceeds to fully repay the CAD$20 million bridge loan used to purchase the Pier B land.
- Brought into service the Numas Warrior, a berthing tugboat now based near the Orca Quarry Terminal.
- Received an updated Technical Report showing the potential to increase the Orca Quarry production rate to 9.6 million tons per year.

2009 GOALS

- Continue to progress the development permit application at the Pier B, Long Beach terminal site.
- Pursue the opportunity to develop a terminal in the Port of San Diego.
- Increase third party sales of Orca sand and gravel in San Francisco.
- Recover the CAD$3 million construction cost of the new berthing tugboat through a marine mortgage.
- Reduce capital expenditure levels.
- Consolidate mineral resources at the Orca Quarry following 2008 exploration program.
- Complete the Eagle Rock feasibility study.

LETTER TO SHAREHOLDERS

Herb Wilson
President & CEO

I am pleased to report that we achieved many notable successes in 2008, despite operating in what has been considered the most challenging economic environment any of us have seen in our working lives.

What a year of contrasts 2008 proved to be. The Company was able to double its sales of construction aggregates to 2.32 million tons, compared with last year, thanks to the quality of our assets, excellent logistical arrangements, and the strength of our supply agreements with customers. This was no mean achievement given that demand for products like ours fell another 25.1% in the principal market of California and by the second half of the year we were clearly operating in a time of significant global economic turmoil and recession.

However, we remain confident that our business model is sound and that economic stimulus measures now in place across the United States, Canada and particularly in California, will gradually restore growth. The emphasis of announced stimulus spending packages is on infrastructure which is particularly beneficial to our Orca Sand & Gravel business. This benefit reflects the extremely high quality of the aggregate and intensity of use in infrastructure type projects, many of which are concentrated in urban areas served with our products.

At Polaris we continue to focus on both near term and long term opportunities to ensure that the Company continues to grow from its solid foundations.

The Company was able to double its sales of construction aggregates in 2008.

We had a strong 2008:

- Sales of 2.32 million tons of sand and gravel were double the 1.15 million tons sold in 2007.
- Delivered prices were stable throughout the year.
- Zero lost time accidents at the quarry ensured that our employees returned home safely to their families each day. Quarry employees received over 10,000 hours of interdisciplinary and safety training last year.
- In August, together with our strategic partner, Cemex, we purchased 12.4 acres of freehold land in the Port of Long Beach, California, that is ideally suited for a future major marine aggregates importing terminal serving the second largest city in the US.
- In November we commissioned a berthing tugboat together with local partners, that will be based close to the Orca Quarry. We expect to gradually reduce our ship loading costs as the volumes increase.
- In December we seized an equity financing opportunity and in January 2009 used the net proceeds to eliminate our long term debt and ensure a robust cash position.

And we are planning for the future:

We continue to aggressively plan for the future. Although market visibility this year is difficult, and the adverse winter weather resulted in poor 2009 first quarter sales, the reality is that port terminal capacity takes several years to develop, requiring a combination of planning, permitting and construction. We are determined to be ready to take full advantage of the improving market conditions we believe to be just around the corner.

I am very pleased that we secured the Port of Long Beach site in 2008, and have embarked on the permit applications. This potentially very large terminal gives clarity on how we will grow our business in the massive Los Angeles market.

We are also making good progress towards the opportunity to develop a terminal in San Diego, California, a market with attractive aggregate demand prices driven by supply difficulties even in these recessionary times.

Last year we carried out a drilling program on land around the Orca Quarry on which we had obtained tenure. We are optimistic that the results will support additional resources for the Company.

We are awaiting the results of a feasibility study on the proposed Eagle Rock Quarry, a massive deposit of granite also located on Vancouver Island that represents long-term growth potential for our Company.

Some fundamental truths remain:

A modern society needs to build and maintain its infrastructure in order to support population growth and the efficient movement of goods. Following years of reduced infrastructure expenditure in real terms, North America has created an “infrastructure deficit,” pushing back the need for construction into future years. The quality of the natural sand and gravel from the Orca Quarry makes it ideal for high strength concrete which is particularly valuable in earthquake prone areas such as San Francisco Bay. Our ability to deliver products into the heart of the city puts us in an excellent position to fill this need.

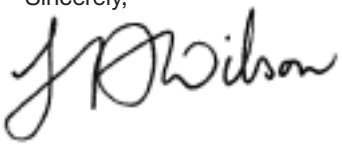
The approval process for new quarries in California continues to be extremely difficult as residents resist potential impacts from quarrying, especially truck traffic and congestion, near their homes. The “Not In My Backyard” philosophy is alive and well in California and we do not see the likelihood that new quarries will be permitted anywhere convenient to the coastal cities to supplement dwindling indigenous supplies. The Polaris business plan calls for our materials to replace the capacity of existing quarries that run out of resources in our target markets. The only real impact to the Company from the deep recession of 2007 and 2008 is that our timing will have slowed a little as lives of existing quarries have been slightly lengthened. The quarrying industry has high and expensive barriers to entry which gives rise to the increasing opportunity for Polaris’ growth.

Polaris continues to hold dear the relationships developed with the many First Nations involved in our projects, either directly or through consultation. We value the knowledge held by these communities whose respect for the land and oceans becomes sound advice for the Company in planning of its activities. We will continue to work in an open and transparent way with all who are involved with us in our business.

Polaris has a team of dedicated employees striving to bring about success. I would like to thank them for their efforts and also to thank our Board of Directors for their guidance and vote of confidence. I look forward to reporting progress to our many shareholders as our Company climbs out of this depressing economy and is well positioned to achieve its future growth plans.

On behalf of the directors and employees, I would like to close by acknowledging the tremendous contribution made by my predecessor, Marco Romero, who founded the Company and remains closely involved as a director and advisor.

Sincerely,



Herb Wilson
President & CEO


We have the capability
to operate 24/7

The relentless high population growth and rapidly depleting available construction aggregates reserves will continue to offer Polaris a strong economic future.

MARKETS & CUSTOMERS

Polaris has become a prominent new supplier of high quality construction aggregates from the Orca Quarry to customers located in California, Hawaii and Vancouver, British Columbia. The products supplied by the Company are used exclusively for the production of high strength concrete for building and construction purposes.

2.32 million tons were shipped from the Orca Quarry in 2008, of which 1.74 million tons were supplied to California.

California

The Company delivers sand and gravel to two large customers located in the San Francisco Bay area in northern California under long term purchase and supply agreements through its subsidiary company, Eagle Rock Aggregates Inc. (ERA). Deliveries are made utilizing self-discharging Panamax vessels operated by CSL International (CSL), each of which carry approximately 80,000 tons of sand and gravel from the Orca Quarry.

Independent market surveys commissioned by the Company had confirmed a growing gap between the demand for construction aggregate and the economic availability of local supplies in the urban coastal cities of California. The realization of this increasing supply problem was influential in enabling the Company to secure the long-term supply agreements with two of the major readymix concrete manufacturing companies in northern California.

Since 2006, the demand for construction aggregate in the USA, including California, has experienced an unprecedented decline led initially by the collapse of private house building and more recently by the hiatus in the credit markets. In 2006, the overall demand for construction aggregate in California, being a combination of sand, gravel and crushed rock, was approximately 246 million tons (USGS Mineral Industry Surveys). Based on the USGS Mineral Survey to the third quarter of 2008 and extrapolated by management, it is expected that demand in 2008 fell to approximately 156 million tons, a reduction of 37% over three years.

In 2008, the Company commissioned an update of the independent marketing report, which re-examined the previous supply and demand relationships. Amongst other observations, the updated marketing report concluded:

- The major readymix and asphalt suppliers and aggregate producers are hunkering down into a low-activity state and are confident that they can collectively weather the economic storm and emerge into a more regulated, moderate growth economy during the recovery in California about 2010-2012.
- The relentless high population growth and rapidly depleting available reserves will continue to give the regional aggregate industry a strong economic future, in spite of housing industry economic cyclicality.
- Several study areas, such as Western San Diego County, are on the verge of becoming so aggregate deficient that operations will remain in an aggregate shortfall situation in spite of a recession economy.
- Polaris Minerals Corporation's supply strategy of import shipping of sand and gravel, and ultimately crushed rock, from British Columbia into California ports, remains sound, as regional aggregate demand will again face wide shortfalls immediately after the current recessional cycle.

On February 17, 2009, President Obama signed a US$787 billion economic stimulus package designed to provide immediate relief to the beleaguered US economy. Included in the package are many elements of spending which will boost the country's investment in infrastructure projects. Specifically the package incorporates US$48 billion in new transport investments. This initiative, together with a rescue plan designed to help up to 9 million Americans through modified or refinanced mortgages, coupled with liquidity infusions into banks and investment houses, should lead to increases in construction aggregate demand in each of the three main demand sectors – private housing, private commercial and the public sector.

Through the American Recovery and Reinvestment Act of 2009, California will receive an estimated US$85 billion in federal funding over the next two years, including US$3.917 billion for investment in highways and bridges, transit capital, fixed guideway modernization and clean water. Based on the most recent end-use analysis developed by management, the demand for construction aggregate is driven by Public Works – 54%, Private Residential – 22% and Private Commercial – 24%.

A reliable and plentiful supply of high quality construction aggregate is a prerequisite for a successful outcome of federal and state infrastructure investment.

On February 26, 2009, the delayed 2009/2010 California Budget Plan was approved by the State Legislature, and contained important economic stimulus proposals that immediately enabled funding to resume on many projects which had stalled due to a lack of state spending. The new budget is predicated on the creation of jobs, home buyer tax credits on a newly built home, the streamlining of the environmental permitting process for specific transportation projects and encouraging Public-Private Partnerships for needed transportation projects, including design-build initiatives.

For the construction aggregate industry, the demand for materials for use in concrete and road surfacing is significantly higher per dollar of infrastructure expenditure than per dollar spent on housing. Action taken at federal and state levels in early 2009 should now be the financial catalyst which reverses the unprecedented decline in demand.

A reliable and plentiful supply of high quality construction aggregate is a prerequisite for a successful outcome of federal and state infrastructure investment. The Company believes that it will be well placed to meet this challenge in its markets over the coming years.

Hawaii

The Hawaiian Islands consumed approximately 11 million tons of construction aggregate in 2007, largely unchanged from 2006 (USGS Mineral Surveys). Consumption figures for 2008 are not yet available. On January 1, 2008, the Company commenced a three year Supply Agreement to a leading construction materials company, located on Oahu. Under the terms of the supply contract, sand is loaded into CSL Panamax vessels contracted by the customer, at the Orca Quarry, for delivery to Barbers Point, west of Honolulu. The demand for marine imported sand from British Columbia is driven by the intense opposition to beach sand removal, particularly from Maui, which has now virtually ceased.

The Company anticipates that the overall demand for construction aggregate in the Hawaiian Islands, and particularly on Oahu, will increase as major infrastructure projects begin to impact demand, tourist-related investments quicken and military spending on construction related projects continues.

Vancouver

Demand for construction aggregate remained strong during the first half of 2008 but came under increasing pressure during the second half of the year as various mass transit and high rise residential building contracts were completed.

Under the terms of a five year purchase and supply agreement, the Company commenced sales in March 2007 to Burnco Rock Products, a readymix concrete producer in Vancouver, who provides barges which are loaded at the Orca Quarry with sand and gravel. In common with the other served markets, Vancouver is experiencing a gradual decline in locally available aggregate and the Company expects that this market will offer growth opportunities over the coming years.

California Customer Profiles

Cemex USA, Inc.

Polaris has a long-term strategic alliance agreement with Cemex USA, Inc. (Cemex) a subsidiary of Cemex SA de CV of Mexico, one of the world's leading building materials companies. Cemex is a major aggregate producer, distributor and consumer of construction aggregate in California, Oregon and Washington. In northern California, the two companies have entered into a 20 year aggregate supply and distribution agreement which places substantial supply and purchase obligations on Polaris, through ERA and Cemex, excluding the four northern California counties of Marin, Sonoma, Mendocino and Napa which fall under a supply and distribution agreement with Shamrock Materials, Inc.

Polaris supplies two Cemex terminals in San Francisco Bay at present, and the two Companies are combining their significant resources to identify, secure and permit additional terminal sites along the US west coast for the development of additional construction aggregate receiving terminals. The purchase of the Pier B land in the Port of Long Beach, and the application for establishing a new terminal in San Diego, are substantial examples that the relationship is working.

Shamrock Materials, Inc.

Shamrock Materials, Inc. (Shamrock) has a 20 year supply agreement with Polaris, through ERA. Under the agreement, which places minimum annual supply and purchase obligations on both parties, Shamrock takes delivery of sand and gravel into its own fleet of barges, which are loaded directly from CSL Panamax vessels at anchor in San Francisco Bay. The loaded barges are then towed up the Petaluma River, to be unloaded at the Landing Way Depot, an aggregates receiving terminal utilized by Shamrock in Petaluma, in the heart of the north San Francisco Bay market.

This arrangement is advantageous to Polaris because San Francisco Bay terminals available for landing construction aggregates are generally in shallow-water ports. Ships fully laden with Orca product are able to enter the Bay, lighter material into barges, allowing them to proceed with reduced draft to the shallower water terminals to self-unload the remainder of their aggregate cargo. Polaris is thus able to load the maximum amount of cargo at the Orca Quarry and therefore minimize the shipping costs per ton.

The Orca Quarry produces high quality sand and gravel

WORLD CLASS RESOURCES

Our large, long-life and high-quality construction aggregate deposits have set the stage for Polaris to grow into a major aggregate producer on the west coast of North America.

Orca Quarry

Product: High quality sand and gravel

Target application: Readymix concrete

Reserve: 134 million tons [1, 2, 3]

Deposit	Tonnage (millions of tons) Probable Reserves	Proven Reserves	Proven & Probable Reserves
East Cluxewe			
Stratum A (Coarse Aggregate)	18.3	85.9	104.2
Stratum B (Fine Aggregate)	7.2	22.6	29.8
Total	25.5	108.5	134.0

Status: Producing and shipping
Permitted for 6.6 million tons per year

Ownership: Polaris 88%, 'Namgis First Nation 12%

1 *The Mineral Reserves have been categorized in accordance with the classifications defined by the Canadian Institute of Mining, Metallurgy and Petroleum (CIM).*

2 *A Qualified Person has reviewed the data relating to the deposit under NI 43-101.*

3 *Please refer to the Company AIF dated March 30, 2009. Does not include depletion from operations since operations began on February 20, 2007 (stated in short tons).*

Eagle Rock Quarry (proposed)

Product: High quality crushed granite

Target application: Asphalt paving and readymix concrete

Resource: 757 million tons [1, 2, 3] (495 million tons Indicated Resource, 262 million tons Measured Resource)

Status: Permitted for 6.6 million tons per year production, feasibility study partially completed

Ownership: Polaris 70%, Hupacasath 10%, Ucluelet 10%, 10% held in trust

1 *Mineral resources are not mineral reserves and do not have demonstrated economic viability. The mineral resources have been categorized in accordance with the classifications defined by the Canadian Institute of Mining, Metallurgy and Petroleum (CIM).*

2 *A Qualified Person has reviewed the data relating to the deposit under NI 43-101.*

3 *Please refer to the Company AIF dated March 30, 2009 (stated in short tons).*

Orca Quarry

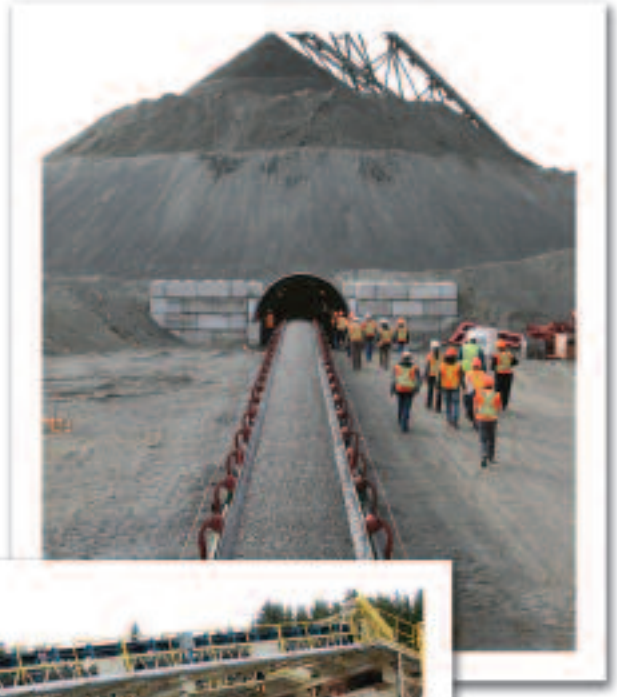
The Orca Quarry is a state-of-the-art facility designed and built for the long-term, cost-effective production of high-quality construction aggregates. The extraction method and process plant are designed to minimize handling and reduce the energy required to extract and process the product. Located near Port McNeill on Vancouver Island, British Columbia, the Orca Quarry is adjacent to a deep and navigable waterway. A two kilometre conveyor carries the finished products to a high-speed quadrant beam shiploader which can rapidly load ships and barges.

Production at the Orca Quarry began on February 20, 2007, and 1.4 million tons of sand and gravel were produced in that year. In 2008, 2.4 million tons were produced. The quarry is presently permitted to produce 6.6 million tons per year. However, an updated technical report prepared by AMEC, a major international engineering firm, during 2008 identified that an output of up to approximately 9.6 million tons per year would be possible by maximizing the available production hours. The Company believes that a change to the Mine Permit to facilitate the increased output should be straightforward and intends to make an application once customer demand warrants.

The team at the Orca Quarry is a special group of men and women from the local, north island community and includes 20% women and 50% First Nations employees. The quarry is owned 88% by Polaris and 12% by the ‘Namgis First Nation.

The Orca Quarry produces high-quality sand and gravel that surpasses California (CALTRANS), US National (ASTM) and Canadian (CSA) specifications for use in concrete. It is only one of thirteen quarries selling material into California that are pre-approved by CALTRANS as a source of aggregates for reduced mineral admixture concrete on Department projects. The deposit consists of hard, well-rounded particles, with virtually no silt or clay present. There is very little oversize material and therefore little crushing is required. These attributes are a significant benefit to the concrete industry because they result in a very strong concrete that is easier to pump and finish, and offer savings in cement content for equivalent strength concrete.

In 2008, Polaris undertook an exploration program to identify additional resources that could be used to extend the quarry life in the future. The results of this program are expected in the first half of 2009.



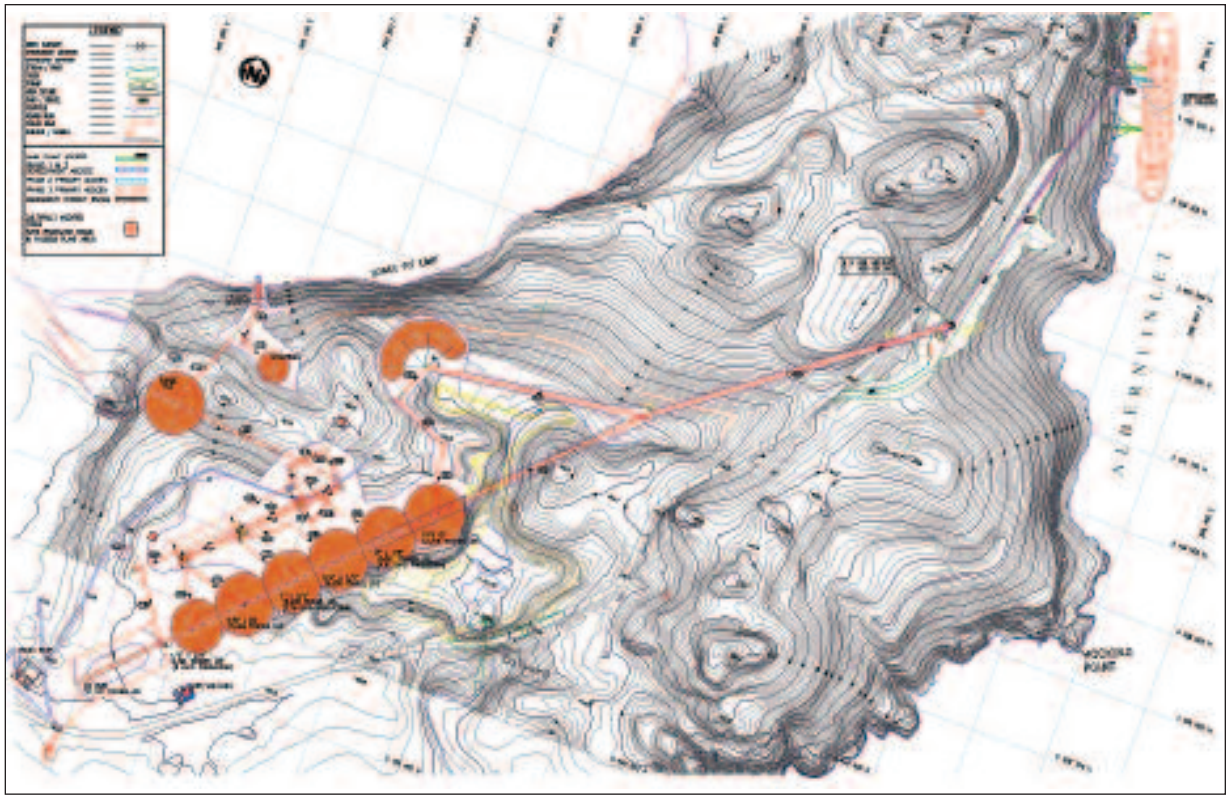
Eagle Rock Quarry Project

The Eagle Rock Quarry Project is the potential development of a large resource of high-quality granite ideally suited for asphalt paving and readymix concrete applications. Resources of 757 million tons have been declared following an extensive drilling program in 2002 and the development is permitted for the production of 6.6 million tons per year. The quarry site is road accessible and immediately adjacent to deep, navigable tidewater 15 kilometres south of Port Alberni, British Columbia, a town with significant natural resource industries and nearly 19,000 people.

The granite from the Eagle Rock Quarry site has been extensively tested and meets US National and California specifications for asphalt paving and readymix concrete manufacturing. The three qualities of this material that are most beneficial are its extremely low absorbency, its hardness and its durability. Low absorbency means that the use of the Eagle Rock product minimizes the bitumen content, a costly ingredient in asphalt paving.

The Eagle Rock Quarry is owned 70% by Polaris, 20% by two local First Nations bands, the Hupacasath and Ucluelet First Nations and the remaining 10% is presently held in trust and available for the Tseshaht First Nation should they decide to participate.

During 2008 the Company commissioned AMEC to complete an updated feasibility study for the Eagle Rock Quarry. The conclusion of this study is expected in 2009.



One possible site layout for the proposed Eagle Rock Quarry

Shipping

SHIPPING

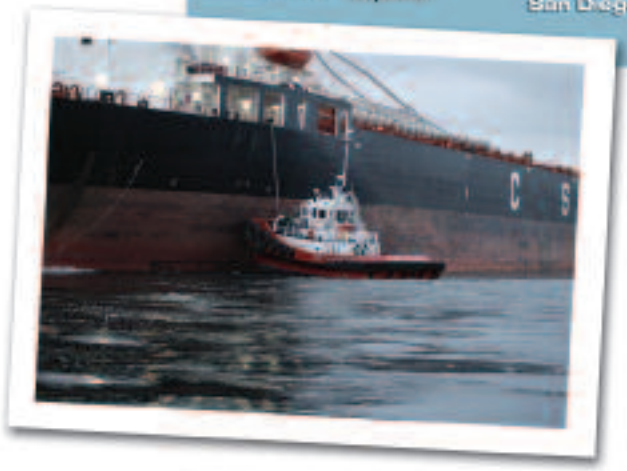
Polaris utilizes large, rapid self-unloading freighters to efficiently deliver products over long distances to its customers. Polaris has entered into two long term shipping contracts with CSL, the operator of the world's largest fleet of self-unloading freighters.

The first Contract of Affreightment, that was signed in 2005, provides for up to 5 million tons per year of shipping capacity. The second Contract of Affreightment, a 15 year agreement, provides for a minimum of 2.5 million tons per year. During the first quarter of 2009 the Company and CSL agreed to amendments under which the start date of the second contract is deferred to 2014, rather than the 2010 originally agreed upon, while the first contract is extended by five years to end in 2022. These changes were made to recognize the impact of the US recession on construction activity and aggregates demand.

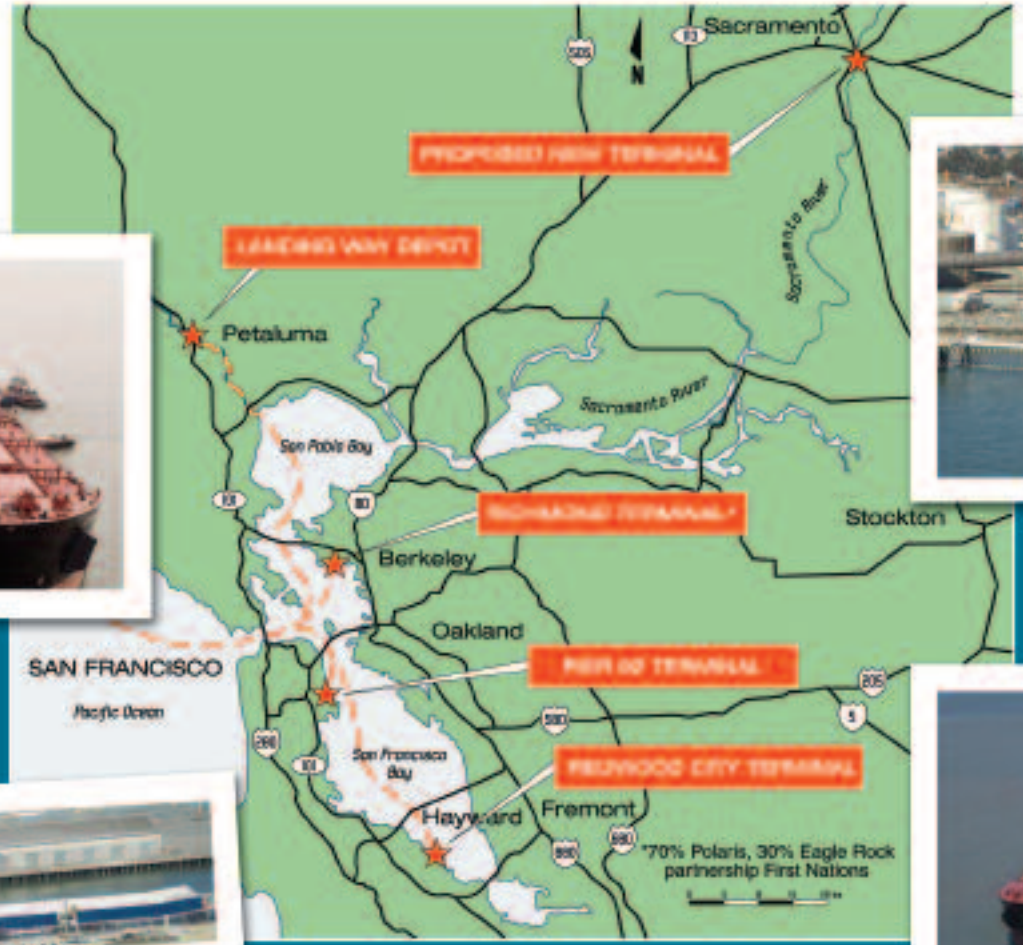
The strong working relationship with CSL provides distribution certainty at a time when world shipping markets are highly volatile. Reliable and cost-effective rapid self-discharging ships are a vital link in the logistical chain, and Polaris is extremely pleased to have CSL as its shipping partner.

CSL's 'Panamax'[1] vessels have a capacity of approximately 80,000 tons and are loaded by a state-of-the-art quadrant beam shiploader at the Orca Quarry at a rate of up to 5,000 tons per hour. Upon arriving at the destination, the ships utilize their onboard equipment to rapidly off-load their cargo of sand and gravel, firstly into barges provided by customers while at anchor, a process known as 'lightering' and then into shore-based receiving terminals. These factors result in low transportation costs per ton and offer a significant competitive advantage to Polaris.

In late 2008, Polaris, in partnership with two experienced tug and marine facilities operators, brought into service the Numas Warrior, a powerful new ship-berthing tugboat. Built at Sylte Shipyards in Maple Ridge, BC, this 2,200 horsepower tugboat is available for assisting with ship movements at the Orca Quarry terminal. The tug is based near the quarry in Port McNeill, thereby reducing the travel time and expense previously incurred in bringing a tug from as far away as Vancouver for each ship movement. The BC Coast Pilots have now removed all operational restrictions on the Orca berth as a result of the demonstrated capabilities of the new tug. Polaris expects to recover the majority of the approximately CAD$3 million construction costs it funded through the ownership group's intention to secure a marine mortgage on the tugboat.



1 *'Panamax' refers to a vessel which is the maximum width permitted to transit through the Panama Canal. Typically, a Panamax vessel will have a cargo capacity between 70,000 and 80,000 tons of construction aggregate.*



San Francisco Bay Terminals where Polaris has exclusive supply arrangements.

PORT TERMINALS

Port receiving terminals are perhaps the most critical element in the logistical chain linking a coastal quarry to its customers in maritime urban areas. These receiving, storage and distribution facilities allow seamless transition from ships to trucks to distribute the construction aggregates to the end users. Each new terminal that Polaris secures is another major element in the growth of the Company.

During 2008, Polaris purchased a 12.4 acre site on Pier B in the Port of Long Beach together with its Strategic Alliance partner, Cemex. This site has the potential to service the massive Los Angeles basin market, subject to receipt of the necessary development permits and subsequent construction of facilities.

San Francisco Bay

Polaris operates in California through Eagle Rock Aggregates Inc. (ERA), its 70% owned marketing and distribution subsidiary. ERA is the exclusive construction aggregate provider at four port terminals, all of which are located in the San Francisco Bay area.

The Richmond Terminal, a state-of-the-art aggregate receiving, storage and distribution facility owned by ERA, serves the northeastern Bay area. Featuring high-speed overhead conveyors, the terminal can receive product from Panamax vessels at their maximum unloading rate of 5,000 tons per hour, thus ensuring a minimum unloading time. The terminal's enclosed building stores approximately 70,000 tons of sand and gravel at full capacity. The terminal rapidly loads customers' trucks with sand and gravel for delivery to their readymix concrete operations. Commercial operations at the Richmond Terminal began in Q1, 2008, and 320,000 tons of sand and gravel moved through the terminal in 2008.

The Landing Way Depot, located in Sonoma County, is a major barge-serviced receiving facility on the Petaluma River that meets the northern bay requirements of Shamrock Materials, a leading local independent readymix concrete company.

Pier 92 is the barge-supplied site of a strategically located readymix concrete plant owned by Cemex near downtown San Francisco.

The Redwood City Terminal, owned by Cemex, serves the southern portion of the Bay area. Cemex and Polaris are working together with the Port of Redwood City to plan a future expansion of these operations. This will include the ability to handle products from the proposed Eagle Rock Quarry, with a view to developing a major construction materials park at this site which is intended to include readymix concrete and asphalt producing plants.

British Columbia

In British Columbia, Orca Quarry products are shipped by customers' barges to two terminals on the Fraser River serving readymix concrete plants. Both terminals are operated by Burnco Rock Products, one of western Canada's leading independent building materials companies.

Hawaii

In Hawaii, sand from the Orca Quarry is handled through the Barbers Point Terminal, near Honolulu, on Oahu.

Pier B is expected to be the largest terminal that Polaris will supply.

Pier B

Suitable sites for a large aggregate importation terminals are extremely rare and particularly so in the congested ports of Long Beach and Los Angeles. In a major realization of the Strategic Alliance Agreement with Cemex, 12.4 acres of freehold land at Pier B in the Port of Long Beach, California were purchased in 2008 for a total of US$22.5 million dollars through a joint venture company, Cemera Long Beach LLC (Cemera) (refer to Note 17 on page 58 for ownership description). Applications have been made for the necessary development permits. This land is the site of a former industrial facility and Cemera has entered into an agreement with the State of California, referred to as an AB389 agreement, legislation that is intended to bring 'brownfield' lands back into productive use. The AB389 provides indemnity from pollution that existed on the site prior to the purchase and requires development of the site under a plan which is being negotiated with the Department of Toxic Substances and Control.

The first phase of development of the Pier B land will be a major sand and gravel receiving, storage and distribution terminal to supply Orca aggregate into the massive Los Angeles Basin area. This is expected to be the largest terminal that Polaris will supply, with an annual planned throughput building up to 3 million tons per year of sand and gravel. Operations at the terminal are presently envisaged to begin in 2012, depending on market conditions.

In addition, the Company's Strategic Alliance Partner is intending to site a readymix concrete plant on the Pier B land, from which a significant part of the concrete requirements of the expanding ports of Long Beach and Los Angeles can be served.

The second stage of development at Pier B is anticipated to be a granite aggregate receiving, storage and distribution terminal to supply granite into the market as soon as the proposed Eagle Rock Quarry is operational on Vancouver Island.

These coastal receiving, storage and distribution facilities allow the seamless transition from ships to trucks that distribute the construction aggregates to the end users.

San Diego

In parallel with the Pier B initiative, the Strategic Alliance Partners are pursuing the opportunity to develop a second southern California marine aggregate terminal located within the Port of San Diego. Discussions are currently underway with San Diego Port management, based on the shared utilization of an existing Cemex cement importing berth.

Although there are competing interests for a Port of San Diego marine aggregate terminal, the Company believes that its proposal will meet Port approval and hopes to be able to submit applications for development permits in 2009. If progress is maintained, the San Diego terminal could be operational by 2012.

Other Terminals

Other possible future terminal locations in California could be at Port Hueneme, north of Los Angeles and in Sacramento in northern California.

Consideration is also being given to the possibility of developing marine aggregate terminals in the State of Washington, where local aggregate shortages in urban coastal markets are expected to create importation opportunities for the Strategic Alliance Partners over time.

Orca employees practicing mine rescue skills

Maintaining Workplace Safety, Improving Productivity and Community Self-empowerment

Our Sustainability Commitment

Building a successful and sustainable business involves maximizing value for all our stakeholders. We take our social, environmental and financial obligations very seriously.

Mineral resource extraction and processing is an important industry in British Columbia and is a powerful contributor to community development, particularly in geographically remote regions where economic diversification opportunities are limited. The Polaris goal is to be a catalyst for sustainable development by successfully integrating financial, environmental and community objectives throughout the life-cycle of our projects, from exploration to reclamation.

SUSTAINABILITY

"Safety First"

A job safely done is a job well done. Our "Safety First" approach has created a disciplined and skilled workforce, and we encourage our employees to take this culture of safety back to their homes and communities. The Orca operation provides a well-managed employment opportunity for local residents and we strive to be an employer of choice for the region. The substantial investment in training ensures the highest standards of health and safety for current and future employees. The results speak for themselves:

- In the last three years, we have invested over 20,000 hours to train our team members in safety, first aid, mine rescue and numerous technical applications.
- We have had zero lost time accidents since beginning construction and operation of the quarry.
- We were awarded the 2007 Stuart O'Brien Safety Award by the BC Ministry of Energy, Mines and Petroleum Resources.
- Almost 50% of our staff have received mine rescue training and are on-call to assist other northern Vancouver Island industries and communities in case of emergency.
- We have a highly efficient and flexible workforce that has safely contributed to 3.8 million tons of production since inception.

Staying safe requires vigilance, effort and investment, and we are committed to ensuring that the quarry remains a safe work site, and that team members return safely home to their families each day.

Diversity is our strength

We are committed to developing a diverse workforce and to providing a workplace in which everyone is treated fairly and with respect, and where all employees have the opportunity to realize their full potential. The Orca Quarry team presently consists of 42 people, all of which are northern Vancouver Island residents. About 50% are members of local First Nations communities and 20% are female. Men and women from many communities work together to achieve our Company's objectives every day.

Empowering communities, one business at a time

We recognize that we have a role to play in supporting the development of our host communities beyond the lifetime of our operations. One way we can do this is by using local suppliers wherever possible, helping to build their capacity and business potential. Since inception, we have generated economic benefits totaling tens of millions of dollars across Vancouver Island and British Columbia.

Respectful Relationships with our Indigenous Partners

Polaris is recognized as a leader in Indigenous relations. We respect the rights, diversity, heritage of Indigenous people and their integral connection to the land. This is how we respectfully do business with our Indigenous partners – it is mutually-beneficial and it is the right thing to do.

Sustainable Growth

The more our Company grows, the more we make a net positive contribution to the health of the planet.

Polaris' entire business model revolves around the efficient movement of sand and gravel by sea to coastal markets in California. This consumes far less energy per ton compared to many alternative inland quarries. As older quarries local to urban areas are depleted of reserves, and need to be replaced by more distant inland quarries or by marine-sourced alternative materials, the benefits of using our material will only improve. Over time, this will result in a reduction of millions of truck miles per year on California roads. Through marine imports from British Columbia, reduced emissions and less traffic congestion will improve air quality in California and improve the overall quality of life.

The quarry site will be progressively reclaimed to productive forestry use with no permanent detriment to the land.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Year ended December 31, 2008

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 27, 2009, and should be read in conjunction with the Company's audited consolidated annual financial statements for the year ended December 31, 2008, which have been prepared in accordance with Canadian generally accepted accounting principles. 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 for the year were 2,323,000 tons, Orca Quarry production was 2,418,000 tons.
- Average selling prices remained firm during 2008.
- Adjusted EBITDA of $1.0 million ($0.03 per share) for 2008 compared with an adjusted EBITDA loss of $1.0 million ($0.03 per share) in 2007. (See Non-GAAP Measures section).
- Sales from the Richmond Terminal increased steadily during the year to a total of 320,000 tons.
- The Company purchased land within the Port of Long Beach, in conjunction with Cemex Inc., in pursuit of its strategic objective to serve the Los Angeles market in due course.
- The Company entered into a CAD$20 million bridging loan facility for the purchase of the Pier B lands. In December, a CAD$25 million bought-deal equity financing was announced and the loan was repaid in full subsequent to the year end.
- Shipping fuel price increases negatively impacted 2008 margins but will be recovered in 2009.

SELECTED ANNUAL INFORMATION

($000's, except per share amounts)	Year ended December 31, 2008	Year ended December 31, 2007	Year ended December 31, 2006
Sales	29,582	15,467	–
Gross (loss) profit	(83)	1,037	–
General and administrative	(6,973)	(4,760)	(4,012)
Stock-based compensation	(3,050)	(8,224)	(834)
Unrealized loss on fair value of loans payable	(1,065)	(3,377)	–
Impairment loss on long-term investment	(440)	(2,039)	–
Foreign exchange gain (loss)	2,165	(1,495)	(101)
Net loss	(9,793)	(18,380)	(3,333)
per share (basic and diluted)	*($0.26)*	*($0.52)*	*($0.11)*
Total assets	129,915	143,993	118,112
Total financial liabilities	25,309	9,385	47,993

RESULTS OF OPERATIONS

During the year ended December 31, 2008, the Company incurred a net loss of $9.8 million ($0.26 per share) compared to a net loss of $18.4 million ($0.52 per share) in the prior year.

The loss for the year ended December 31, 2008 included a significant charge of $3.1 million for stock based compensation and a loss in the fair value of debt of $1.1 million compared to $8.2 million and $3.4 million, respectively in the year ended December 31, 2007. A gain in foreign exchange for the 2008 period of $2.2 million, as a result of the US dollar appreciating, compares with a foreign exchange loss of $1.5 million for the year ended December 31, 2007.

The loss from operations for the year ended December 31, 2008, excluding stock-based compensation, increased to $7.5 million, compared with a loss of $4.3 million in the comparative period due to the commencement of operations at the Richmond Terminal, fuel surcharges on the Company's shipped products and a year end sand and gravel inventory adjustment at the Orca Quarry contributed to the loss from operations.

($000's except per ton amounts)	For the year ended December 31, 2008		For the year ended December 31, 2007	
	Tons	$	Tons	$
Sales	2,323	29,582	1,151	15,467
Gross margin		(83)		1,037
Gross margin per ton		*(0.04)*		*0.90*

The gross margin per ton for the year ended December 31, 2008 decreased compared to the year ended December 31, 2007 primarily due to increased fuel surcharges related to shipping and the inclusion of the operating costs of the Richmond Terminal effective from January 1, 2008. Average revenue per ton is influenced by the dollar exchange rate and also the varying percentage between delivered and ex-quarry sales.

Shipping Fuel Surcharges

The Company's two major supply agreements in northern California contain shipping fuel surcharge conditions whereby the Company absorbs increases or decreases in the cost of shipping fuel during any twelve month period and passes the cost or benefit to the customer during the following year. The commencement selling prices to both customers reflected actual fuel costs at the time of entering into the contract. Accordingly the Company passed 2007 increased fuel costs as a selling price surcharge on 2008 sales volumes. During 2008, unprecedented increases in the cost of shipping fuel were incurred by the Company particularly during the third quarter and the first half of the fourth quarter, a consequence of shipping fuel prices lagging world oil prices. In accordance with the supply agreements, 2008 costs absorbed by the Company will be passed as a selling price surcharge on 2009 sales volumes.

In 2008 the Company recovered $598,000 in excess fuel surcharges which it had paid to CSL during 2007.

In 2009 the Company expects to recover $1,187,000 in excess fuel surcharges which it paid to CSL during 2008.

The Company's sensitivity to changes in fuel prices is as follows: for every $10 movement per metric tonne in the price of IFO180 fuel oil, the Company's gross margin is impacted, positively or negatively, by approximately 3.6 cents per ton. The Company has now agreed with customers that commencing on January 1, 2009 the fuel surcharge recovery mechanism will be modified such that the recovery of costs will occur on a quarterly basis thereby minimizing the impact of changing fuel prices on the Company and its customers. The Company anticipates that the gross margin in 2009 will benefit from these measures and that the lower fuel costs, which reflect the recent decline in world oil prices, will enable customers to retain their market competitiveness against truck deliveries where the impact of changing fuel prices is immediate. This change will not affect the agreed recovery of the 2008 surcharges.

Other Charges

The annual gross margin was also impacted by an inventory adjustment at December 31, 2008 as a result of the Company's annual survey of the sand and gravel stockpiles by an external surveyor. The reasons for the deficit are that production tonnages did not fully account for the loss of process wash water in the products which drains back into the ground prior to ship loading and a manufacturer's programming error in the electronic belt scales which provide the only onsite physical measure. This is a one time adjustment and production costs will not be affected going forwards. As a result, the Company adjusted inventory down by 325,000 tons, this resulted in a reduction in inventory of $1.05 million at December 31, 2008 with a corresponding increase in the cost of goods sold. The Company has now instituted changes in measured production procedures and will have independent semi-annual physical inventory surveys completed. See the Controls and Procedures section in this management discussion and analysis.

Throughput at the Richmond Terminal, which commenced operations on January 1, 2008, is in line with expectations. As aggregate sales continue to increase at the Richmond Terminal, fixed costs will decline on a per ton basis thus improving gross margin.

Throughout 2008, the Company continued to incur higher than originally expected tug and pilotage costs at the Orca Quarry. However, the new berthing tug, Numas Warrior, which is locally based and came into service during the fourth quarter of 2008, is expected to gradually reduce berthing costs. This initiative, combined with the beneficial effect of an increasing number of ship loadings as the business develops, will gradually benefit gross margins.

Total selling, general and administrative expenses, including stock-based compensation, of $10.4 million were charged to operations during the year ended December 31, 2008, compared to expenses of $13.6 million in 2007. The non-cash expense of $3.1 million for stock based compensation in 2008 decreased compared with $8.2 million in 2007. General and administrative costs in 2008 increased to $7.0 million from $4.8 million in 2007 mainly related to the growth of the Company, reflecting increases in general office costs, insurance and salaries, including accrued severance benefits to the Company's outgoing CEO of $0.6 million.

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. Sales into Vancouver, BC, which are denominated in Canadian dollars, offset a portion of the cash costs of production at the Orca Quarry and provide a natural hedge to the Company. Additionally, in the ramp-up phase of production, quarry costs per ton can 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 North America. See "Segmented Financial Information" (note 21) in the Company's audited annual financial statements for analysis of its customers and geographic segments.

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:

	2008				2007			
($000's)	Dec 31	Sept 30	June 30	Mar 31	Dec 31	Sept 30	June 30	Mar 31
Revenue	7,459	9,002	6,573	6,548	5,553	5,466	4,398	50
Net loss for the quarter	(2,159)	(3,241)	(1,929)	(2,464)	(10,931)	(1,929)	(1,212)	(4,308)
Basic and diluted net loss per share	(0.04)	(0.09)	(0.05)	(0.07)	(0.30)	(0.05)	(0.03)	(0.14)
(000Tons)								
Sales	608	694	500	521	393	488	263	7
Aggregate production	338[1]	706	581	793	340	459	458	152

(1) Net of 325,000 tons adjustment to year end inventory.

See Sales and Seasonality section for discussion of quarterly and general trends.

Overview of the Company, Operations and Outlook

Recent Developments

Over the last two years, the demand for construction aggregates in the Company's principle market, California, has fallen substantially and more recently the world economic landscape has experienced an unprecedented decline. These factors have had the effect of slowing the anticipated growth of the Company in respect to both volumes and terminal development. However, the key fundamentals of the Company's business strategy remain intact, as follows:

- Low cost production of high quality sand and gravel.
- Control of mineral resources adjacent to tidewater.
- Secured long term shipping partnership.
- Long term supply contracts.
- Existing access to Port Terminals in the San Francisco Bay.
- Development progress for future terminals in Los Angeles and San Diego.

On February 17, 2009, President Obama signed a $787 billion economic stimulus package designed to provide immediate relief to the beleaguered US economy. Included in the package are many elements of spending which will boost the country's investment in infrastructure projects. Specifically, the package incorporates $48 billion in new transport investments. This initiative, together with a rescue plan designed to help up to 9 million Americans through modified or refinanced mortgages, coupled with liquidity infusions into banks and investment houses, should lead to increases in construction aggregate demand in each of the three main demand sectors – private housing, private commercial and public sector. Of the $48 billion, California will receive $3.9 billion for investment in highways and bridges, transit capital, fixed guideway modernization and clean water.

On February 26, 2009, the California State legislature approved its 2009/2010 Budget Plan, which contains further economic stimulus action and immediately enabled funding to resume on many construction projects which had stalled due to the lack of State spending. The new budget is predicated on the creation of jobs, home buyer tax credits on a newly built home, the streamlining of the environmental permitting process for specific transportation projects and encouraging public-private partnerships for needed transportation projects, including design-build initiatives.

The demand for construction aggregates is significantly higher per dollar of expenditure through infrastructure projects than through residential construction. Action taken at both federal and state levels in early 2009 is intended to be the financial catalyst to reverse the unprecedented decline in the present economic cycle.

During March 2009, the Company announced that it would temporarily reduce the Orca Quarry operating hours by approximately one third as the demand for construction aggregates has declined due to the winter quarter wet weather in California and the general weakness in the economy. This move is consistent with the Company's efforts to minimize variable costs, while maintaining the flexibility to respond immediately to the anticipated upturn in demand as the year progresses.

Effective January 1, 2009, Herb Wilson, the Company's Senior Vice President and Chief Operating Officer, succeeded Marco Romero as President and CEO of the Company. Mr. Wilson was appointed to the Board of Directors of the Company effective July 14, 2008. The severance costs for Mr. Romero were estimated and accrued at $0.60 million of which $0.25 million was paid on December 31, 2008 in accordance with the terms of the termination agreement, with the remainder paid subsequent to year end.

Quarries and Terminals

The Orca Quarry, west of the town of Port McNeill, British Columbia, has over 130 million tons of sand and gravel reserves in the East Cluxewe deposit, less tons quarried to date, and is permitted and capable of producing 6.6 million tons of aggregate per year with only the addition of one further mining scraper and increased levels of staffing. The Orca Quarry is meeting the needs of west coast readymix concrete producers that require a long-term supply of high quality construction aggregate. Sales of construction aggregate commenced from the Orca Quarry at the end of March 2007 and as production increases the costs per ton will be reduced through economies of scale.

The Company believes that it will be possible to further extend the life and scale of the Orca Quarry and has substantially completed a program of exploration in the surrounding area on lands over which the Company holds certain rights, referred to as the East Cluxewe Extension, West Cluxewe, and Bear Creek deposits.

The Company's exploration program also included further evaluation of the Cougar deposit; however, preliminary results do not warrant further capitalization of costs and as a result the Company wrote off $0.18 million associated with the property at the year end.

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 a mine permit in 2003. The associated Environmental Assessment Certificate from the Province, which would have expired in September 2008, was renewed by the Province of British Columbia for a further five years. The Company is actively seeking market outlets which would support the development of the quarry to produce crushed rock construction aggregate products. Work has commenced to update and complete the previous partially completed feasibility study which is expected to be concluded in 2009. The first stage of this work was the shipment of a bulk sample of several tons of granite to a pilot crushing plant in the US, where extensive tests provided detailed data for process plant design. Bulk finished aggregate samples were sent to potential customers who had expressed a serious interest in receiving future supplies from the quarry. Eagle Rock Quarry products are expected to be shipped in bulk ocean-going carriers to coastal urban markets along the west coast of North America and Hawaii. 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 the Orca Quarry which produces a high proportion of natural sand.

Terminal access, whether through owned and operated terminals, or third party terminals, is a key component in the logistical chain. Effective January 1, 2008 the Company's Richmond Terminal (the "Richmond Terminal") in the Port of Richmond in San Francisco Bay, commenced commercial operations. The Richmond Terminal, held under a long-term lease with Levin Enterprises, Inc., is a receiving, storage and distribution facility for construction aggregate having a permitted annual throughput capacity of 1.5 million tons. This environmentally sensitive, fully-enclosed, facility is proving to be a flagship operation for promoting the Company's capabilities.

On August 18, 2008, the Company purchased a 12.4 acre parcel of freehold land in the Port of Long Beach, California together with its Strategic Alliance Partner, Cemex Inc. ("Cemex"). The land is apportioned in two sections: The first phase of development, which is subject to permitting, will be the development and construction of a sand and gravel terminal and a ready mixed concrete plant. It is presently expected that the first phase of the Pier B development project will commence in 2012 ("Section A"). The second phase of development is expected to be the construction of a separate aggregate terminal which will receive and distribute granite from the proposed Eagle Rock Quarry (Section B). The Company paid $7.8 million for a 50% interest in Section A and expects that all development costs and net income from this Section will be shared on an equal basis between the Company and Cemex. The Company paid $7.38 million for a 100% interest in Section B until a development decision is made, at which point the Company's joint venture partner can purchase 50% of Section B, at the purchase price plus the cost of carrying the capital, and participate in the development on a 50-50 basis otherwise Section B will be deeded to the Company. As a result, the Company's 70% owned subsidiary, Eagle Rock Aggregates Inc, owns a joint venture interest in Cemera Long Beach LLC ("Cemera"), the subsidiary formed to hold the land, with the remaining interest in the joint venture owned by Cemex. Cemera is governed by the Strategic Alliance Agreement and the Joint Cooperation and Development agreement (the "Agreements") previously entered into between the Company and Cemex. Under the Agreements, Cemex has the right to become the Company's exclusive marketing partner in the states of Washington, Oregon and California, excluding four northern California counties where marketing rights already existed with Shamrock Materials Inc.

Markets

The Company's primary target markets are major urban centers along the west coast of North America where local production of construction aggregate has been diminishing as operating quarries are depleted and new resources become more difficult to permit.

Longer and more costly overland trucking to consumers is required to meet local supply shortfalls and creates a market opportunity for the Company to competitively ship high quality construction aggregate to those markets in large ocean-going bulk carriers or smaller barges. Currently, the Company is selling sand and gravel into three distinct markets: the San Francisco Bay area, Hawaii and Vancouver, BC.

The California market enjoyed strong growth up to 2006, led by a buoyant residential housing demand, coupled with an expanding private commercial market and continuing public sector infrastructure projects. Commencing in 2006 the California construction industry experienced an unprecedented reduction in demand which continued through 2008. In 2005 the overall demand for construction aggregate in California, being the combination of sand, gravel and crushed rock, was approximately 240 million tons (US Geological Survey - Mineral Industry Surveys). Based on the USGS survey to the third quarter of 2008, management extrapolates the demand in 2008 to be down to approximately 156 million tons, a reduction of 35%. Historically, public spending and private investment have been counter-cyclical. However, the significant decline in private spending, exacerbated by the current credit squeeze, out-paced the effect of any ramp-up of large infrastructure projects, thus creating the significant reduction in the overall demand. The recently announced Federal and state stimulus packages are now expected to increase the demand for construction aggregate, possibly beginning later in 2009 and particularly in 2010.

Despite the downturn in demand in California and elsewhere, the Company doubled sales in 2008 to 2.32 million tons from 1.15 million tons in 2007. The decline in demand for construction aggregate in northern California has created pricing pressures, particularly in the rural markets which had previously benefited from high levels of residential building. However, the Company's target markets around the San Francisco Bay have been more resilient to pricing pressure and the Company enjoyed stable prices during 2008.

The combination of dwindling supplies and relatively stable demand for construction aggregate in Hawaii and Vancouver continues to make these two markets favourable for the Company's products. The Hawaiian market, at this time, is somewhat insulated from the downturn in residential construction being experienced by mainland markets, due to a steady demand from the military and leisure sectors, coupled with infrastructure projects, which are expected to include a proposed new light rapid transit system in Honolulu. The reducing supply of locally available construction aggregate, particularly sand, should enable the Company to gradually increase sales of Orca materials into the Hawaiian market.

During 2008, the construction market in Vancouver remained relatively strong, driven by both public and private spending. Several large infrastructure projects are under construction as the city prepares to host the winter Olympic Games in 2010. However, residential high rise construction began to slow during 2008, as a result of the current credit squeeze and economic slowdown. Pressure on local supplies has been further exacerbated by the closure of a competitor's large coastal sand and gravel quarry on the southern tip of Vancouver Island at the end of 2007. On balance, the Company expects to be able to maintain its present level of sales into the lower mainland of BC.

The Company will continue to evaluate and secure new markets for its construction aggregate and is currently seeking new terminal opportunities in southern California and Washington states in conjunction with Cemex, its Strategic Alliance Partner.

Shipping

The Company is currently shipping its products from Vancouver Island, British Columbia, Canada to San Francisco Bay, and supplying customers in Vancouver and Hawaii on an ex-quarry basis into vessels or barges supplied by the customer.

Customers in the San Francisco Bay area are supplied by self-unloading Panamax vessels provided by CSL International Inc. ("CSL"). In July 2005, the Company executed its first long term shipping Contract of Affreightment ("CoA-1") with CSL. CoA-1 initially had a term of ten years with an effective start date of July 18, 2007 and incorporates fixed rates per tonne of product, subject to inflation and fuel cost adjustments. CoA-1 covers deliveries from the Orca Quarry to locations in San Francisco Bay and contains minimum annual volumes increasing over the first five years to a maximum of 4.5 million metric tonnes per annum. Beginning in January 2008, the rates charged under the CoA-1 have been adjusted for inflation. Shipments exceeded the contracted cargo volume for the first year ending July 17, 2008; however, due to the continuing recession in demand, the Company does not expect to meet the contracted volume for the year ending July 17, 2009, even after exercising its rights under the contract to roll forward up to 25% of the commitment.

In December 2007, the Company executed a second long term, 15-year, shipping Contract of Affreightment ("CoA-2") with CSL for a minimum of 2.25 million metric tonnes per annum of additional shipping capacity, beginning in late 2010. This additional capacity was secured at a time when the availability of capacity was severely constrained in order to facilitate the development of the Eagle Rock Quarry; however, the Company has the flexibility to use it for shipments from Orca should markets and timing dictate. The deteriorating market conditions that prevailed throughout 2008 have made it very unlikely that this additional shipping capacity will now be required in 2010 as originally forecast.

Accordingly, the Company has reached agreement with CSL to extend CoA-1 by five years, to expire in 2022 and to delay the commencement date of CoA-2 until the beginning of 2014, or earlier, should market conditions be more favourable than current expectations.

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 on behalf of Cemex by an independent towing contractor. After lightering, the balance of the cargo may be unloaded at an existing terminal operated by Cemex at Redwood City or at the Company's Richmond Terminal. These arrangements offer the most economical shipping solution by utilizing fully loaded Panamax vessels from Vancouver Island to San Francisco Bay. However, the decline in demand in construction aggregates in California will have the effect of slowing the Company's previously anticipated rate of growth. The Company's two contracted Bay area customers are currently experiencing similar market demand constraints and while this remains the case, the Company will be able to efficiently manage its shipping contract with CSL. In the unlikely event, however, that one customer's demand changes significantly from the other, the Company would have to review shipping logistics and may, for a period of time, be unable to achieve the present cost efficiency, which is a function of the movement of fully laden Panamax vessels into San Francisco Bay.

The logistics associated with the distribution of large quantities of aggregate by ocean-going vessel are complex. Shipping and port costs have been higher than projected in this ramp-up period as a result of a substantial increase in the marine trade generally in the Vancouver area, together with major changes in industries such as the coastal forestry which previously utilized many marine resources in more remote area. The net effect of these changes has been extended travel times required for pilots and berthing tugs. The Company intends to minimize the cost of tugs through the provision of the Numas Warrior, a dedicated local berthing tug and to that end, the Company entered into a joint venture (the "Tug JV") for the construction of this 2,200 horsepower tug which was completed and put into operation in the fourth quarter of 2008. The Company also expects pilot costs to gradually decline as restrictions on use of the Orca berth have been removed, providing that the Numas Warrior is used for berthing, and also when the pilot station at Pine Island, BC, commences year round operation, anticipated to be later in 2009, which will reduce the travel time required for the pilots.

The combination of the two long-term supply contracts in northern California and the commencement of operations at the Richmond Terminal, is gradually optimizing shipping logistics.

The Lower Mainland of British Columbia is supplied with sand and gravel on a regular basis using barges provided by the customer and unloaded at two terminals located on the Fraser River. Sales to Hawaii are made via CSL self-discharging vessels contracted by the Company's Hawaiian customers.

Customers

The Strategic Alliance formed with Cemex in 2007, coupled with the Shamrock Supply Agreement, represent the cornerstone of the Company's growth plans over the next 20 years and support progress toward the permitted production of 6.6 million tons per year from the Orca Quarry. Shamrock and Cemex together account for approximately 80% of the Company's sales. The Company continues to follow the financial information provided in the public arena by Cemex, who have stated that they will sell assets and hope to restructure their debt load in order to meet repayments, and maintains a close working relationship with their regional management. Shamrock is an old-established private company and close relations are maintained with the principals. The Company entered into a three year supply contract, effective January 1, 2008, with a Hawaiian company and continues to supply aggregate to a customer in Vancouver, under the terms and conditions of a five year supply agreement, which commenced in March 2007.

Sales and Seasonality

The level of sales achieved during the first full year of operations has been in line with the Company's expectations. The mix of long-term contracted sales and shorter term supply agreements provides flexibility and will enable the Company to eventually benefit from increasing prices brought about by the depletion of indigenous resources in the target market areas, as demand enters the next upward cycle driven by population growth. New resources are increasingly difficult to permit in all target markets and in the long term the Company believes that the growing supply deficits will have to be met by increasingly longer and more expensive overland transportation options as well as by marine transportation.

Although the Company's sand and gravel quarry operates year-round, seasonal changes and other weather related conditions can 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 sensitive to regional and local weather and market conditions and, in particular, to cyclical swings in construction spending. This is no more evident than in the first quarter of 2009 where poor weather in all west coast markets, especially Northern California, coupled with the general construction market downturn will have resulted in substantially lower volumes shipped. Sales related to construction projects delayed by poor weather tend to be recovered as projects accelerate to meet deadlines in the following periods. Typically, the highest sales and earnings will be achieved in the summer (second and third quarters) of any year and the lowest realized in the winter (first and fourth quarters).

Liquidity and Capital Resources

Working Capital

At December 31, 2008, the Company had working capital of $11.1 million, including cash of $7.0 million, compared to working capital of $17.2 million and cash of $15.2 million at December 31, 2007. The Company believes that it has sufficient capital resources to fund operations through to sustainable positive net cash flows.

Operating, Financing and Investing Activities

For the year ended December 31, 2008, cash used was $8.2 million compared with $27.2 million in the year ended December 31, 2007, when the Company's principal operating assets were under construction, however, the final payments for the construction of the Richmond Terminal were included in the first half of 2008. Operating activities, taking into account non-cash items and non-cash working capital, used cash of $0.9 million for the year ended December 31, 2008, which is unchanged from 2007.

On January 8, 2009, the Company completed an equity financing and issued, on a bought deal basis, 15,625,000 units (the "Units") of the Company at a price of CAD$1.60 per Unit, for gross proceeds to the Company of CAD$25 million (the "Offering"). Each Unit consisted of one Common Share of the Company and one half of a common share purchase warrant (each full warrant a "Warrant") with each Warrant entitling the holder thereof to purchase an additional Common Share of the Company at the exercise price of CAD$2.25 per Common Share for a period of two years following the closing of the Offering. Polaris granted the underwriters an over-allotment option which was not exercised.

To facilitate the purchase of the Pier B Land, the Company entered into a credit agreement dated August 18, 2008, for a CAD$20 million one-year bridge loan facility. The loan initially bore interest at 12% per annum, which increased to 13% after 90 days outstanding and would have increased to 15% if the loan had remained outstanding at 181 days after closing. Further, 1,900,000 warrants were issued with a five year term and a strike price of CAD$6.50, of which 475,000 warrants vested on the closing of the financing, another 475,000 vested after 90 days and the remaining 950,000 were cancelled prior to vesting at 180 days due to the repayment of the loan on January 9, 2009. The principal of CAD$20.0 million was repaid using funds raised in the bought deal equity financing outlined above. The Company may need to obtain additional financing to develop the Pier B Terminal.

The Company designated the loan as held for trading and recognizes the fair value of the loan at each measurement date. The Company also fair valued the first and second tranches of warrants using an option pricing model. At inception of the loan, the Company pro-rated the face value of the loan between the loan and the warrants based on the respective fair values and as such recorded the loan at $17.7 million and the warrants at $1.1 million. At December 31, 2008, the Company remeasured the loan fair value to $16.4 million with a resulting loss on change in the fair value of the long-term debt of $1.1 million recognized into income. Additional financing may also be required in the event the Company successfully meets its objectives of securing additional terminals and developing the Eagle Rock Quarry.

During the twelve month period ended December 31, 2008, 254,212 stock options were exercised with gross proceeds to the Company of $0.6 million. The Company also granted 930,000 stock options with a weighted average exercise price of $7.93 (CAD $9.67) per share, expiring on between 2013 and 2018.

The Company expended $22.4 million on property, plant and equipment in the year ended December 31, 2008 compared with $39.7 million in the comparative year ended December 31, 2007. The majority of 2008 expenditures relate to the purchase of the Pier B land in Long Beach California, final construction costs of the Richmond Terminal, the Company's current exploration program and the Eagle Rock Quarry feasibility study, while the 2007 expenditures related to the final construction costs of the Orca Quarry and the initial construction costs of the Richmond Terminal. Operations commenced at the Orca Quarry on February 20, 2007 and January 1, 2008 at the Richmond Terminal with capitalization of project costs diminishing rapidly thereafter, respectively. The majority of the expenditures for the Orca Quarry were incurred prior to December 31, 2006 in accordance with budgeted expenditures.

Early in 2008, the Company also entered into an additional five-year lease with Caterpillar Financial Services Limited for a scraper (mining equipment) for the Orca Quarry to expand its production capacity to meet its rising sales commitments at the time. The lease terminates on February 28, 2013 and has a fixed annual interest rate of 6.2%. As at December 31, 2008, the total minimum lease payments remaining was $3.6 million.

Investment in Asset Backed Commercial Paper

The Company has an investment in third party asset backed commercial paper ("ABCP") with a par value of $4.8 million (December 31, 2007 - $5.9 million) (CAD$5.9 million) and a carrying value of $2.7 million (2007 - $3.8 million). At the date the Company acquired the ABCP it was rated R1 (High) by Dominion Bond Rating Services ("DBRS"), the highest credit rating issued for commercial paper. During August, 2007 the ABCP market experienced liquidity issues and as a result of these market conditions the Company's ABCP did not settle as it matured on August 17, 2007. In September, 2007, a Pan Canadian Committee (the "Committee") was formed consisting of banks, asset providers and major investors (the "Montreal Group") whereby an agreement in principle was reached to restructure the ABCP market. The Committee subsequently retained

Goodmans and JP Morgan Chase as legal and financial advisors, respectively, to oversee the proposed restructuring process. On December 23, 2007 the Committee agreed in principle to the conversion of the ABCP investments into longer term financial instruments with maturities corresponding to the underlying assets.

ABCP backed by traditional securitized assets has been restructured on a series-by-series basis into TA Tracking Notes, with each trust or series maintaining its separate assets. ABCP backed by synthetic assets or a combination of synthetic and traditional securitized assets has been restructured into four different floating rate notes, Class A-1, A-2, B and C, with maturities based upon the maturities of the underlying pooled assets, expected to be an average of seven years. ABCP backed by U.S. sub-prime assets will be restructured into IA Tracking Notes on a series-by-series basis, with each series maintaining its separate exposure to its own assets. The restructuring plan was approved by the ABCP noteholders on April 25, 2008 and sanctioned by the Ontario Superior Court of Justice on June 5, 2008. On June 18, 2008 proceedings were taken by a number of corporate noteholders in the Ontario Court of Appeal seeking to challenge the Ontario Superior Court of Justice decision that sanctioned the restructuring plan. The Ontario Court of Appeal heard the appeal on June 24 and 26, 2008 and on August 18, 2008 ruled in favour of the restructuring plan. On January 12, 2009 the Ontario Superior Court issued the final implementation order in the ABCP restructuring process. The restructuring closed on January 21, 2009. The exchange of restructured ABCP notes was completed on January 21, 2009. A first instalment of interest (to August 31, 2008) was also paid on the same day. The balance of the interest is to be paid in subsequent instalments, and the amounts and timing are still to be determined. Restructuring fees already incurred and a reserve for additional restructuring fees were deducted from this first interest payment.

The Company's investment in ABCP was classified as available-for-sale on initial recognition and carried at fair value in cash and cash equivalents. To reflect the lack of liquidity in the ABCP market and the uncertainty surrounding the timing of cash flows, the investment has been reclassified as long-term.

There is a significant amount of uncertainty in estimating the amount and timing of cash flows associated with the ABCP. The Company's management has estimated the fair value of these assets by discounting future cash flows determined using a valuation model that incorporates management's best estimates of credit risk attributable to underlying assets, relevant market interest rates, amounts to be received and maturity dates. The assumptions used in the valuation model at December 31, 2008 include:

Weighted average interest rate	3.05%
Weighted average discount rate	21.02%
Maturity of notes	6 to 9 years

If these assumptions were to change, the fair value of the investment in ABCP could change significantly.

The Company recognized a fair value impairment loss on this investment of $2.0 million during the year ended December 31, 2007. At December 31, 2008, the Company reassessed its fair value determination of this investment taking into account the approved restructuring plan and changes in the credit markets since December 31, 2007. As a result of this valuation, the Company estimated fair value at $2.7 million (CAD$3.3 million). Accordingly, a further impairment loss of $0.44 million has been recorded for the year ended December 31, 2008, for a total write-down since the market for ABCP became inactive of $2.5 million. The fair value could range from $3.0 million (CAD$4.0 million) to $2.3 million (CAD$2.8 million) based on alternative reasonable assumptions.

In January 2009 the Company ABCP notes were exchanged for the restructured notes and the Company received:

Face value ($000's)		Restructuring categories
4,058	(CAD4,943)	Master Asset Vehicle MAV II Class A-1 Notes
126	(CAD152)	Master Asset Vehicle MAV II Class C Notes
637	(CAD776)	Master Asset Vehicle MAV II Class 13 IA Tracking Notes

Class A-1 Notes will bear interest at the Bankers' Acceptance ("BA") rate less 0.50% and Class C Notes will bear interest at the BA rate plus 20%. These notes have legal maturity dates in 2056 but the expected repayment date of the Class A-1 notes is January 22, 2017. The senior Class A-1 notes have been rated "A" by DBRS while the subordinated Class C notes are unrated. The IA Tracking Notes will bear interest at a rate based on the net rate of return generated by the underlying tracking assets. The maturity of the Class 13 IA Tracking Notes is based on the maturity of the underlying assets. The Class 13 IA Tracking Notes will not be rated.

The exchange of the ABCP for the new notes on January 21, 2009, has been recognized as a transaction of substance. Accordingly, the investment in ABCP has been removed from the Company's balance sheet at January 21, 2009 and the new notes initially recognized at a fair value of $2.4 million (CAD$3.1 million). The Company's investment in the new notes has been classified as held-for-trading and carried at fair value. Interest payments received will be accounted for in the fair value determination of the notes. Changes in fair value of the new notes will be reported in net income.

Contractual Obligations and Commitments

As at December 31, 2008, the Company's contractual obligations are outlined in the following table:

	Payments Due by Period				
($000's)	Total	Less than one year	2-3 years	4-5 years	After 5 years
Loan payable	16,420	16,420	–	–	–
Capital lease obligations	3,640	788	2,292	560	–
Operating leases and through-put commitments	18,670	1,070	2,339	2,300	12,961

In January 2009 the loan payable was paid out in full.

On commencement of the marine contract on July 18, 2007, the Company is committed to ship the following tonnage:

	Tons
First contract year	1,540,000
Second contract year	2,530,000
Third contract year	3,520,000
Fourth contract year	4,400,000
Fifth contract year and thereafter	4,950,000

The Company met its first contract year commitment and shipped in excess of 1.5 million tons. The term of this contract has been extended from 10 years to 15 years.

The Company further increased its shipping capacity by entering into its second shipping contract in 2007 which would have commenced in the third quarter of 2010 but which has been deferred until the beginning of 2014. This contract requires the Company to ship a minimum of 2,480 tons annually for the contract term of 15 years.

Failure by the Company to ship its annual cargo commitments will result in a dead freight charge equal to 75% of the freight rate of the unshipped tonnes. The Company has the option, in any given year, to carry forward up to 25% of the yearly contracted tonnage into the following year and to increase or decrease volume commitments by 10% under charterer's option.

Non-GAAP Measures

Adjusted Net Loss

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

($000's, except per share amounts)	Year ended December 31, 2008	Year ended December 31, 2007
Net loss for the period	(9,793)	(18,380)
Adjustments		
Stock based compensation	(3,050)	(8,224)
Change in fair value of debt	(1,065)	(3,377)
Impairment loss on long-term investment	(440)	(2,039)
Adjusted net loss for the period	(5,238)	(4,740)
per share	*($0.14)*	*($0.13)*

EBITDA and Adjusted EBITDA

Earnings Before Interest, Taxes, Depreciation, and Amortization ("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 the Company's 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 Canadian GAAP and should not be considered in isolation or as a substitute for measures of performance prepared in accordance with Canadian GAAP. These measures are not necessarily indicative of operating profit or cash flow from operations as determined under Canadian GAAP. Other companies may calculate these measures differently. The following table reconciles these non-GAAP measures to the most directly comparable Canadian GAAP measure.

($000's, except per share amounts)	Year ended December 31, 2008	Year ended December 31, 2007
Net loss for the period	(9,793)	(18,380)
Interest expense and financing fees	(874)	(242)
Income taxes	255	(269)
Amortization and impairment charges for capital assets	(5,601)	(3,226)
EBITDA	(3,573)	(14,643)
per share	*($0.10)*	*($0.41)*
Adjustments		
Stock based compensation	(3,050)	(8,224)
Change in fair value of debt	(1,065)	(3,377)
Impairment loss on long-term investment	(440)	(2,039)
Adjusted EBITDA	982	(1,003)
per share	*$0.03*	*($0.03)*

Related Party Transactions

During the years ended December 31, 2008 and 2007, directors, either directly or through a company controlled by them, provided to the Company, marketing services at a cost of $0.3 million (2007 – $0.5 million) and technical services at a cost of $0.01 million (2007 – $0.05 million), which are included in general and administrative expenses.

At December 31, 2008, accounts payable of $0.02 million (2007 – $0.06 million) was due to a company controlled by a common director.

Transactions with related parties are recorded at the exchange amount, being the price agreed between the parties.

Fourth Quarter 2008

The Company had a net loss for the three months ended December 31, 2008 of $2.2 million compared to a net loss of $10.9 million in the fourth quarter of 2007.

Sales for the quarter ended December 31, 2008 were $7.5 million compared to $5.6 million in the fourth quarter of 2007. Gross margin for the fourth quarter of 2008 was a loss of $0.7 million compared to a loss of $0.5 million in the three months ended December 31, 2008, or a loss of $1.23 per ton in the fourth quarter of 2008 versus a loss of $1.21 per ton for the comparative quarter in 2007. The quarterly gross margin was impacted by an inventory adjustment at December 31, 2008 as a result of the Company's annual survey of the sand and gravel stockpiles. See the Results of Operations and Controls and Procedures sections in this management discussion and analysis for additional information.

Total selling, general and administrative expenses, including stock-based compensation, of $2.5 million were charged to operations during the quarter ended December 31, 2008, compared to expenses of $9.6 million in the fourth quarter of 2007. Stock-based compensation of $0.3 million, compared to $8.1 million in the fourth quarter of 2007, accounted for the majority of the difference. Fourth quarter salaries and wages of $1.0 million (2007 – $0.4 million) includes accrued severance benefits to the Company's outgoing CEO of $0.6 million.

Additionally, the Company recorded a provision for impairment loss on its investment in ABCP in the fourth quarter of $0.44 million compared to $1.5 million in the quarter ended December 31, 2007. This provision was due to continued declines in the credit markets.

Critical Accounting Estimates

The Company's accounting policies are described in Note 3 to the December 31, 2008 audited consolidated financial statements. Both the accounting polices used and the estimates made by management can impact the consolidated financial statements. The Company considers the accounting policies and estimates for; inventories, property plant and equipment, the impairment of long-lived assets, the fair value of financial instruments, asset retirement obligations, stock-based compensation, income taxes, and the translation of foreign currency to be significant.

Inventories

Construction aggregates inventory is stated at the lower of cost or net realizable value. Cost for construction aggregates inventory is determined on an average cost basis. Such costs include fuel, repair parts and supplies, raw materials, direct labour and production overhead. The allocation of costs to aggregate stockpiles and tonnage of aggregate stockpiles involves the use of estimates. There can be no assurance that actual results will not differ significantly from estimates used in the determination of the carrying value and tonnage of inventories.

Property, plant and equipment

Developed property, plant and equipment are carried at cost less accumulated amortization and depletion. 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. Significant judgement is involved in the determination of useful life and residual values for the computation of depreciation, depletion, and amortization and no assurance can be given that actual useful lives and residual values will not differ significantly from current assumptions.

Impairment of long-lived assets
The Company reviews and evaluates its long-lived assets for impairment when events or changes in circumstances indicate that the related carrying amounts may not be recoverable. An impairment loss is recognized when the asset-carrying value exceeds the fair value. The fair value is generally determined using estimated undiscounted future cash flows. Impairment is considered to exist if total estimated future cash flows on an undiscounted basis are less than the carrying amount of the asset. An impairment loss is measured and recorded based on the estimated fair value of the assets. 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.

Asset retirement obligations
The Company records the fair value of any asset retirement obligation 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. 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. In determining this obligation, management must make a number of assumptions about the amount and timing of future cash flows and the discount rate to be used.

Stock-based compensation
The Company uses the fair-value method of accounting for stock based compensation related to incentive stock options granted and warrants granted. In determining the fair value, the Company makes estimates of the expected volatility of the stock, the expected life of the option or warrant and the discount rate. Changes in these estimates could result in the fair value of the stock-based compensation being materially less than or greater than the amount recorded.

Income taxes
The Company recognizes the future tax benefit related to future income tax assets and sets up a valuation allowance against any portion of those assets that it believes will, more likely than not, fail to be realized. Assessing the recoverability of future income tax assets requires management to make significant estimates related to expectations of future taxable income. It is reasonably possible that changes in these estimates could occur that materially affect the amount of future income tax assets and liabilities recorded.

Translation of foreign currency
The Company's reporting currency is the United States dollar. The functional currency of Polaris Minerals Corporation, the parent company, is the Canadian dollar. For integrated foreign operations, monetary assets and liabilities are translated at the year-end exchange rates and other assets and liabilities are translated at historical rates. Revenues, expenses and cash flows are translated at quarterly average exchange rates. Gains and losses on translation of monetary assets and monetary liabilities are charged to income or loss. For financial reporting, the accounts of the consolidated parent company are translated into US dollars at the exchange rate prevailing at the balance sheet date; all revenue and expense items are translated at the average rate of exchange for the period; and the resulting translation adjustment is recorded as a cumulative translation adjustment, a separate component of accumulated other comprehensive income.

Changes in Accounting Policies including Initial Adoption

Accounting policies implemented effective January 1, 2008
Effective January 1, 2008, the Company adopted CICA Handbook Section 1535, *Capital Disclosures,* which establishes standards for disclosing qualitative information that enables users of financial statements to evaluate the Company's objectives, policies and processes for managing capital. The impact on adoption of the new standard is disclosed in note 16.

Effective January 1, 2008, the Company adopted CICA Handbook Section 3862, *Financial Instruments - Disclosures,* and Section 3863, *Financial Instruments - Presentation,* which together comprise a complete set of disclosure and presentation requirements that revise and enhance current disclosure requirements for financial instruments. Section 3862 requires disclosure of additional detail by financial asset and liability categories. Section 3863 establishes standards for presentation of financial instruments and non-financial derivatives. It deals with the classification of financial instruments, from the perspective of the issuer, between liabilities and equity, the classification of related interest, dividends, losses and gains, and the circumstances in which financial assets and financial liabilities are offset. The impact on adoption of the new standard is disclosed in Note 23.

Effective January 1, 2008, the Company adopted CICA Handbook Section 3031, *Inventories,* which provides more guidance on the measurement and disclosure requirements for inventories. Specifically the new pronouncement requires inventories to be measured at the lower of cost and net realizable value, and provides guidance on the determination of cost and its subsequent recognition as an expense, including any write down to net realizable value. The pronouncement also provides guidance on the cost formulas that are used to assign costs to inventories. Adoption of the new standard did not have an impact on the Company's net income or loss.

Effective January 1, 2008, the Company adopted an amendment to CICA Handbook Section 1400, *General Standards of Financial Statement Presentation,* in relation to going concern. The amendment requires management to assess an entity's ability to continue

as a going concern. When management is aware of material uncertainties related to events or conditions that may cast doubt on an entity's ability to continue as a going concern, those uncertainties must be disclosed. In assessing the appropriateness of the going concern assumption, the standard requires management to consider all available information about the future, which is at least, but not limited to, twelve months from the balance sheet date. The adoption did not have a material impact on the consolidated financial statements for any of the periods presented.

Accounting policies to be implemented effective January 1, 2009

Effective January 1, 2009, the Company will adopt CICA Handbook Section 3064, *Goodwill and Intangible Assets,* which replaces section 3062, and establishes revised standards for recognition, measurement, presentation and disclosure of goodwill and intangible assets. Adoption of this new section had no impact on the Company's consolidated financial statements.

Accounting policies to be implemented effective January 1, 2011

Effective January 2011, the Company will adopt CICA Handbook Sections 1582 *Business Combinations* and 1601 *Consolidated Financial Statements* and 1602 *Non-controlling Interests* which replace sections 1581 *Business Combinations* and 1600 *Consolidated Financial Statements.* Section 1582 establishes standards for the accounting for business combinations that is equivalent to the business combination accounting standard under International Financial Reporting Standards ("IFRS"). Section 1582 is applicable for the Company's business combinations with acquisition dates on or after January 1, 2011. Early adoption is permitted. Section 1601 is applicable for the Company's interim and annual consolidated financial statements for its fiscal year beginning January 1, 2011. Early adoption is permitted.

Convergence with International Financial Reporting Standards

In February 2008, the Canadian Accounting Standards Board confirmed fiscal years beginning on or after January 1, 2011 as the changeover date for Canadian publicly accountable enterprises to adopt IFRS, replacing Canadian GAAP. The transition date of January 1, 2011 will require the restatement for comparative purposes of amounts reported by the Company for the year ended December 31, 2010. As a result of this announcement, the Company has begun planning and preparing for the coming changes in financial reporting requirements. The Company has established a project team, led by finance management and has engaged a qualified third party advisor to plan for and achieve a smooth transition to IFRS and ensure successful implementation within the required timeframe.

The Company's IFRS conversion project consists of three phases: assessment, design and implementation. With the assistance of our qualified third party advisor, the Company is currently in the process of identifying significant differences between Canadian GAAP and IFRS. In the second half of 2009, the Company will initiate the design phase in which it will establish specific project plans and training programs for those areas affected by IFRS.

The Company will provide disclosures of the key elements of our plan and progress on this transition as the information becomes available during the transition period and will report regularly to the audit committee of the Board of Directors on the status of the IFRS implementation project.

Financial Instruments and Related Risks

Financial instruments

Cash is designated as held-for-trading and are measured at fair value. Accounts receivable, loan receivable, long-term loans, and security deposits are designated as loans and receivables. The long-term investment has been designated as available-for-sale. Accounts payable, accrued liabilities, and capital lease obligations are designated as other financial liabilities. The Company's loan payable is designated as held-for-trading.

Financial assets and liabilities held-for-trading are measured at fair value with changes in those fair values recognized in net earnings. Financial assets available-for-sale are measured at fair value, with changes in those fair values recognized in other comprehensive income ("OCI") except for other-than-temporary impairment which is recorded as a charge to other expenses. Financial assets held-to-maturity, loans and receivables, and other financial liabilities are measured at amortized cost.

Financial Instrument Risks

The following describes the types of risks that the Company is exposed to and its objectives and policies for managing those risk exposures.

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 has four customers and is, therefore, exposed to credit risk related to accounts receivable from these customers. The Company's largest customer is one of the world's largest international construction materials companies and the remaining customers are well established significant construction materials companies within their markets of San Francisco, Vancouver and Hawaii. At the time the Company entered into the loan receivable and the long-term loan, the Company assessed to its satisfaction the credit worthiness of the counter parties and continues to maintain close contact with those parties. The Company intends to obtain a marine mortgage for the loan receivable.

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

($000's)	2008	2007
Cash	7,036	15,234
Accounts receivable	3,648	4,376
Loan receivable	2,069	–
Long term investment	2,675	3,825
Long term loan	5,193	5,471
Other assets	1,008	1,226
	21,629	30,132

At December 31, 2008, all of the Company's accounts receivable are current and no allowance for credit losses has been recorded. Except for the long-term investment in asset backed commercial paper ("ABCP") and the long-term loan, no collateral is held as security in respect of the amounts that comprise the Company's exposure to credit risk. The Company is in the process of renegotiating the long term loan and its payment terms.

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 liabilities at December 31, 2008 is as follows:

($000's)	Accounts payable, income taxes payable and accruals	Loan payable	Capital lease obligations	Asset retirement obligations
Within 1 year	3,953	16,420	788	–
Between 1 – 2 years	–	–	788	–
Between 2 – 3 years	–	–	1,504	101
Between 3 – 4 years	–	–	184	103
Between 4 – 5 years	–	–	376	106
Over 5 years	–	–	–	8,370
	3,953	16,420	3,640	8,680

In January 2009 the loan payable was paid out in full.

Market Risk

The Company is exposed to the following market risks:

Currency risk – The Company reports in US dollars and considers the Canadian dollar as its functional currency. Operations in the USA are integrated with the Company's Canadian operations. 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, 2008 a $0.01 change in the US/Canadian exchange rate, assuming all other variables did not change, would affect net gain/(loss) by $0.09 million.

Interest rate risk – The Company's interest rate risk arises primarily from the interest received on cash, security deposits and the loan receivable which are at floating rates. The Company's long-term loan, loan payable and capital leases are at fixed rates. The Company has also made advances to the 'Namgis First Nation. The advances made prior to the construction decision bear interest at prime plus a small margin and advances made subsequent to the construction decision bear interest at substantially higher floating rates. The Company does not record the interest on these advances until recovery is assured through the establishment of continued positive cash flow at the Orca Quarry, accordingly interest on the advances has not been factored into the analysis.

For the year ended December 31, 2008 a 100 basis point change in interest rates, assuming all other variables did not change, would affect net gain/(loss) by $0.02 million.

Fair value of financial instruments

The fair values of accounts receivable, loan receivable, accounts payable and accrued liabilities approximate their carrying values due to their short-term maturities.

The Company has determined its investment in third party ABCP to be impaired. At December 31, 2008, the Company reassessed its fair value determination of this investment taking into account the approved restructuring plan and changes in the credit markets since December 31, 2007. As a result of this valuation, the Company estimated fair value at $2.7 million (CAD$3.3 million). There is a significant amount of uncertainty in estimating the amount and timing of cash flows associated with the ABCP. The Company's management has estimated the fair value of these assets by discounting future cash flows determined using a valuation model that incorporates management's best estimates of credit risk attributable to underlying assets, relevant market interest rates, amounts to be received and maturity dates. If management's assumptions were to change, the fair value of the investment in ABCP could change significantly.

The fair value of the Company's long-term loan, which is carried at amortized cost, has been estimated by discounting the anticipated future cash flows determined using a valuation model that incorporated management's best estimate of the counterparties credit risk and relevant market interest rates. As the Company is in the process of renegotiating the loan and its payment terms, actual amounts could differ.

The Company has designated its loan payable as held for trading and records it at fair value based on the net present value of the estimated future cash flows. The fair value is re-measured at the end of each reporting period and any gains or losses are recognized in the statement of operations and deficit. In determining the fair value, management must make a number of assumptions about the amount and timing of future cash flows and the discount rate to be used.

Capital Stock

As at the date of this report, the Company had unlimited common shares authorized, of which 53,204,602 were issued and outstanding. The Company also had 3,274,595 options outstanding, exercisable into 3,274,595 common shares of which 2,859,552 are currently vested and 10,916,346 warrants outstanding of which 10,916,346 are vested.

Risks and Uncertainties

The development and operation of the Company's construction aggregate properties involves a high degree of financial risk. The risk factors which should be taken into account in assessing the Company's activities include, but are not necessarily limited to, those set out in the paragraphs below. These risks are not intended to be presented in any assumed order of priority. Any one or more of these risks could have a material effect on the Company and should be taken into account in assessing the Company's activities.

Current global financial conditions have been subjected to increased volatility and access to financial markets has been severely restricted, which 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. Failure to obtain financing in the future may result in the delay or indefinite postponement of the future development of the Company's properties and terminals and could potentially result in the loss of those property interests. Further, the Company has an investment in ABCP and due to the uncertain global economy, there can be no assurance that the Company's investment will be recoverable in whole, in part or at all.

The quarrying industry is competitive and the Company may not secure the construction aggregate sales volumes and prices anticipated for the Orca Quarry. As the Company's sales will be in US dollars, currency fluctuations may adversely affect the Company's revenues once sales commence. Furthermore, the Company must secure access to additional discharge points and additional shipping volumes for its products. An additional risk exists that the Company may be unable to meet minimum freight contract volumes, particularly during the earlier years of the contract which could have a materially adverse affect on the Company's revenues, operations and financial condition.

Quarrying involves a high degree of risk and the Company has a limited history of construction aggregate project development or operations. Additionally, certain groups are opposed to quarrying and could attempt to interfere with the Company's operations, whether by legal process, regulatory process or otherwise. The Company's title to its properties may be subject to disputes or other claims, including land title claims of First Nations. Construction aggregate quarrying, processing and development activities are highly regulated and changes to government regulations or interpretation of those regulations may also adversely affect the Company. The Company currently depends on a single property with a construction aggregate reserve that has an estimated life of 25 years. In order to maintain its annual production the Company will be required to obtain other construction aggregate resources in the future to bring into production. The Company's operations are subject to environmental risks and the actual costs of reclamation for the property are uncertain. Further, the Company's insurance will not cover all the potential risks associated with a quarrying operation.

The Company is principally dependent upon its key personnel and will also be required to recruit and retain personnel to facilitate the growth of the Company.

The specifics of the Company's risks are detailed in disclosures with the heading "Risk Factors" in the Company's periodic filings with securities regulators.

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, 2008, 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, 2008 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, 2008, 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 noted a weakness in the company's ICFR described below.

During the process of review and evaluation, it was determined that a weakness existed in the construction aggregate inventory evaluation, which had the potential to result in an overstatement of the construction aggregate inventory value at December 31, 2008. This weakness was due to the recording of production tonnage, which did not account for shrinkage relating to the water loss coupled with errors in the scales that record production.

To address this weakness, management has taken steps to ensure that the production calculations factor in the water losses and that the scales are recalibrated and monitored. If the accuracy of the results is unsatisfactory, the scales will be replaced. In addition, the production and quarry managers will review and approve the inventory tonnage numbers on a quarterly basis for reasonability. Included in the review process is an independent semi annual inventory survey. There will be an additional physical inventory survey at the end of the first quarter of 2009 to ensure that appropriate production allowances are now being made. Management has made the required adjustment to the inventory value to reflect the impact of the moisture content included in the tonnage as a result of the third party inventory evaluation at year-end.

During the year ended December 31, 2008, there were no changes in our internal controls over financial reporting that have materially affected, or are reasonably likely to materially affect, our 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 Annual Report 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, market and general economic conditions, 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" and under the heading "Risk Factors" in the Company's Annual Information Form ("AIF") in respect of its financial year-ended December 31, 2008 which is filed with Canadian regulators on SEDAR (www.sedar.com). Subject to applicable securities laws 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 or Short Ton – the unit of weight used in the US consisting of 2,000 imperial pounds.

Metric Tonne – a unit of weight commonly used in Canada and world wide in shipping operations consisting of 1000kg (2,205 imperial pounds).

CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2008 AND 2007

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The consolidated financial statements of Polaris Minerals Corporation have been prepared by and are the responsibility of the management of the Company. The consolidated financial statements are prepared in accordance with Canadian generally accepted accounting principles and reflect management's best estimates and judgement based on currently available information.

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 Company's independent auditors, PricewaterhouseCoopers LLP, who are appointed by the shareholders, conducted an audit in accordance with Canadian generally accepted auditing standards. Their report outlines the scope of their audit and gives their opinion on the consolidated financial statements.

Management has developed and maintains a system of internal controls to provide reasonable assurance that the Company's assets are safeguarded, transactions are authorized and financial information is accurate and reliable.

Herb Wilson
President and Chief Executive Officer

Lisa Dea
Vice President, Finance and Chief Financial Officer

March 27, 2009

AUDITORS' REPORT

To the Shareholders of Polaris Minerals Corporation:

We have audited the consolidated balance sheets of Polaris Minerals Corporation as at December 31, 2008 and 2007 and the consolidated statements of loss, cash flows, shareholders' deficit and comprehensive (loss) income for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2008 and 2007 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP

Chartered Accountants

Vancouver, British Columbia
March 27, 2009

CONSOLIDATED BALANCE SHEETS

As at December 31, 2008 and 2007

(Expressed in thousands of U.S. dollars)	2008 $	2007 $
Assets		
Current assets		
Cash	7,036	15,234
Accounts receivable	3,648	4,376
Loan receivable (note 4)	2,069	–
Inventories (note 5)	2,250	1,781
Prepaid expenses and other	675	426
	15,678	21,817
Long-term investment (note 6)	2,675	3,825
Long-term loan (note 7)	5,193	5,471
Property, plant and equipment (note 8)	105,361	111,654
Other assets (note 9)	1,008	1,226
	129,915	143,993
Liabilities		
Current liabilities		
Accounts payable	2,438	1,102
Income taxes payable (note 13)	–	269
Accrued liabilities (note 19)	1,515	2,753
Current portion of capital leases (note 11)	592	529
	4,545	4,653
Loan payable (note 10)	16,413	–
Capital leases (note 11)	2,566	2,723
Asset retirement obligation (note 12)	1,740	1,945
Other long-term liabilities	45	64
	25,309	9,385
Non-controlling interest (note 14)	1,058	1,769
Shareholders' equity		
Share capital (note 15)	132,405	131,773
Warrants (note 10 and 15)	4,503	3,452
Contributed surplus	12,733	9,833
Accumulated other comprehensive income	(3,603)	20,478
Deficit	(42,490)	(32,697)
	103,548	132,839
	129,915	143,993

Commitments and contingencies (note 20)

Subsequent events (notes 6, 10, 15, 20, 23 and 24)

Approved by the Board of Directors

Terrence A. Lyons, Director **Paul B. Sweeney, Director**

See Accompanying Notes.

(US dollars, tabular amounts in thousands of US dollars, except where noted)

CONSOLIDATED STATEMENTS OF LOSS

For the years ended December 31, 2008 and 2007

(Expressed in thousands of U.S. dollars, except per share amounts)	2008 $	2007 $
Sales	29,582	15,467
Cost of goods sold	(24,249)	(11,551)
Amortization, depletion and accretion	(5,416)	(2,879)
Gross margin	(83)	1,037
General and administrative	(6,973)	(4,760)
Marketing	(413)	(609)
Stock-based compensation	(3,050)	(8,224)
Loss from operations	(10,519)	(12,556)
Other income (expense)		
Interest on capital lease obligations	(234)	(242)
Financing fees	(640)	–
Impairment loss on property, plant & equipment (note 8)	(185)	(347)
Loss on fair value of long-term debt	(1,065)	(3,377)
Impairment loss on long-term investment (note 6)	(440)	(2,039)
Foreign exchange gain (loss)	2,165	(1,495)
Interest income	474	1,652
Loss before non-controlling interest and taxes	(10,444)	(18,404)
Non-controlling interest	396	293
Income tax recovery (expense) (note 13)	255	(269)
Net loss for the year	(9,793)	(18,380)
Basic and diluted loss per common share	(0.26)	(0.52)
Weighted average number of common shares outstanding	37,477	35,293

See Accompanying Notes.

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended December 31, 2008 and 2007

(Expressed in thousands of U.S. dollars)	2008 $	2007 $
Cash flows from operating activities		
Net loss for the year	(9,793)	(18,380)
Amortization and accretion	5,848	2,956
Accrued interest	(167)	–
Impairment loss on property, plant & equipment	185	347
Non-controlling interest	(396)	(293)
Loss on fair value of long-term debt	1,065	3,377
Impairment loss on long-term investment	440	2,039
Unrealized foreign exchange (gain) loss	(697)	2,260
Stock-based compensation	3,050	8,224
	(465)	530
Changes in non-cash working capital items (note 18)	(416)	(1,414)
	(881)	(884)
Cash flows from financing activities		
Proceeds from issue of common shares	482	51,323
Bridge loan proceeds	18,850	–
Financing fees	(38)	–
Long-term debt repayment	–	(31,000)
Capital lease payments	(626)	(455)
	18,668	19,868
Cash flows from investing activities		
Loan receivable	(1,809)	–
Long-term investment	–	(5,463)
Deferred charges	–	64
Long-term loan	278	(5,388)
Property, plant and equipment costs	(22,418)	(39,747)
Security deposits	51	(477)
	(23,898)	(51,011)
Effect of foreign currency translation on cash	(2,087)	4,864
Decrease in cash	(8,198)	(27,163)
Cash - beginning of year	15,234	42,397
Cash - end of year	7,036	15,234

Supplemental cash flow information (note 18)

See Accompanying Notes.

(US dollars, tabular amounts in thousands of US dollars, except where noted)

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' DEFICIT

For the years ended December 31, 2008 and 2007

(Expressed in thousands of U.S. dollars)

	Share Capital						
	Number of common shares (000's)	Amount $	Warrants $	Contributed surplus $	Accumulated other comprehensive income (loss) $	Deficit $	Total $
December 31, 2006	29,650	79,820	–	2,179	(95)	(14,317)	67,587
Public offering	6,900	52,923	–	–	–	–	52,923
Share issue costs	–	(3,105)	–	–	–	–	(3,105)
Warrants issued	–	–	3,452	–	–	–	3,452
Options exercised	775	2,135	–	(630)	–	–	1,505
Stock based comp	–	–	–	8,284	–	–	8,284
Other comprehensive income	–	–	–	–	20,573	–	20,573
Net loss	–	–	–	–	–	(18,380)	(18,380)
December 31, 2007	37,325	131,773	3,452	9,833	20,478	(32,697)	132,839
Warrants issued	–	–	1,051	–	–	–	1,051
Options exercised	254	632	–	(150)	–	–	482
Stock based comp	–	–	–	3,050	–	–	3,050
Other comprehensive income	–	–	–	–	(24,081)	–	(24,081)
Net loss	–	–	–	–	–	(9,793)	(9,793)
December 31, 2008	37,579	132,405	4,503	12,733	(3,603)	(42,490)	103,548

See Accompanying Notes.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE (LOSS) INCOME

For the years ended December 31, 2008 and 2007

(Expressed in thousands of U.S. dollars)	2008 $	2007 $
Net loss for the year	(9,793)	(18,380)
Other comprehensive (loss) income		
Currency translation adjustment	(24,081)	20,610
Mark-to-market adjustment on available-for-sale financial instruments reclassified to net income upon realization	–	(37)
	(24,081)	20,573
Comprehensive (loss) income for the year	(33,874)	2,193

See Accompanying Notes.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2008 and 2007

(US dollars, tabular amounts in thousands of US dollars, except where noted)

1. NATURE OF OPERATIONS

Polaris Minerals Corporation (the "Company") was incorporated on May 14, 1999. The Company's focus is threefold: the production, distribution and sales from Orca Quarry; the development of new marine terminals along the west coast of North America; and the development of additional quarries.

2. CHANGES IN ACCOUNTING POLICIES

Accounting policies implemented effective January 1, 2008

Effective January 1, 2008, the Company adopted CICA Handbook Section 1535, *Capital Disclosures,* which establishes standards for disclosing qualitative information that enables users of financial statements to evaluate the Company's objectives, policies and processes for managing capital. The impact on adoption of the new standard is disclosed in note 16.

Effective January 1, 2008, the Company adopted CICA Handbook Section 3862, *Financial Instruments – Disclosures,* and Section 3863, *Financial Instruments – Presentation,* which together comprise a complete set of disclosure and presentation requirements that revise and enhance current disclosure requirements for financial instruments. Section 3862 requires disclosure of additional detail by financial asset and liability categories. Section 3863 establishes standards for presentation of financial instruments and non-financial derivatives. It deals with the classification of financial instruments, from the perspective of the issuer, between liabilities and equity, the classification of related interest, dividends, losses and gains, and the circumstances in which financial assets and financial liabilities are offset. The impact on adoption of the new standard is disclosed in note 23.

Effective January 1, 2008, the Company adopted CICA Handbook Section 3031, *Inventories,* which provides more guidance on the measurement and disclosure requirements for inventories. Specifically the new pronouncement requires inventories to be measured at the lower of cost and net realizable value, and provides guidance on the determination of cost and its subsequent recognition as an expense, including any write down to net realizable value. The pronouncement also provides guidance on the cost formulas that are used to assign costs to inventories. Adoption of the new standard did not have an impact on the Company's net income or loss.

Effective January 1, 2008, the Company adopted an amendment to CICA Handbook Section 1400, *General Standards of Financial Statement Presentation,* in relation to going concern. The amendment requires management to assess an entity's ability to continue as a going concern. When management is aware of material uncertainties related to events or conditions that may cast doubt on an entity's ability to continue as a going concern, those uncertainties must be disclosed. In assessing the appropriateness of the going concern assumption, the standard requires management to consider all available information about the future, which is at least, but not limited to, twelve months from the balance sheet date. The adoption did not have a material impact on the consolidated financial statements for any of the periods presented.

Accounting policies to be implemented effective January 1, 2009

Effective January 1, 2009 the Company will adopt CICA Handbook Section 3064, *Goodwill and Intangible Assets,* which replaces Section 3062, and establishes revised standards for recognition, measurement, presentation and disclosure of goodwill and intangible assets. The Company is currently evaluating the impact of adopting this new section on its consolidated financial statements.

Accounting policies to be implemented effective January 1, 2011

Effective January 2011, the Company will adopt CICA Handbook Sections 1582 *Business Combinations,* 1601 *Consolidated Financial Statements* and 1602 *Non-controlling Interests* which replace Sections 1581 *Business Combinations* and 1600 *Consolidated Financial Statements.* Section 1582 establishes standards for the accounting for business combinations that is equivalent to the business combination accounting standard under International Financial Reporting Standards ("IFRS"). Section 1582 is applicable for the Company's business combinations with acquisition dates on or after January 1, 2011. Early adoption is permitted. Section 1601 is applicable for the Company's interim and annual consolidated financial statements for its fiscal year beginning January 1, 2011. Early adoption is permitted.

Convergence with International Financial Reporting Standards

In February 2008, the Canadian Accounting Standards Board confirmed fiscal years beginning on or after January 1, 2011 as the changeover date for Canadian publicly accountable enterprises to adopt IFRS as issued by the International Accounting Standards Board, with earlier adoption permitted. IFRS uses a conceptual framework similar to Canadian GAAP, but there are significant differences in recognition, measurement and disclosures. The Company will present its first financial reporting in accordance with IFRS for the three-month period ended March 31, 2011. The Company has begun assessing the effect of the adoption of IFRS on the financial statements; however, the financial reporting impact of the transition to IFRS cannot be reasonably estimated at this time.

3. SIGNIFICANT ACCOUNTING POLICIES

Accounting principles

These financial statements are prepared in accordance with Canadian generally accepted accounting principles.

Principles of consolidation

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

Company	Location	Ownership interest	Status
Eagle Rock Materials Ltd.	Canada	70 %	Consolidated
Eagle Rock Aggregates, Inc.	United States	70 %	Consolidated
Quality Rock Holdings Ltd.	Canada	100 %	Consolidated
Polaris Aggregates Inc.	United States	100 %	Consolidated
Orca Sand & Gravel Limited Partnership[1]	Canada	88 %	Consolidated
Orca Sand & Gravel Ltd.	Canada	88 %	Consolidated
Quality Sand & Gravel Ltd.	Canada	100 %	Consolidated
5329 Investments Ltd.	Canada	100 %	Consolidated
Orca Finance Ltd.	Canada	100 %	Consolidated
North Island Sand & Gravel Ltd.	Canada	100 %	Consolidated
Polaris Materials Inc.	United States	100 %	Consolidated
0791304 B.C. Ltd	Canada	33.3 %	Proportionately consolidated
Cemera Long Beach LLC	United States	[2]	Proportionately consolidated

(1) The Orca Sand & Gravel Limited Partnership's year-end is January 31st.

(2) Refer to note 17 for the description of the ownership interest in Cemera Long Beach LLC.

Use of estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements. Significant areas where management's judgement is applied include; inventory values, impairment of property plant and equipment, estimating the useful life and rate of depletion and amortization of property plant and equipment, impairment of investments, fair value of financial instruments, asset retirement obligations, stock-based compensation, warrants, liability accruals and income tax valuation allowances. These estimates and assumptions affect the reported amounts of assets and liabilities, and the disclosure of contingent assets and liabilities at the date of the financial statements, and revenue and expenses for the periods reported. Actual results may differ from those estimates.

Foreign currency translation

The Company's reporting currency is the United States dollar. The functional currency of Polaris Minerals Corporation, the parent company, is the Canadian dollar. For integrated foreign operations, monetary assets and liabilities are translated at the year-end exchange rates and other assets and liabilities are translated at historical rates. Revenues, expenses and cash flows are translated at quarterly average exchange rates. Gains and losses on translation of monetary assets and monetary liabilities are charged to income or loss. For financial reporting, the accounts of the consolidated parent company are translated into US dollars at the exchange rate prevailing at the balance sheet date; all revenue and expense items are translated at the average rate of exchange for the period; and the resulting translation adjustment is recorded as a cumulative translation adjustment, a separate component of accumulated other comprehensive income.

Inventories

Construction aggregates inventory is stated at the lower of cost or net realizable value. Cost for construction aggregates inventory is determined on an average cost basis. Such costs include fuel, 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.

Property, plant and equipment

Expenditures incurred to develop new construction aggregate properties or marine receiving terminals in advance of construction are capitalized. Costs are written down to fair value if impaired, or written off if the property or interest is sold, allowed to lapse or abandoned. Costs incurred on properties prior to the acquisition or the determination of potentially viable deposits are charged to operations.

The carrying values of undeveloped quarrying interests and terminal interests represent costs incurred to date and do not necessarily reflect present or future values. The recovery of carrying values will depend upon the Company establishing economically recoverable reserves for quarrying interests, obtaining financing for construction and attaining profitable operations.

Developed property, plant and equipment are carried at cost less accumulated amortization and depletion. 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. Amortization related to production is included in the calculation of gross margin.

The following items are recorded at cost and are amortized on a straight-line basis over their estimated useful lives as follows:

Office furniture, equipment and fixtures	3.3 years
Motor vehicles	3 years
Fixed plant and machinery	20 years
Marine facilities	25 years
Building and land improvements	25 to 39 years
Mobile plant	5 to 10 years
Leasehold improvements	Life of lease

The cost of equipment held under capital 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.

Impairment of long-lived assets

The Company reviews and evaluates its long-lived assets for impairment when events or changes in circumstances indicate that the related carrying amounts may not be recoverable. An impairment loss is recognized when the asset-carrying value exceeds the net recoverable amount. The net recoverable amount is generally determined using estimated undiscounted future cash flows. Impairment is considered to exist if total estimated future cash flows on an undiscounted basis are less than the carrying amount of the asset. An impairment loss is measured and recorded based on the estimated fair value of the assets. 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.

Asset retirement obligation

The Company recognizes liabilities for statutory, contractual or legal obligations associated with the retirement of property, plant and equipment. The Company records the fair value of any asset retirement obligations 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. The liability is accreted over time through periodic charges to operations and it is reduced by actual costs of decommissioning and reclamation. The fair value of the liability is added to the carrying amount of the capitalized mineral property. This additional capitalized amount will be amortized once commercial production commences and will continue to 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.

Stock options

The Company applies the fair value method of accounting for all stock option awards. Under this method the Company recognizes a compensation expense for all stock 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 stock options granted is recorded, over the vesting period, as a charge to operations and a credit to contributed surplus. Consideration paid on exercise of stock options in addition to the fair value attributed to stock options granted is credited to share capital.

Income taxes

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 future income tax liabilities or assets. Future income tax assets and liabilities are measured using tax rates and laws that are expected to apply when the temporary differences are expected to reverse. Future income tax assets are recognized only to the extent that, in the opinion of management, it is more likely than not that the assets will be realized.

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 records its proportionate share of assets, liabilities, revenue and operating costs of the joint ventures.

Financial instruments

Financial instruments are measured at fair value on initial recognition of the instrument. Measurement in subsequent periods depends on whether the financial instrument has been classified as "held-for-trading", "available-for-sale", "held-to-maturity", "loans and receivables", or "other financial liabilities".

Financial assets and liabilities held-for-trading are measured at fair value with changes in those fair values recognized in net earnings. Financial assets available-for-sale are measured at fair value, with changes in those fair values recognized in other

comprehensive income ("OCI") except for other-than-temporary impairment which is recorded as a charge to other expenses. Financial assets held-to-maturity, loans and receivables, and other financial liabilities are measured at amortized cost.

Cash and cash equivalents, are designated as held-for-trading and are measured at fair value. Accounts receivable, loan receivable, long-term loans, and security deposits are designated as loans and receivables. The long-term investment has been designated as available-for-sale. Accounts payable and accrued liabilities are designated as other financial liabilities. The Company's loan payable is designated as held-for-trading.

Revenue recognition
Revenue, net of any discounts, is recognized on the sale of products at the time the product's title is transferred to the buyer, all significant contractual obligations have been satisfied and the collection of the resulting accounts receivable is reasonably assured.

Capitalized interest
Interest costs relating to the construction of property, plant and equipment are capitalized as construction in progress until they 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.

Financing costs
Financing costs related to the issuance of debt are expensed as incurred and costs related to the issuance of equity are applied against the proceeds.

Loss per common share
Loss per common share is calculated using the weighted average number of common shares outstanding during the year. All outstanding stock options and warrants would be anti-dilutive and therefore have no effect on the determination of loss per share.

Comparative figures
Certain of the prior year's comparative figures have been reclassified to conform to the current year's classification.

4. LOAN RECEIVABLE

The Company has a loan receivable at December 31, 2008 of $2,068,858 (2007 – nil) from its joint venture partners in 0791304 B.C. Ltd (note 17). The total amount due is comprised of principal of $1,921,942 (2007 – nil) and accrued interest of $146,916 (2007 – nil). The loan bears interest at prime plus 4% per annum and is repayable upon the joint venture entering into third party financing. The Company agreed to finance the construction of the joint venture's berthing tugboat until its completion and third party financing is obtained. Construction of the tug was completed in December 2008 and the joint venture is seeking third party financing; therefore, the loan has been classified as current.

5. INVENTORIES

	2008 $	2007 $
Construction aggregates	1,623	1,515
Components and consumable supplies	627	266
	2,250	1,781

6. LONG-TERM INVESTMENT

	2008 $	2007 $
Investment in asset-backed commercial paper	2,675	3,825

At December 31, 2008, the Company has an investment in third party asset backed commercial paper ("ABCP") with a par value of $4,820,754 (CAD$5,871,678) and a carrying value of $2,675,194 (2007 – $3,825,269). At the date the Company acquired the ABCP it was rated R1 (High) by Dominion Bond Rating Services ("DBRS"), the highest credit rating issued for commercial paper. During August, 2007, the ABCP market experienced liquidity issues and as a result of these market conditions the Company's ABCP did not settle as it matured on August 17, 2007. There has been no active trading of the ABCP since mid-August 2007.

The Company's investment in ABCP was classified as available-for-sale on initial recognition and carried at fair value in cash and cash equivalents. To reflect the lack of liquidity in the ABCP market and the uncertainty surrounding the timing of cash flows, the investment has been reclassified as long-term.

In September 2007, a Pan Canadian Committee (the "Committee") was formed consisting of banks, asset providers and major investors (the "Montreal Group") in order to restructure the ABCP market. In December 2008, the Committee announced that an agreement had been reached with all key stakeholders and the ABCP investments would be converted into longer term financial instruments with maturities corresponding to the underlying assets. ABCP backed by traditional securitized assets has been restructured on a series-by-series basis into Traditional Asset ("TA") Tracking Notes, with each trust or series maintaining its separate assets. ABCP backed by synthetic assets or a combination of synthetic and traditional securitized assets has been restructured into four different floating rate notes, Class A-1, A-2, B and C, with maturities based upon the

maturities of the underlying pooled assets. Finally, ABCP backed by U.S. sub-prime assets has been restructured into Ineligible Asset ("IA") Tracking Notes on a series-by-series basis, with each series maintaining its separate exposure to its own assets.

There is a significant amount of uncertainty in estimating the amount and timing of cash flows associated with the ABCP. The Company's management has estimated the fair value of these assets by discounting future cash flows determined using a valuation model that incorporates management's best estimates of credit risk attributable to underlying assets, relevant market interest rates, amounts to be received and maturity dates. The assumptions used in the valuation model at December 31, 2008 include:

Weighted average interest rate	3.05%
Weighted average discount rate	21.02%
Maturity of notes	6 to 9 years

If these assumptions were to change, the fair value of the investment in ABCP could change significantly.

The Company recognized a fair value impairment loss on this investment of $2,038,862 during the year ended December 31, 2007. At December 31, 2008, the Company reassessed its fair value determination of this investment taking into account the approved restructuring plan and changes in the credit markets since December 31, 2007. As a result of this valuation, the Company estimated fair value at $2,675,194 (CAD$3,258,386). Accordingly, a further impairment loss of $440,339 has been recorded for the year ended December 31, 2008. The total write-down since the market for ABCP became inactive of $2,479,201 has been considered other than temporary and recorded to the statement of net loss. The fair value could range from $3,304,810 (CAD$4,025,259) to $2,315,087 (CAD$2,819,777) based on alternative reasonable assumptions.

On January 12, 2009, the Ontario Superior Court issued the final implementation order in the ABCP restructuring process. The restructuring closed on January 21, 2009. The exchange of restructured ABCP notes was completed on January 21, 2009. A first instalment of interest (to August 31, 2008) was also paid on the same day. Interest payments received have been accounted for in the fair value determination of the notes. The balance of the interest is to be paid in subsequent instalments, and the amounts and timing are still to be determined. Restructuring fees already incurred and a reserve for additional restructuring fees were deducted from this first interest payment.

In January 2009, the Company received:

Face value ($000's)		Restructuring categories
4,058	(CAD4,943)	Master Asset Vehicle MAV II Class A-1 Notes
126	(CAD152)	Master Asset Vehicle MAV II Class C Notes
637	(CAD776)	Master Asset Vehicle MAV II Class 13 IA Tracking Notes

Class A-1 Notes will bear interest at the Bankers' Acceptance ("BA") rate less 0.50% and Class C Notes will bear interest at the BA rate plus 20%. These notes have legal maturity dates in 2056 but the expected repayment date of the Class A-1 notes is January 22, 2017. The senior Class A-1 notes have been rated "A" by DBRS Limited while the subordinated Class C notes are unrated. The IA Tracking Notes will bear interest at a rate based on the net rate of return generated by the underlying tracking assets. The maturity of the Class 13 IA Tracking Notes is based on the maturity of the underlying assets. The Class 13 IA Tracking Notes will not be rated.

The exchange of the ABCP for the new notes on January 21, 2009, has been recognized as a transaction of substance. Accordingly, the investment in ABCP has been removed from the Company's balance sheet at January 21, 2009 and the new notes initially recognized at a fair value of $2,398,638 (CAD$3,056,105). The Company's investment in the new notes will be classified as held-for-trading and carried at fair value. Interest payments received will be accounted for in the fair value determination of the notes. Changes in fair value of the new notes will be reported in net income as they arise.

7. LONG-TERM LOAN

	2008 $	2007 $
Loan	5,193	5,471

In 2007, the Company entered into a loan agreement with a third party whereby the debtor would purchase and refurbish marine vessels used in the facilitation of shipping construction aggregates. The Company retains a $4,111,000 fixed rate secured promissory note receivable from the debtor. The note bears interest of 5.5% per annum with monthly interest payments and the principal balance due by 2027. The promissory note is secured by various assets of the debtor. At December 31, 2008, principal amounts loaned totalled $5,192,931 (2007 – $5,471,253). Included in accounts receivable is accrued interest of $59,454 (2007 – $169,565). The Company is in the process of renegotiating the loan's security and payment terms. At December 31, 2008, payments totalling $461,435 have been received. The loan has been accounted for under the amortized cost method.

8. PROPERTY, PLANT AND EQUIPMENT

	2008			2007		
	Cost $	Accumulated depletion or amortization $	Net book value $	Cost $	Accumulated depletion or amortization $	Net book value $
Orca Quarry						
Property costs	11,762	(1,379)	10,383	14,204	(666)	13,538
Construction in progress	430	–	430	–	–	–
Richmond Terminal						
Property costs	9,230	(397)	8,833	11,277	–	11,277
Pier B Terminal						
Property costs	14,399	–	14,399	11	–	11
Tug	1,034	–	1,034	416	–	416
Motor vehicles	192	(152)	40	236	(108)	128
Fixed plant and machinery	19,922	(1,714)	18,208	23,775	(887)	22,888
Marine facilities	23,560	(1,714)	21,846	28,862	(943)	27,919
Building and land improvements	23,711	(1,063)	22,648	28,729	(41)	28,688
Mobile plant	592	(125)	467	662	(21)	641
Equipment (held under capital lease)	4,228	(770)	3,458	3,887	(470)	3,417
Furniture, equipment, tools and fixtures	839	(507)	332	866	(356)	510
Leasehold improvements	206	(52)	154	248	(35)	213
Eagle Rock Quarry project	1,873	–	1,873	1,553	–	1,553
Other exploration properties	1,136	–	1,136	368	–	368
Other marine receiving terminals	120	–	120	87	–	87
	113,234	(7,873)	105,361	115,181	(3,527)	111,654

Orca Quarry

The Orca Quarry, located on tidewater west of the town of Port McNeill, British Columbia, is a quarry permitted to produce six million metric tonnes of sand and gravel per year. Production commenced at the Orca Quarry in February 2007 and as of March 1, 2007, the Company ceased to capitalize costs of the project unless they are capital in nature. Shipping of the product began in March 2007 to the Greater Vancouver market in barges and in April 2007 shipping began in self-unloading bulk carriers to San Francisco Bay. For the year ended December 31, 2008, interest of $nil (2007 – $1,411,049) has been capitalized to the Orca quarry.

Richmond Terminal

The Company has a twenty-year lease, with two ten-year extensions, with Levin Enterprises, Inc. ("Levin") for a construction aggregates storage and distribution site in the Port of Richmond in San Francisco Bay. In combination with the Levin lease, the Company has a twenty-year lease, with two ten-year extensions, for the berthing of vessels at the Richmond Terminal. Construction on the terminal began in early 2007 and operations commenced at the terminal on January 1, 2008 whereby the Company ceased to capitalize costs of the project unless they are capital in nature.

Pier B Terminal

The Company has a joint venture in a 12.4 acre site within Pier B in the Port of Long Beach, California (note 17). This site will initially accommodate a sand and gravel terminal with expansion capabilities for a crushed rock terminal. The site is also expected to provide the opportunity for an on-site readymix concrete plant. For the period ended December 31, 2008, interest of $754,887 (2007 – $nil) has been capitalized to the Pier B Terminal.

Eagle Rock Quarry project

The Eagle Rock Quarry Project (the "Project") is located on deep tidewater in the Alberni Inlet, southwest of the city of Port Alberni, British Columbia. The Company expects to quarry, crush and screen the granite resource to produce construction aggregates products on site. Products are expected to be shipped in bulk carriers or barges to coastal urban markets on the west coast of North America and Hawaii. The Company has an environmental assessment certificate, mine permit and fifty year lease with the Province of British Columbia for the Project. A foreshore lease application for the ship loader has been approved in principle and the terms are currently being negotiated. The Company is currently completing a feasibility study on the Project.

Other exploration properties

The Company is exploring and performing preliminary geophysical testing on properties in the vicinity of the Orca Quarry, including the Bear Creek and West Cluxewe deposits. During the year ended December 31, 2008 the Company determined the Cougar deposit was not economically viable and as a result wrote off $178,216 at December 31, 2008. The Company has exclusive right to negotiate a lease associated with the Bear Creek deposit with Island Timberlands prior to March 31, 2009 to gain access to, and obtain rights to, the rock, stone and sand located thereon.

Other marine receiving terminals

The Company is evaluating, negotiating and permitting access to several sites at ports in California for the discharge, storage and distribution of construction aggregates. In the fourth quarter of 2007, the Company ceased negotiations with the Port of Redwood City for the development of a Redwood City construction aggregates marine receiving terminal and therefore wrote off $346,512 in capitalized costs. The Company has an agreement in principle with Cemex, Inc. ("Cemex") to jointly re-develop Cemex's Redwood City terminal to expand the construction aggregate marine receiving terminal facilities.

9. OTHER ASSETS

	2008 $	2007 $
Orca quarry security deposits	962	1,226
Richmond terminal deposits	46	–
	1,008	1,226

The Company maintains interest-bearing security 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 at December 31, 2008, deposits bear interest at a rate of 1.95% to 3.00% (2007 – 2.75% to 4.25%).

10. LOAN PAYABLE

	2008 $	2007 $
Bridge loan credit facility	16,413	–

On August 18, 2008, the Company closed and concurrently drew down a CAD$20 million one-year bridge loan credit facility. The initial interest rate of 12% increased to 13% after 91 days, then to 15% on the balance remaining outstanding after 181 days. Interest is payable monthly. The credit facility, due on August 18, 2009, is secured by a first priority lien over the assets of the Company including shares of certain subsidiaries, and repayable at any time without penalty. The Company designated the loan as held for trading (note 23). In January 2009, the loan was repaid from the proceeds of the Company's equity financing (note 24).

Upon closing and draw down of the facility, 1,900,000 warrants with a five-year term and an exercise price of CAD$6.50 were issued. Of the 1,900,000 warrants issued, 475,000 vested immediately, 475,000 vested 91 days after closing and 950,000 were to vest after 181 days outstanding. The 950,000 unvested warrants were cancelled upon repayment of the loan.

At inception of the loan, the Company estimated the fair value of the first and second tranches of warrants. Fair value of the third tranche of warrants was not estimated as the Company expected to refinance the debt prior to the third tranche of warrants vesting. The Company pro-rated the face value of the loan between the loan and the warrants based on the respective fair values and as such recorded the loan at $17,701,005 and the warrants at $1,091,737 at its inception. Issue costs of $41,383 have been recorded against the value of the warrants. The warrants had a weighted average issue-date fair

value of $1.20 per warrant. The fair value of the warrants was determined using an option pricing model with the following assumptions:

Average risk free rate	3.12%
Expected life	5 years
Expected volatility	42.64%
Expected dividends	0.00%

Option pricing models require the input of highly subjective assumptions including expected life and expected volatility. Changes in the subjective input assumptions can materially affect the fair value estimate.

11. CAPITAL LEASES

Included in property, plant and equipment is quarrying equipment that the Company has acquired pursuant lease agreements terminating between 2011 and 2013 at interest rates between 6.2% and 7.05%. The quarrying equipment is the security for the indebtedness. Future minimum lease payments are as follows:

	$
2009	788
2010	788
2011	1,504
2012	184
2013	376
Total minimum lease payments	3,640
Less: Interest portion	(482)
Present value of capital lease obligation	3,158
Less: Current portion	(592)
Non-current portion	2,566

12. ASSET RETIREMENT OBLIGATION

The Company has recognized asset retirement obligations in connection with the Orca Quarry.

	2008 $	2007 $
Obligation – beginning of year	1,945	1,510
Liabilities settled	(5)	–
Foreign exchange	(383)	265
Accretion expense	178	170
Revision in estimated cash flows	5	–
Obligation – end of year	1,740	1,945

A determination of the fair value of the liability assumes undiscounted estimated future cash flows needed to settle the liability incurred to December 31, 2008 of approximately $8,680,375 which are expected to be expended throughout the quarry life to 2030. These estimated future cash flows have been discounted at a credit-adjusted risk-free rate of 10.2% and assumes an inflation rate of 2.75%. Included in other assets (note 9) are $829,769 (2007 – $1,019,529) of term deposits required by the British Columbia Ministry of Energy and Mines for reclamation at the end of the life of the Orca Quarry.

No asset retirement obligation has been provided for the Richmond Terminal based on management's estimation that the likelihood of an asset retirement obligation arising is remote.

In view of uncertainties concerning asset retirement obligations, the ultimate costs could be materially different from the amounts estimated. The estimate of future asset retirement liabilities is subject to change based on amendments to applicable laws and legislation. Future changes in asset retirement liabilities, if any, could have a significant impact and would be reflected prospectively, as a change in accounting estimate.

13. INCOME TAXES

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

	2008 $	2007 $
Loss for the year before taxes	(10,444)	(18,404)
Federal and provincial income tax rates	31.00%	34.12%
Provision for income taxes based on statutory Canadian combined federal and provincial income tax rates	(3,238)	(6,279)
Non-deductible stock based compensation	785	2,806
Difference in foreign tax rates	177	(63)
Future tax benefit to the non-controlling interest and other	49	(107)
Non-deductible expense	330	1,252
Foreign exchange and other items	(751)	787
Losses and temporary differences for which an income tax benefit has not been recognized	2,393	1,873
	(255)	269

The significant components of the Company's future income taxes are as follows:

	2008 $	2007 $
Future income tax assets		
Non-capital losses	6,710	8,248
Property, plant and equipment	368	–
Asset retirement obligation	504	600
Share issuance costs	1,219	2,160
Capital leases	916	1,003
Other	349	538
Total future tax assets	10,066	12,549
Valuation allowance	(9,917)	(10,369)
Future income tax assets – net	149	2,180
Future income tax liabilities		
Property, plant and equipment	74	2,180
Other	75	–
Future income tax liabilities	149	2,180
Future income tax liabilities – net	–	–

The Company has non-capital loss carry-forwards of approximately $21,008,000 that may be available for tax purposes. The loss carry-forwards are all in respect of Canadian and US operations and expire as follows:

	Canada $	United States $
2009	336	–
2010	1,211	–
2014	1,959	–
2015	153	–
2023	–	561
2024	–	609
2025	–	997
2026	2,663	438
2027	5,815	318
2028	5,948	–
	18,085	2,923

A portion of the losses in the U.S. are subject to limitation. A full valuation allowance has been recorded against the net potential future income tax assets associated with the Canadian and US loss carry-forwards and certain other deductible temporary differences as their utilization is not considered more likely than not at this time.

14. NON-CONTROLLING INTEREST

	Non-controlling interest in subsidiary $
Balance – December 31, 2006	1,775
Non-controlling interest share of losses	(293)
Foreign exchange	287
Balance – December 31, 2007	1,769
Non-controlling interest share of losses	(396)
Foreign exchange	(315)
Balance – December 31, 2008	1,058

The Company holds an 88% interest in the partnership formed to develop the Orca Quarry, with the remaining 12% interest held by the 'Namgis. 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.

At the request of the 'Namgis, the Company will make advances to the 'Namgis to enable them to make their required equity contributions to the partnership. Advances made prior to a construction decision bear interest at prime plus a small margin. Advances made after a construction decision will bear substantially higher interest rates, reflective of the equity nature of the funding. 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. Advances made after a construction decision are repayable solely from those distributions and cannot be prepaid.

The Company has made advances to the 'Namgis, through a subsidiary, in order to enable the 'Namgis to meet its funding obligations to the Company. Due to the uncertainty associated with the recoverability, the Company has never recorded interest receivable on the 'Namgis loan.

15. SHAREHOLDERS' EQUITY

Share capital

Authorized:

Unlimited common shares without par value

Stock options

The Company established an incentive stock option plan (the "Plan") on April 23, 2002. In September 2005, the Company amended the Plan to increase the exercise period of options granted and to be granted from five years to a maximum of 10 years. 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. On May 16, 2006 the Company amended the Plan to allow the number of options outstanding under the Plan to be equal to 10% of the outstanding common shares of the Company and permits options that have been exercised to be available for subsequent grants under the Plan. The amended 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. As at December 31, 2008, the maximum options to be allowed outstanding under the plan are 3,757,960 (2007 – 3,732,539) and all options are exercisable in Canadian dollars.

The Company's stock options at December 31, 2008 and changes for the period are as follows:

	Number outstanding	Weighted average exercise price
At December 31, 2006	2,107,102	$2.25
Granted	1,407,250	$13.77
Exercised	(775,545)	$1.95
At December 31, 2007	2,738,807	$8.61
Granted	930,000	$7.93
Exercised	(254,212)	$1.56
Forfeited	(165,000)	$10.08
At December 31, 2008	3,249,595	$7.55

At December 31, 2008, the following stock options are outstanding and exercisable:

Number of options outstanding	Number of options exercisable	Expiry date	Exercise price $	Weighted average remaining contractual life (years)
170,000	170,000	April 23, 2011	$0.62	2.31
72,500	72,500	October 21, 2012	$0.82	3.81
620,000	238,334	January 1, 2013	$9.37	4.00
72,500	72,500	January 16, 2013	$1.64	4.04
80,000	50,000	June 30, 2013	$3.94	4.50
100,000	33,333	July 16, 2013	$3.74	4.54
50,000	50,000	October 1, 2013	$2.05	4.75
107,500	107,500	January 15, 2014	$2.26	5.04
100,000	100,000	May 1, 2014	$3.28	5.33
127,500	127,500	January 20, 2015	$3.28	6.05
170,000	170,000	January 23, 2016	$3.94	7.06
88,345	54,800	May 16, 2016	$4.60	7.37
39,000	22,333	September 18, 2016	$4.11	7.72
1,287,250	1,254,917	October 4, 2017	$11.29	8.76
110,000	46,250	February 17, 2018	$7.13	9.13
5,000	5,000	February 18, 2018	$7.13	9.13
50,000	16,667	November 13, 2018	$1.45	9.87
3,249,595	2,591,634		$7.55	6.56

At December 31, 2008, 2,591,634 (2007 – 2,483,504) options were exercisable at a weighted average exercise price of $7.52 (2007 – $8.74).

During 2008, options granted had a total fair value of $3,416,709 (2007 – $8,337,115) and a weighted average grant-date fair value of $3.67 (2007 – $5.93) per option. The options have been valued using the Black-Scholes option pricing model, with the following weighted average assumptions:

	2008	2007
Average risk free rate	3.62%	4.20%
Expected life	4.35 years	5.39 years
Expected volatility	41.05%	39.84%
Expected dividends	–	–

Option pricing models require the input of highly subjective assumptions including expected life and expected volatility. Changes in the subjective input assumptions can materially affect the fair value estimate.

The total stock-based compensation recorded in the year ended December 31, 2008 was $3,050,127 (2007 – $8,284,711) which includes $nil (2007 – $60,499) capitalized to property, plant and equipment.

Warrants

The Company's warrants at December 31, 2008 and changes for the period are as follows:

	Number of warrants outstanding	Weighted average exercise price
At December 31, 2006	–	–
Granted	2,153,846	$3.94
At December 31, 2007	2,153,846	$3.94
Granted	1,900,000	$5.34
At December 31, 2008	4,053,846	$4.60

At December 31, 2008 the following warrants are outstanding and exercisable:

Number of options outstanding	Number of options exercisable	Expiry date	Weighted exercise price $	Weighted average remaining contractual life (years)
2,153,846	2,153,846	November 30, 2010	$3.94	1.92
1,900,000	950,000	August 17, 2013[1]	$5.34	4.63
4,053,846	3,103,846		$4.60	3.19

(1) 950,000 warrants expiring August 17, 2013 were cancelled on January 9, 2009.

All warrants are exercisable in Canadian dollars.

16. MANAGEMENT OF CAPITAL RISK

The Company's objectives when managing capital are 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.

The Company considers its share capital, warrants, contributed surplus, and deficit as capital, which at December 31, 2008 totalled $107,151,648 (December 31, 2007 – $112,361,378), (note 24).

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.

The Company's Board of Directors takes full responsibility for managing the Company's capital and does so through quarterly board meetings, review of financial information and regular communication with officers and senior management.

17. JOINT VENTURE INTERESTS

The Company conducts a portion of its business through joint ventures under which the venturers are bound by contractual arrangements establishing joint control over the venture. The Company records its proportionate share of assets, liabilities, revenue and operating costs of the joint ventures.

0791304 B.C. Ltd.

The Company has a 33.3% interest in 0791304 B.C. Ltd. The joint venture was formed to construct and operate a berthing tugboat in the waters of northern Vancouver Island to facilitate the berthing of freighters at the Orca Quarry. At December 31, 2008, construction was complete and the vessel had commenced operations.

The following details the Company's share of its investment in its joint venture that has been proportionately consolidated:

	2008 $	2007 $
Assets		
Equipment	1,034	–
	1,034	–
Liabilities		
Current liabilities	(1,034)	–
	(1,034)	–
Cash Flows		
Investing activities	(1,034)	–
Financing activities	1,034	–
Increase in cash and cash equivalents	–	–

Cemera Long Beach LLC

During the year ended December 31, 2008, the Company formed a joint venture, Cemera Long Beach, LLC ("Cemera"), to purchase a 12.4 acre site within Pier B in the Port of Long Beach, California. It is planned that this site will initially accommodate a sand and gravel terminal and an on-site ready mix concrete plant ("Section A"). The site can also accommodate the development of a crushed rock terminal on commencement of production at the Eagle Rock Quarry ("Section B"). The Company, through its 70% owned subsidiary Eagle Rock Aggregates Inc, paid $7,843,835 for a 50% interest in Section A and all development costs and net income from this Section will be shared on an equal basis between the joint venture partners and paid $7,382,433 for a 100% interest in Section B until a development decision is made, at which point the Company's joint venture partner can purchase 50% of Section B and participate in the development on a 50-50 basis otherwise Section B will be deeded to the Company. The Company and Cemex, the joint venture partner, have a Strategic Alliance Agreement and a Joint Cooperation and Development Agreement which governs the direction, strategy and operations of the joint venture.

As at December 31, 2008, the purchase of the land is complete and the joint venture is in the process of obtaining the necessary permits for construction of a sand and gravel terminal.

The following details the Company's share of its investment in its joint venture that has been proportionately consolidated:

	2008 $	2007 $
Assets		
Cash and cash equivalents	5	–
Accounts receivable	1	–
Property, plant and equipment	14,399	–
	14,405	–
Liabilities		
Accounts payable	61	–
Accrued liabilities	2	–
	63	–
Cash Flows		
Operating activities	61	–
Investing activities	(15,683)	–
Financing activities	15,627	–
Increase in cash and cash equivalents	5	–

18. SUPPLEMENTAL CASH FLOW INFORMATION

Changes in non-cash working capital items

	2008 $	2007 $
Accounts receivable	(98)	(591)
Income taxes	(266)	269
Inventories	(915)	(1,413)
Prepaid expenses and other	(431)	(235)
Accounts payable	1,786	(958)
Accrued liabilities	(492)	1,514
	(416)	(1,414)

Interest and taxes paid

	2008 $	2007 $
Interest paid	1,055	1,489
Taxes paid	45	–

Significant non-cash investing and financing activities

	2008 $	2007 $
Property, plant and equipment included in accounts payable and accrued liabilities	800	1,665
Equipment acquired under capital lease obligations	1,312	–

19. RELATED PARTY TRANSACTIONS

During the years ended December 31, 2008 and 2007, directors, either directly or through a company controlled by them, provided to the Company, marketing services at a cost of $295,959 (2007 – $508,154) and technical services at a cost of $11,451 (2007 – $50,748), which are included in general and administrative expenses.

At December 31, 2008, accounts payable of $24,844 (2007 – $60,732) was due to a company controlled by a common director.

Transactions with related parties are recorded at the exchange amount, being the price agreed between the parties.

20. COMMITMENTS AND CONTINGENCIES

Operating leases and through-put commitments

The following minimum payments are required under operating leases, rent, equipment rentals, car leases, and aggregate throughput commitments, as at December 31, 2008:

	$
2009	1,070
2010	1,169
2011	1,170
2012	1,164
2013	1,136
Thereafter	12,961
	18,670

Shipping Tonnage

On commencement of the marine contract on July 18, 2007, the Company is committed to ship the following tons through its initial marine freight contract. Failure by the Company to ship its annual cargo commitment will result in a dead-freight charge equal to 75% of the freight rate of the unshipped tons. The Company has the option in any given year to increase or decrease the required tons by 10% and to carry forward up to 25% of the yearly contracted tons into the following year. The Company met its first contract year commitment and shipped in excess of 1.5 million tons. The initial term of the contract was ten years which was extended to fifteen years in March 2009.

	Tons
First contract year	1,540
Second contract year	2,530
Third contract year	3,520
Fourth contract year	4,400
Fifth contract year and thereafter	4,950

During the year ended December 31, 2008, the Company entered into its second shipping contract, scheduled to commence in the third quarter of 2010. The Company has committed to ship a minimum of 2,480 tons for the contract term of 15 years. Failure by the Company to ship its annual cargo commitment will result in a dead-freight charge equal to 75% of the freight rate of the unshipped tons. The Company has the option in any given year, to carry forward up to 25% of the yearly contracted tons into the following year. In March 2009, the Company reached an agreement to extend the commencement of this contract to the beginning of 2014.

Cemex Inc strategic alliance

The Company has a long-term alliance with Cemex, Inc. ("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 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 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 minimum tonnage which the Company must supply and Cemex must purchase each year and a market pricing mechanism for those tons which is adjusted annually. If Cemex fails to purchase, in any given year, the minimum tonnage or the Company fails to supply those tons, then the party which fails to meet the commitment is required to pay a per ton fee for any shortfall. 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.

The ten-year joint cooperation and development agreements 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, 20 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. 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.

British Columbia Social Service Tax

The Company is disputing a BC social services tax assessment, expected to be issued, for the period May 2004 to December 2008, based on its eligibility for the production machinery and equipment exemption available to mining companies such as the Company. The Company believes it qualifies for this exemption and that the amount is not due. It has engaged legal council to defend its position; however, settlement of the amount due, net of any possible refund filed, could range up to a maximum of $475,250 if the Company is unsuccessful in its defence.

21. SEGMENTED FINANCIAL INFORMATION

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 one customer in Vancouver, BC and three customers in the United States of America comprising 100% of the Company's sales. The customers with significant sales are as follows:

	2008 $	2007 $
Customer A	13,285	6,010
Customer B	10,898	4,813
Customer C	2,687	1,727

The Company's geographic segment information is as follows:

	2008		2007	
	Revenue $	Property, plant and equipment $	Revenue $	Property, plant and equipment $
United States	26,870	44,346	13,977	39,007
Canada	2,712	61,015	1,490	72,647
	29,582	105,361	15,467	111,654

22. SEVERANCE BENEFITS

During the year ended December 31, 2008, the Company's President and Chief Executive Officer resigned, effective January 1, 2009. The Company has estimated and accrued $600,340 in severance costs in accordance with the terms of the termination agreement. At December 31, 2008 the Company paid $254,580, with the remainder paid January 2009. These costs have been included in general and administrative expenses.

23. FINANCIAL INSTRUMENTS

Fair value of financial instruments

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

	December 31, 2008		December 31, 2007	
	Carrying amount $	Fair value $	Carrying amount $	Fair value $
Financial assets "Held-for-trading"				
Cash	7,036	7,036	15,234	15,234
Financial assets "Available-for-sale"				
Long-term investment	2,675	2,675	3,825	3,825
Security deposits	1,008	1,008	1,226	1,226
Loans and receivables				
Accounts receivable	3,648	3,648	4,376	4,376
Loan receivable	2,069	2,069	–	–
Long-term loan	5,193	5,193	5,471	5,471
Financial liabilities "Held-for-trading"				
Loan payable	16,413	16,413	–	–
Other financial liabilities				
Accounts payable	2,440	2,440	1,102	1,102
Accrued liabilities	1,515	1,515	2,753	2,753

The fair values of accounts receivable, loan receivable, accounts payable and accrued liabilities approximate their carrying values due to their short-term maturities.

The fair value of the Company's long-term loan receivable, which is carried at amortized cost, has been estimated by discounting the anticipated future cash flows determined using a valuation model that incorporated management's best estimate of the counterparties credit risk and relevant market interest rates. As the Company is in the process of renegotiating the loan and its payment terms, actual amounts could differ.

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 has four customers and is, therefore, exposed to credit risk related to accounts receivable from these customers. 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, Vancouver and Hawaii. At the time the Company entered into the loan receivable and the long-term loan, the Company assessed to its satisfaction the credit worthiness of the counter parties and continues to maintain close contact with those parties. The joint venture in 0791304 B.C. Ltd (note 17) intends to obtain a marine mortgage for the loan receivable (note 4) and repay the Company.

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

	2008 $	2007 $
Cash	7,036	15,234
Accounts receivable	3,648	4,376
Loan receivable	2,069	–
Long term investment	2,675	3,825
Long term loan	5,193	5,471
Other assets	1,008	1,226
	21,629	30,132

At December 31, 2008, no allowance for credit losses has been recorded against accounts receivable. Except for the long-term investment in ABCP (note 6) and the long-term loan (note 7), no collateral is held as security in respect of the amounts that comprise the Company's exposure to credit risk. The Company has determined the long term investment in ABCP is impaired (note 6). The Company is in the process of renegotiating the long term loan and its payment terms.

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 16).

A maturity analysis of the undiscounted cash flows of the Company's liabilities at December 31, 2008 is as follows:

Due	Accounts payable, income taxes payable and accruals $	Loan payable $	Capital lease obligations $	Asset retirement obligations $
Within 1 year	3,953	16,420	788	–
Between 1 – 2 years	–	–	788	–
Between 2 – 3 years	–	–	1,504	101
Between 3 – 4 years	–	–	184	103
Between 4 – 5 years	–	–	376	106
Over 5 years	–	–	–	8,370
	3,953	16,420	3,640	8,680

In January 2009, the loan payable was paid out in full (note 10).

Market Risk

The Company is exposed to the following market risks:

Currency risk – The Company reports in US dollars and considers the Canadian dollar as its functional currency. Operations in the USA are integrated with the Company's Canadian operations. 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, 2008 a $0.01 change in the US/Canadian exchange rate, assuming all other variables did not change, would affect net gain/(loss) by $92,078.

Interest rate risk – The Company's interest rate risk arises primarily from the interest received on cash, security deposits and the loan receivable, which are at floating rates. The Company's long-term loan receivable and loan payable are at fixed rates. The Company has also made advances to the 'Namgis First Nation (note 14). The advances made prior to the construction decision bear interest at prime plus a small margin and advances made subsequent to the construction decision bear interest at substantially higher floating rates. The Company does not record the interest on these advances until recovery is assured through the establishment of continued positive cash flow at the Orca Quarry, accordingly interest on the advances has not been factored into the analysis.

For the year ended December 31, 2008 a 100 basis point change in interest rates, assuming all other variables did not change, would affect net gain/(loss) by $23,639.

24. OTHER SUBSEQUENT EVENTS

Equity financing

In January 2009, the Company issued 15,625,000 units at $1.35 (CAD$1.60) per unit for gross proceeds of $21 million (CAD$25 million). Each unit consists of one common share of the Company and one half of a common share purchase warrant with each full warrant entitling the holder thereof to purchase an additional common share of the Company at the exercise price of $1.89 (CAD$2.25) per common share for a period of two years following the closing of the offering. The Company has used a portion of the net proceeds from the offering to repay its outstanding bridge loan credit facility (note 10).

Polaris MINERALS CORPORATION

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Independent Director

Terrence A. Lyons
Independent Director [1, 2, 3]

Gary D. Nordin
Independent Director

John H. Purkis
Independent Director [1]

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Chairman of the Board,
Independent Director

David F. Singleton
President Eagle Rock
Aggregates Inc., Director [2]

Paul B. Sweeney
Independent Director [1, 2, 3]

Herb Wilson
Director, President & CEO

MANAGEMENT

Herb Wilson
Director, President & CEO

Lisa Dea
VP Finance & CFO

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

Ken Palko
Vice President,
Technical Services

Bill Terry
CEO Eagle Rock
Aggregates Inc.

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Polaris
MINERALS CORPORATION

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