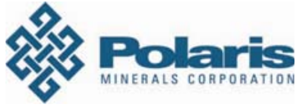
**Polaris**
MINERALS CORPORATION

# 2008 Second Quarter Report



September 25, 2008

**Second Quarter Letter to Shareholders**

I am pleased to report solid second quarter results, in the face of a challenging economic environment of soaring fuel prices, a strong Canadian dollar and declining aggregate demand in the US. The most encouraging feature of the quarter is the Company's improving cash generation, especially considering the impact of the rapid increases in the cost of shipping fuel which continued into the third quarter. Cash used by operations in the quarter reduced to only $220,000 compared with $1.8 million used in the first quarter, particularly in light of our expenditure on several terminal and market development initiatives that are essential to creating substantial long-term value. The gross margin from operations increased to $0.79 per ton, an increase of 84% over the first quarter. The Orca sand and gravel quarry is operating well and sales volumes from the new Richmond Terminal increased by 63% over the first quarter. Price increases realized earlier in the year held firm in the quarter, with the increase in our margin principally attributable to the higher value of sales made from Richmond.

Although the construction aggregate market continues to be weak in the US, we are gradually enhancing our ability to deliver increasing quantities of product, so that we can benefit from the eventual turnaround of the building cycle. Of key importance in this strategy is the securing of additional aggregate receiving terminals in our target markets. We made tremendous progress towards this goal in August when we announced that we were proceeding with our purchase of a 12.4 parcel of land at Pier B, in the Port of Long Beach, California, together with our Strategic Alliance partner, Cemex. This strategically located port terminal will become our gateway into the massive Los Angeles basin market, the largest construction aggregate market on the west coast. We are investing $15.2 million to purchase a 66 percent ownership in the property, and Cemex is purchasing the remaining 34 percent. To facilitate this transaction we have drawn down a CAD$20 million bridge loan. Subject to the receipt of applicable permits and approvals, we anticipate completing construction and beginning shipments of sand and gravel into this terminal in 2011.

We continue to expect to ship between 2.1 and 2.5 million tons of sand and gravel from the Orca Quarry in 2008, approximately doubling the 1.15 million tons we shipped in 2007.

I am very pleased to report that on July 14th we announced that Herb Wilson, our current Senior Vice President and COO, will be succeeding me in the role of President and CEO effective January 1, 2009. Herb has been an invaluable member of our team since 2001, and his extensive experience as an operator of aggregate quarries and strong skill set is ideally suited to the tasks ahead. This is a very natural transition for Polaris that we have been planning for over two years, as our company evolves into a mature and growing producer. Our Board of Directors and I have complete confidence in Herb's ability to lead our Company to the next level. I will remain closely associated with Polaris as a Director, and an advisor to the board and management team.

Our company continues to perform well in these difficult economic times, by delivering increasingly large quantities of product that our customers need and want, by reducing our costs, and by bringing together the building blocks to grow our business in the future. We have made tremendous progress over the past year, and I firmly believe the best is yet to come. I will look forward to reporting on our progress at the end of the third quarter.

Thank you for your continued support and confidence.

Marco Romero
President & CEO

## Management's Discussion and Analysis

The following discussion and analysis of the financial condition and operations of Polaris Minerals Corporation (the "Company") has been prepared by management as of August 8, 2008, and should be read in conjunction with the Company's unaudited consolidated interim financial statements for the six months ended June 30, 2008, as well as the audited consolidated financial statements for the year ended December 31, 2007, which have been prepared in accordance with Canadian generally accepted accounting principles, and the related management's discussion and analysis contained in the 2007 Annual Report.

## Highlights

- **Strong sales growth of 1,021,000 tons in the first six months of 2008 compared with 270,000 tons in the comparative period. As at July 31, 2008, sales had exceeded total fiscal 2007 sales of 1,151,000 tons.**
- **Improved gross margin per ton by 84% to $0.79 for the three months ended June 30, 2008 compared with $0.43 for the three months ended March 31, 2008.**
- **Cash used for operations decreased to $220,000 in the second quarter of 2008 from $1.8 million in the first quarter of 2008.**
- **Adjusted EBITDA of $781,000 or $0.02 per share for the six months ended June 30, 2008, compared with a loss of $852,000 ($0.03 per share) in the comparative period.** (This is a non-GAAP Measure; please see section headed Non-GAAP Measures in this MD&A.)
- **Sales from the Richmond Terminal increased 63% in the second quarter over the first quarter as this new operation continued to ramp-up.**
- **Appointment of Herb Wilson as President and CEO effective January 1, 2009.**

## Results of Operations

During the three months ended June 30, 2008, the Company incurred a loss of $1.9 million ($0.05 per share) compared to a loss of $1.2 million ($0.03 per share) in the comparative quarter. During the six months ended June 30, 2008 the Company incurred a loss of $4.4 million ($0.12 per share) compared to a loss of $5.5 million ($0.16 per share) in the comparative period. The decreased loss for the six months ended June 30, 2008 is mainly attributable to a non-recurring loss on changes in the fair value of long term debt in the six month period ending June 30, 2007 of $3.5 million offset by $2.1 million in stock based compensation in the current period and a swing in foreign exchange from a loss of $0.9 million for the six months ended June 30, 2007, to a gain in the 2008 period of $0.3 million.

The loss from operations for the three and six month periods ending June 30, 2008, excluding stock-based compensation, increased to $1.4 million and $2.8 million, respectively, compared with a loss of $0.9 million and $2.0 million, respectively, in the comparative prior periods due to the commencement of operations at the Richmond Terminal.

| ('000 except per ton amounts) | **For the three month period ended June 30, 2008** | | For the three month period ended March 31, 2008 | | For the six month period ended June 30, 2008 | | For the year ended December 31, 2007 | |
|---|---|---|---|---|---|---|---|---|
| | **Tons** | **$** | Tons | $ | Tons | $ | Tons | $ |
| Sales | 500 | 6,573 | 521 | 6,548 | 1,021 | 13,121 | 1,151 | 15,467 |
| Gross margin | | 397 | | 223 | | 620 | | 1,037 |
| *Gross margin per ton* | | *0.79* | | *0.43* | | *0.61* | | *0.90* |

The gross margin per ton for three month period ended June 30, 2008 increased compared to the quarter ended March 31, 2008 mainly due to increased realized sales prices and improved throughput through Richmond Terminal. Throughput for the Richmond Terminal, which commenced operations on January 1, 2008, was 82,000 tons for the three months ended June 30, 2008, a 63% increase over the first three months of the year. As aggregate throughput increases at the Richmond Terminal, fixed costs will decline on a per ton basis thus improving gross margin per ton. The Company's gross margin in the period however, continues to be impacted by rising fuel prices, principally for shipping. The ships used by the Company to deliver the majority of its products burn Intermediate Fuel Oil, Grade 180, ("IFO180") in their main engines the cost of which increased by approximately 78 percent from the second quarter of 2007 to the second quarter of 2008 ending the quarter at $593 per metric tonne. The Company's sensitivity to changes in fuel prices is as follows: for every $10 movement per metric tonne in the price of IFO180 oil, the Company's gross margin is impacted, positively or negatively, by approximately 3.6 cents per ton. For the six month period ending June 30, 2008 the Company paid $1.15 million ($1.34 per ton) in fuel surcharges compared with $0.15 million ($0.66 per ton) in the six month period ended June 30, 2007. The Company's sales contracts allow for the recovery of these increased fuel costs during the year following the year in which they were incurred. There is therefore a timing delay in the recovery of these costs which is particularly significant during a period of rapidly increasing fuel costs, as was experienced during the first six months of 2008.

Another factor which continues to affect the Company's gross margin is the cost of the ship berthing operations at the Orca Quarry due to tug and pilotage costs, a reflection of the large increase in shipping activity in BC ports since the initial project assessment. The pilots are now beginning to relax some of the restrictions at the berth and the Company is tackling the tug cost issue through the provision of a new, locally based, berthing tug which is expected to come into service towards the end of the third quarter of 2008. These initiatives, combined with the beneficial effect of an increasing number of ship loadings, will gradually reduce the excess port costs.

Operating activities, taking into account non-cash items and non-cash working capital, used cash of $0.2 million and $2.0 million for the three and six month periods ended June 30, 2008, respectively, compared to $6.0 million and $17.2 million in the comparative 2007 periods when the Company's principal operating assets were under construction.

Expenses of $2.3 million were charged to operations during the three month period ended June 30, 2008, compared to expenses of $1.8 million in the comparative 2007 period. Expenses in the current six month period amounted to $5.6 million compared to $3.0 million in the 2007 period. The most significant contributing factor to this increase was the $2.1 million non-cash expense for stock based compensation in the six month period ending June 30, 2008 compared with $0.1 million in the comparative 2007 period and the corresponding $0.5 million increase in stock based compensation in the three month period ending June 30, 2008 compared with $0.1 million in the same period for 2007. General and administrative costs in the three and six month periods ended June 30, 2008 increased to $1.6 million and $3.1 million, respectively, from $1.4 million and $2.3 million in the 2007 periods mainly related to increases in general office costs, insurance and salaries reflecting the growth of the Company.

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 provided 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.

## 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:

| (in '000) | | 2008 | | | | 2007 | | 2006 |
|---|---|---|---|---|---|---|---|---|
| | **June 30** | **Mar 31** | Dec 31 | Sept 30 | June 30 | Mar 31 | Dec 31 | Sept 30 |
| | $ | $ | $ | $ | $ | $ | $ | $ |
| Revenue | 6,573 | 6,548 | 5,553 | 5,466 | 4,398 | 50 | Nil | Nil |
| Interest income | 182 | 217 | 371 | 303 | 486 | 492 | 92 | 867 |
| Loss for the quarter | (1,929) | (2,464) | (10,931) | (1,929) | (1,212) | (4,308) | (1,349) | (8) |
| Basic and diluted loss per share | (0.05) | (0.07) | (0.30) | (0.05) | (0.03) | (0.14) | (0.04) | (0.00) |
| | **Tons** | **Tons** | Tons | Tons | Tons | Tons | Tons | Tons |
| Sales | 500 | 521 | 393 | 488 | 263 | 7 | - | - |
| Aggregate production | 581 | 793 | 340 | 459 | 458 | 152 | - | - |

## Overview of the Company and Operations

### Recent Developments

On August 4, 2008, the Company announced its intention to complete the purchase of a 12.4 acre parcel of freehold land in the Port of Long Beach together with its Strategic Alliance Partner, Cemex Inc. ("Cemex"). The purchase is expected to close on or around August 18, 2008, following which the Company will own a 66% interest in the site for $15.18 million with Cemex owning the remaining 34% for $7.82 million. This land, known as 1710 Pier B Street, is strategically located close the 710 freeway affording rapid access to the greater Los Angeles metropolitan area, which is the largest market for construction aggregates on the west coast of North America. The Company intends to finance its share of the acquisition through a one-year, CND$20 million bridge loan facility.

The first phase of development of Pier B will be the permitting, development and construction of a sand and gravel receiving and distribution terminal with anticipated commencement of distribution of Orca sand and gravel by early 2011. The second phase of development is expected to be the construction of a second aggregate terminal which will receive and distribute granite from the proposed Eagle Rock Quarry which is presently the subject of a feasibility study expected to be completed around the end of 2008. The site is also expected to provide the opportunity for a ready-mix concrete plant, effectively creating a construction materials park. The Company placed a fully refundable

$1 million deposit on the land and had 120 days in which to complete its due diligence before closing. The due diligence period was extended three times at a cost of $0.35 million as the Company completed its investigations on the property. The $1.35 million will be applied to the Company's share of the purchase price on closing.

Quarries located on deep, navigable tidewater together with long term shipping contracts, secured sales contracts, and receiving terminals are the essential components in the logistical chain being established by the Company. The Company has also entered into a Strategic Alliance Agreement with Cemex, one of the world's largest construction materials companies. Under the Agreement, Cemex has the right to become the Company's customer and marketing partner in the States of Washington, Oregon and California, excluding four northern California counties where marketing rights already existed with Shamrock Materials Inc., the Company's contracted customer. In addition, the two Strategic Alliance partners are jointly pursuing opportunities to develop additional port receiving terminals in several coastal markets.

On July 14, 2008, the Company announced that effective January 1, 2009, Herb Wilson, the Company's Senior Vice President and Chief Operating Officer, will succeed Marco Romero as President and CEO of the Company. Mr. Wilson has also been appointed to the Board of Directors of the Company effective July 14, 2008. The Company has estimated $690,000 as severance costs for Mr. Romero in accordance with the terms of the termination agreement, to be paid on December 31, 2008.

## 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 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 ready-mix 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 efficiencies of scale.

The Company believes that it will be possible to further extend the life and scale of the Orca Quarry and has commenced a program of exploration in the surrounding area, including further evaluation of the Cougar, Bear Creek and West Cluxewe deposits over which the Company has certain rights, with the objective of conducting a qualitative and quantitative assessment of these sand and gravel resources.

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; however, the associated Environmental Assessment Certificate from the Province expires in September 2008. In May 2008 the Company applied to the provincial government for a 5-year extension to the Certificate as provided for in the Environmental Assessment Act. The Company does not anticipate any difficulties in obtaining this extension. 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 by the end of 2008. The first stage of this work was the shipment of a bulk sample of several tons of granite from this quarry site to a pilot crushing plant in the US where extensive tests provided detailed data for process plant design and, most importantly, bulk finished aggregate samples for distribution to those potential customers who have expressed a serious interest in supplies from this quarry. Eagle Rock Quarry products are expected 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 with significant production cost benefits 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 fine aggregate.

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.

## Markets

The Company's primary target markets are major urban centers along the west coast of North America where local production of construction aggregate is rapidly diminishing as operating quarries are depleted and new resources become more difficult to permit. Longer and more costly overland trucking to consumers to meet the local supply shortfall is creating 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.

The California market, while enjoying strong price increases over the last several years due to dwindling supply, the high cost of resource renewal, intense opposition to new quarrying development and strong demand, particularly in the residential construction market, experienced an unprecedented reduction in demand in 2007 of 21.4% principally due to the severe downturn in the housing market. This downturn, which is continuing in 2008, has been somewhat cushioned by commercial construction and the onset of large infrastructure projects. Historically, public spending and private investment are counter-cyclical; however, the significant decline in private spending is expected to

outpace the ramp-up of large infrastructure projects thus creating a time lag in the overall recovery of demand for construction aggregate. Pricing in the urban California markets is under pressure, reflecting the current downturn; although this has not impacted the Company's contracted sales at this time. Ongoing supply concerns and the difficulty and high cost associated with securing and permitting new reserves near urban areas are expected to positively impact future price levels. Despite the current market environment, the Company has increased its sales into the California market during 2008 due to the quality of Orca Quarry material and its further introduction into customers' ready mix concrete plants. To highlight this point, by July 31, 2008, the Company had sold over 1.2 million short tons, exceeding the total sales for 2007.

The combination of dwindling supply and strong 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 strong demand from the military and leisure sectors coupled with large infrastructure projects including a proposed new light rapid transit system in Honolulu which will assist with the maintenance of a strong demand for construction aggregate. The dwindling supply of locally available construction aggregate, particularly sand coupled with strong demand in this market should enable the Company to increase the sale of Orca materials bound for the Hawaiian market. Subsequent to June 30, 2008, the Company entered into a three year aggregate supply contract, effective from January 1, 2008, with a Hawaiian company. The agreement provides for annual minimum and targeted tonnages with shipping provided by the customer.

The building market in Vancouver remains 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 and residential high rise construction continues at a brisk pace due to a strong economy and an increase in the number of city residents. Pressure on local supply has been further exacerbated by the closure of a large coastal quarry on the southern tip of Vancouver Island which had previously shipped aggregate to the mainland. These factors are all contributing to the demand for marine imported sand and gravel in Vancouver and the Company expects to increase sales to its Vancouver customer throughout 2008.

The Company will continue to evaluate and secure new markets for its construction aggregate and is currently seeking new opportunities in Southern California, Washington and Oregon States in conjunction with Cemex.

## Shipping

The Company is currently shipping its products from Vancouver Island, British Columbia, Canada to San Francisco Bay, Vancouver and Hawaii.

Customers in San Francisco Bay are serviced using self-unloading Panamax vessels provided by CSL International Inc. ("CSL") under the terms of the Company's initial ten year shipping contract. On arrival in the Bay, these vessels are partially unloaded while at anchor ("lightered") into barges provided by Shamrock Materials 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 own Richmond Terminal. These arrangements offer the most economical shipping solution by utilizing fully loaded Panamax vessels from Vancouver Island to San Francisco Bay prior to lightering.

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 on the West Coast with extended travel times required for pilots and berthing tugs. The Company intends to minimize the cost of tugs through the provision of a dedicated local berthing tug and to that end, the Company has entered into a joint venture (the "Tug JV") for the construction of a 2,200 horsepower tug to be completed and put into operation towards the end of the third quarter of 2008. The Company also expects pilot costs to gradually decline in the coming quarters as some restrictions on use of the Orca berth have been removed and the opening of the pilot station on Pine Island, BC, near Port McNeill, is anticipated to commence year round operation in 2009, which will reduce the travel time required for the pilots.

By entering into the Strategic Alliance with Cemex, and with the commencement of operations at the Richmond Terminal, shipping capacity to San Francisco Bay is expected to be optimized as the complex logistics of this enterprise become easier and more flexible with increasing port and barge options.

The Lower Mainland of BC 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 is the cornerstone of the Company's growth plans over the next 20 years and is expected to accelerate progress towards the permitted production of 6.6 million tons per year from the Orca Quarry. The Company serves customers in California, Hawaii and Vancouver and the sales strategy is to achieve a balance between long term contracted sales and shorter term arrangements.

## Sales and Seasonality

The level of sales achieved during the first full year of operations has been very encouraging and 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 realize the benefit of increasing prices brought about by the depletion of indigenous resources in the target market areas as markets return to normal growth projections. 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 have an impact on production volumes and demand for the Company's products. As a consequence, the Company's financial results for any individual quarter are not necessarily indicative of results to be expected for that year. Sales and earnings are typically sensitive to regional and local weather and market conditions and, in particular, to cyclical swings in construction spending. Typically, the highest sales and earnings will be achieved in the third quarter of any year and the lowest realized in the first quarter. Each CSL Panamax vessel carries approximately 80,000 tons and during this ramp-up period, the timing of a vessel departure can have a significant impact on an individual quarter's results.

## Liquidity and Capital Resources

At June 30, 2008, the Company had working capital of $15.4 million, including cash and cash equivalents of $8.3 million compared to working capital of $17.2 million and cash of $15.2 million at December 31, 2007. The Company has sufficient capital resources to fund operations through to sustainable positive net cash flows. However to facilitate the acquisition of Pier B the Company has arranged a one year $20 million bridge loan facility. The Company will need to refinance this facility within the one year time-frame and will also need additional financing to develop the Pier B Terminal. Additional financing may also be required in the even the Company successfully meets its objectives of securing additional terminals and developing the Eagle Rock Quarry.

During the six month period ended June 30, 2008, 254,212 stock options were exercised with gross proceeds to the Company of $0.5 million. The Company also granted 650,000 stock options with an exercise price of $11.10 (CDN $11.41) per share, expiring on January 1, 2013 and 115,000 stock options with an exercise price of $8.45 (CDN $8.69) per share, expiring between Feb 17, 2018 and Feb 18, 2018.

The Company has an investment in third party asset backed commercial paper ("ABCP") with a par value of $5.8 million (December 31, 2007 - $5.9 million) (CDN$5.9 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. There has been no active trading of the ABCP since mid-August 2007 and no market quotations are currently available. 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.

Key elements of the restructuring plan include a comprehensive restructuring with distinct solutions. ABCP backed by traditional securitized assets will be 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 will be 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. Investors should receive senior and subordinated pooled notes in exchange for their ABCP. Finally, 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 has not yet issued a decision on the matter.

The Company's investment in ABCP has been classified as available-for-sale on initial recognition and was carried at fair value in cash and cash equivalents. As at December 31, 2007, the Company wrote down its investment in its ABCP by $2.0 million and reclassified it as a long term investment to reflect the lack of liquidity in the ABCP market and the uncertainty surrounding the timing of cash flows. At March 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 Since there is no active market for ABCP securities, 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. For the purposes of estimating future cash flows, the Corporation estimated that the long-term financial instruments arising from the conversion of its ABCP would generate an interest return of $1.3 million. These future cash flows were discounted over eight years using a discount rate of 7%, which factors in liquidity. The Company also took into account its estimated share of the restructuring costs. As a result of

this valuation, the Company's estimate of fair value remains unchanged. However, the fair value could range from $3.2 million to $4.7 million based on alternative reasonable assumptions. As at June 30, 2008, the face value of the investment, based on the types of series in the restructuring is allocated as follows: $4.8 million is invested in Class A-1 notes which are expected to receive a AA rating at the completion of the restructuring, $0.2 million is invested in Class C notes and $0.8 million in IA Tracking notes which are mainly backed by US subprime assets.

There is a significant amount of uncertainty in estimating the amount and timing of cash flows associated with the ABCP. Changes in significant assumptions could substantially affect the value of ABCP securities in the coming quarters.

The Company expended $3.2 million on property, plant and equipment in the six month period ended June 30, 2008 compared with $15.3 million in the comparative period ended June 30, 2007. The majority of 2008 expenditures relate to the final construction costs of the Richmond Terminal, the Company's current exploration program and the Eagle Rock Quarry feasibility study, while the 2007 expenditures relate 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.

The Company also entered into an additional five-year lease for heavy mining equipment for the Orca Quarry to expand its production capacity to meet its rising sales commitments. The lease terminates on February 28, 2013 and has at fixed annual interest rate of 6.2%. As at June 30, 2008, the total minimum lease payments remaining were $5.0 million.

As at June 30, 2008, the Company's obligations under operating leases and aggregate throughput commitments are outlined in the following table:

| ('000) | | | | | |
|---|---|---|---|---|---|
| | | | | | **Payments Due by Period** |
| | **Total** | Less than one year | 2-3 years | 4-5 years | After 5 years |
| | **$** | $ | $ | $ | $ |
| Operating leases | 19,445 | 516 | 2.218 | 2,292 | 14,419 |

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 Company further increased its shipping capacity by entering into its second shipping contract in 2007 which commences in the third quarter of 2010. The Company has committed 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

The Company's shipping contractor is committed to provide shipping capacity to meet these volume projections and has given the Company assurances that, subject to the Company making the required commitments and allowing for an appropriate lead time, it will be able to meet an accelerated sales ramp-up, should it be required.

## Non-GAAP Measures

### Adjusted Loss

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

| ('000 except per share amounts) | Three months ended June 30, 2008 | Six months ended June 30, 2008 | Three months ended June 30, 2007 | Six months ended June 30, 2007 |
|---|---|---|---|---|
| | | $ | $ | $ |
| Loss for the period | (1,929) | (4,393) | (1,212) | (5,520) |
| Adjustments | | | | |
| Stock based compensation | 511 | 2,142 | 52 | 114 |
| Change in fair value of long-term debt | - | - | 38 | 3,460 |
| Adjusted loss for the period | (1,418) | (2,251) | (1,122) | (1,946) |
| *per share* | *(0.04)* | *(0.06)* | *(0.03)* | *(0.06)* |

EBITDA and Adjusted EBITDA

EBITDA, adjusted EBITDA, EBITDA per share and adjusted EBITDA per share ("EBITDA Metrics") are non-GAAP financial measures. EBITDA and EBITDA per share represent net income, excluding income tax expense, interest expense and amortization and accretion. Adjusted EBITDA and adjusted EBITDA per share better reflects the underlying business performance of the Company by removing certain non-cash adjustments from its calculation of EBITDA and EBITDA per share. The Company believes that the EBITDA Metrics trends are valuable indicators of whether our 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 except per share amounts) | Three months ended June 30, 2008 | Six months ended June 30, 2008 | Three months ended June 30, 2007 | Six months ended June 30, 2007 |
|---|---|---|---|---|
| | | $ | $ | $ |
| Loss for the period | (1,929) | (4,393) | (1,212) | (5,520) |
| Income taxes | - | - | - | - |
| Interest expense | 73 | 136 | 67 | 122 |
| Amortization and impairment charges | 1,611 | 2,896 | 776 | 972 |
| EBITDA | (245) | (1,361) | (369) | (4,426) |
| *per share* | *(0.01)* | *(0.04)* | *(0.01)* | *(0.13)* |
| Adjustments | | | | |
| Stock based compensation | 511 | 2,142 | 52 | 114 |
| Change in fair value of long-term debt | - | - | 38 | 3,460 |
| Adjusted EBITDA | 266 | 781 | (279) | (852) |
| *per share* | *0.01* | *0.02* | *(0.01)* | *(0.03)* |

## Related Party Transactions

During the six month period ended June 30, 2008, a company controlled by a director of the Company provided services to the Company in the United States in connection with its proposed shipping, discharging, and marketing arrangements, at a cost of $0.1 million compared to $0.1 million for the six month period ended June 30, 2007.

Further, the Company had a loan outstanding of $1.8 million to its Tug JV for the construction of a berthing tug. The loan bears interest at prime plus 4% and is repayable on arrangement of a third party marine mortgage upon completion of construction.

## Adoption of New Accounting Standards

### Capital Disclosures

In December 2006, the CICA issued 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.

### Financial Instruments Disclosures

In March 2007, the CICA issued 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 adoption of the CICA Section 1535, *Capital Disclosures,* and Section 3862, *Financial Instruments - Disclosures*, and Section 3863, *Financial Instruments - Presentation*, did not impact the amounts reported in the Company's financial statements however it did result in expanded note disclosure.

### Inventories

In June 2007, the CICA issued 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.

## Recent Accounting Pronouncements

### Convergence with International Financial Reporting Standards

In 2006, Canada's Accounting Standards Board ratified a strategic plan that will result in Canadian generally accepted accounting principles (GAAP), as used by public companies, being evolved and converged with International Financial Reporting Standards (IFRS) over a transitional period to be complete by 2011. The official changeover date from Canadian GAAP to IFRS is for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The Company has not yet assessed the impact of the ultimate adoption of IFRS on the Company.

### Going Concern

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.

## Critical Accounting Estimates

The Company's accounting policies are described in Note 3 to the December 31, 2007 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 estimate of stock-based compensation, fair value of asset-backed commercial paper and asset retirement obligations to be significant.

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.

The ABCP last traded in the active market on August 13, 2007 and there are currently no market quotations available for this ABCP. The Montreal Proposal is a plan, spearheaded by a group of major financial institutions, to convert the ABCP into longer term debt with maturities linked to the underlying assets. There is a significant amount of uncertainty in estimating the amount and timing of cash flows associated with the ABCP. The Company estimates the fair value of the ABCP by assessing the currently available market data. Since the fair value of the ABCP is based on the Company's assessment of current conditions, amounts reported may change materially in subsequent periods.

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.

A substantial portion of the Company's financial assets and liabilities are denominated in Canadian dollars giving rise to risks from changes in exchange rates. The Company does not use derivative financial instruments to reduce its foreign exchange exposure.

## Capital Stock

As at the date of this report, the Company had unlimited common shares authorized, of which 37,579,602 were issued and outstanding. The Company also had 3,349,595 options outstanding, exercisable into 3,349,595 common shares of which 2,655,967 are currently vested and 2,153,846 warrants outstanding.

## 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.

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.

Quarrying involves a high degree of risk and the Company has no 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

No changes were made to the Company's internal controls over financial reporting during the first six months of 2008 that have materially affected, or are reasonably likely to materially affect, the Company's internal controls over financial reporting.

## Cautionary Note Regarding Forward Looking Statements

This Management's Discussion and Analysis release contains "forward-looking statements" and "forward-looking information" within the meaning of applicable securities laws. These statements and information appear in a number of places in this document and include estimates, forecasts, information and statements as to management's expectations with respect to, among other things the future financial or operating performance of the Company, costs and timing of the development of the construction aggregate quarry, the timing and amount of estimated future production, costs of production, capital and operating expenditures, requirements for additional capital, government regulation of quarrying operations, environmental risks, reclamation expenses, and title disputes. Often, but not always, forward-looking statements and information can be identified by the use of words such as "may", "will", "should", "plans", "expects", "intends", "anticipates", "believes", "budget", and "scheduled" or the negative thereof or variations thereon or similar terminology. Forward-looking statements and information are necessarily based upon a number of estimates and assumptions that, while considered reasonable by management, are inherently subject to significant business, economic and competitive uncertainties and contingencies. Readers are cautioned that any such forward-looking statements and information are not guarantees and there can be no assurance that such

statements and information will prove to be accurate and actual results and future events could differ materially from those anticipated in such statements. Important factors that could cause actual results to differ materially from the Company's expectations are disclosed under the heading "Risks and Uncertainties" in the Company's Annual Report and under the heading "Risk Factors" in the Company's Annual Information Form (AIF) in respect of its financial year-ended December 31, 2007, both of which are filed with Canadian regulators on SEDAR (www.sedar.com). The Company expressly disclaims any intention or obligation to update or revise any forward-looking statements and information whether as a result of new information, future events or otherwise. All written and oral forward-looking statements and information attributable to us or persons acting on our behalf are expressly qualified in their entirety by the foregoing cautionary statements.

## Other Information

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

## Glossary of Terms

**Ton** 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).

Polaris Minerals Corporation

## CONSOLIDATED BALANCE SHEETS

(unaudited)

(all amounts expressed in thousands, except per share amounts)
(U.S. dollars)

| | June 30, 2008 $ | December 31, 2007 $ |
|---|---|---|
| **Assets** | | |
| **Current assets** | | |
| Cash and cash equivalents | 8,274 | 15,234 |
| Accounts receivable | 3,927 | 4,376 |
| Loan Receivable (notes 15 and 16) | 1,831 | - |
| Prepaid expenses and deposits | 1,728 | 426 |
| Inventories (note 3) | 3,633 | 1,781 |
| | 19,393 | 21,817 |
| **Property, plant and equipment** (note 4) | 108,901 | 111,654 |
| **Investment** (note 5) | 3,719 | 3,825 |
| **Security deposits** (note 6) | 1,149 | 1,226 |
| **Note receivable** (note 7) | 5,373 | 5,471 |
| | 138,535 | 143,993 |
| **Liabilities** | | |
| **Current liabilities** | | |
| Accounts payable | 2,078 | 1,102 |
| Income taxes payable | 27 | 269 |
| Accruals | 1,250 | 2,753 |
| Current portion of capital leases (note 8) | 683 | 529 |
| | 4,038 | 4,653 |
| **Capital leases** (note 8) | 3,424 | 2,723 |
| **Asset retirement obligation** (note 9) | 1,974 | 1,945 |
| **Deferred charges** | 58 | 64 |
| **Non-controlling interest** (note 10) | 1,681 | 1,769 |
| | 11,175 | 11,154 |
| **Shareholders' Equity** | | |
| **Share capital** (note 11) | 132,405 | 131,773 |
| **Warrants** (note 11(b)) | 3,452 | 3,452 |
| **Contributed surplus** (note 12) | 11,826 | 9,833 |
| | 147,683 | 145,058 |
| **Accumulated other comprehensive income** (note 13) | 16,767 | 20,478 |
| **Deficit** | (37,090) | (32,697) |
| | (20,323) | (12,219) |
| | 127,360 | 132,839 |
| | 138,535 | 143,993 |

**Commitments** (note 14)
**Subsequent event** (note 4(e) and 21)

**Approved by the Board of Directors**

*"Roman Shlanka"*
Roman Shklanka, Director

*"Paul Sweeney"*
Paul Sweeney, Director

Polaris Minerals Corporation
**CONSOLIDATED STATEMENTS OF OPERATIONS AND DEFICIT**
(unaudited)

(all amounts expressed in thousands, except per share amounts)
(U.S. dollars)

| | Three-month period ended June 30, | | Six-month period ended June 30, | |
|---|---|---|---|---|
| | **2008** $ | **2007** $ | **2008** $ | **2007** $ |
| Sales | 6,573 | 4,398 | 13,121 | 4,448 |
| Cost of goods sold | (6,176) | (3,553) | (12,501) | (3,581) |
| | 397 | 845 | 620 | 867 |
| **Expenses** | | | | |
| Amortization | 70 | 109 | 140 | 218 |
| General and administrative | 1,649 | 1,364 | 3,134 | 2,297 |
| Marketing | 90 | 240 | 191 | 348 |
| Stock-based compensation | 511 | 52 | 2,142 | 114 |
| | 2,320 | 1,765 | 5,607 | 2,977 |
| **Loss from operations** | (1,923) | ( 920) | (4,987) | (2,110) |
| Non-controlling interest | 10 | 34 | 40 | 102 |
| Change in fair value of long-term debt | - | (38) | - | (3,460) |
| Foreign exchange | (125) | (707) | 291 | (908) |
| Interest Income | 182 | 486 | 399 | 978 |
| Interest Expense | (73) | (67) | (136) | (122) |
| **Net loss for the period** | (1,929) | (1,212) | (4,393) | (5,520) |
| **Deficit - Beginning of period** | (35,161) | (18,625) | (32,697) | (13,523) |
| Adjustment in respect of the adoption of the new accounting standards | - | - | - | (794) |
| **Deficit - beginning of period as restated** | (35,161) | (18,625) | (32,697) | (14,317) |
| **Deficit - End of period** | (37,090) | (19,837) | (37,090) | (19,837) |
| **Basic and diluted loss per common share** | (0.05) | (0.03) | (0.12) | (0.16) |
| **Weighted average number of common shares outstanding** | 37,410 | 36,551 | 37,373 | 33,675 |

Polaris Minerals Corporation

**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)**

(unaudited)

(all amounts expressed in thousands, except per share amounts)

(U.S. dollars)

| | Three-month period ended June 30, | | Six-month period ended June 30, | |
|---|---|---|---|---|
| | **2008** $ | **2007** $ | **2008** $ | **2007** $ |
| **Net loss for the period** | (1,929) | (1,212) | (4,393) | (5,520) |
| **Other comprehensive income** | | | | |
| Currency translation adjustment | 858 | 9,983 | (3,711) | 11,644 |
| Mark-to-market adjustment on available for sale financial instruments | | | | |
| Unrealized losses on available-for-sale investments arising during the period | - | (373) | - | (320) |
| Less: reclassified to net income on realization | - | - | - | (37) |
| | 858 | 9,610 | (3,711) | 11,287 |
| **Comprehensive income/(loss) for the period** | (1,071) | 8,398 | (8,104) | 5,767 |

Polaris Minerals Corporation

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

(unaudited)

(all amounts expressed in thousands, except per share amounts)

(U.S. dollars)

| | Three-month period ended June 30, | | Six-month period ended June 30, | |
|---|---|---|---|---|
| | 2008 $ | 2007 $ | 2008 $ | 2007 $ |
| **Cash flows from operating activities** | | | | |
| Loss for the period | (1,929) | (1,212) | (4,393) | (5,520) |
| Items not affecting cash | | | | |
| Amortization and depletion | 1,611 | 776 | 2,896 | 972 |
| Non-controlling interest | (10) | (34) | (40) | (102) |
| Change in fair value of long-term debt | - | 38 | - | 3,460 |
| Stock-based compensation | 511 | 52 | 2,142 | 114 |
| | 183 | (380) | 605 | (1,076) |
| Changes in non-cash working capital items | | | | |
| Accounts receivable | 2,192 | (2,921) | 366 | (3,271) |
| Prepaid expenses and deposits | (351) | 42 | (1,330) | (503) |
| Inventories | (1,539) | (1,322) | (1,813) | (1,573) |
| Accounts payable | (29) | (479) | 966 | (3,277) |
| Accruals and provisions | (676) | (979) | (835) | (7,532) |
| | (403) | (5,659) | (2,646) | (16,156) |
| | (220) | (6,039) | (2,041) | (17,232) |
| **Cash flows from financing activities** | | | | |
| Net proceeds from issue of common shares | 426 | (122) | 483 | 49,886 |
| Long term debt | - | (31,000) | - | (31,000) |
| Capital lease payments | (165) | (135) | (319) | (238) |
| | 261 | (31,257) | 164 | 18,648 |
| **Cash flows from investing activities** | | | | |
| Note receivable | 181 | (4,111) | 98 | (4,111) |
| Loan receivable | (1,444) | - | (1,444) | - |
| Property, plant and equipment costs | (658) | (9,295) | (3,214) | (15,335) |
| Security deposits | (9) | - | 42 | - |
| | (1,930) | (13,406) | (4,518) | (19,446) |
| **Effect of foreign currency translation on cash and cash equivalents** | - | 4,512 | (565) | 5,451 |
| **Decrease in cash and cash equivalents** | (1,889) | (46,190) | (6,960) | (12,579) |
| **Cash and cash equivalents - beginning of period** | 10,163 | 76,008 | 15,234 | 42,397 |
| **Cash and cash equivalents - end of period** | 8,274 | 29,818 | 8,274 | 29,818 |

**Supplemental cash flow information** (note 18)

(all amounts expressed in thousands, except per share amounts)
(U.S. dollars)

## 1 Nature of operations

Polaris Minerals Corporation (The "Company") was incorporated on May 14, 1999. It is engaged in the development and operation of construction aggregates properties and related projects located on the west coast of North America.

## 2 Significant accounting policies

These unaudited interim financial statements have been prepared by the Company in accordance with Canadian generally accepted accounting principles, using the same accounting policies and methods as per the annual consolidated financial statements for the year ended December 31, 2007 and the changes referred to below. They do not include all the disclosures required by generally accepted accounting principles for annual financial statements, and should be read in conjunction with the most recent annual financial statements of the Company.

### 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: Eagle Rock Materials Ltd. ("ERM") (70%), Eagle Rock Aggregates, Inc. (70%), Quality Rock Holdings Ltd. (100%), Polaris Aggregates Inc. (100%), Orca Sand & Gravel Limited Partnership ("OS&G LP") (88%), Orca Sand & Gravel Ltd. (88%), Quality Sand & Gravel Ltd. (100%), 5329 Investments Ltd. (100%), Orca Finance Ltd. (100%), North Island Sand & Gravel Ltd. (100%), Polaris Materials Inc. (100%), and 0791304 B.C. Ltd. (33.3%). The Orca Sand & Gravel Limited Partnership's year-end is January 31$^{st}$.

### New accounting policies adopted

#### *Capital Disclosures*

In December 2006, the CICA issued 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 19.

#### *Financial Instruments Disclosures*

In March 2007, the CICA issued 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 20.

#### *Inventories*

In June 2007, the CICA issued 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.

#### *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.

#### *Going concern*

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.

**Recent accounting pronouncements**

***Convergence with International Financial Reporting Standards***

In 2006, Canada's Accounting Standards Board ratified a strategic plan that will result in Canadian generally accepted accounting principles (GAAP), as used by public companies, being evolved and converged with International Financial Reporting Standards (IFRS) over a transitional period to be complete by 2011. The official changeover date from Canadian GAAP to IFRS is for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The Company has not yet assessed the impact of the ultimate adoption of IFRS on the Company.

## 3 Inventories

Inventories are as follows:

| | June 30, 2008 $ | December 31, 2007 $ |
|---|---|---|
| Construction aggregates | 3,131 | 1,515 |
| Components and consumable supplies | 502 | 266 |
| | $3,633 | $1,781 |

## 4 Property, plant and equipment

| | | | June 30, 2008 | | | December 31, 2007 |
|---|---|---|---|---|---|---|
| | Cost $ | Accumulated depletion or amortization $ | Net book value $ | Cost $ | Accumulated depletion or amortization $ | Net book value $ |
| Orca Quarry | | | | | | |
| Property costs | 13,853 | (1,158) | 12,695 | 14,204 | (666) | 13,538 |
| Richmond Terminal | | | | | | |
| Property costs | 10,982 | (210) | 10,772 | 11,277 | - | 11,277 |
| Tug | | | | | | |
| Construction in progress | 915 | - | 915 | 416 | - | 416 |
| Motor vehicles | 230 | (144) | 86 | 236 | (108) | 128 |
| Fixed plant and machinery | 23,683 | (1,467) | 22,216 | 23,775 | (887) | 22,888 |
| Marine facilities | 28,088 | (1,503) | 26,585 | 28,862 | (943) | 27,919 |
| Building and land improvements | 28,124 | (632) | 27,492 | 28,729 | (41) | 28,688 |
| Mobile plant | 642 | (78) | 564 | 662 | (21) | 641 |
| Equipment (held under capital lease) | 5,063 | (679) | 4,384 | 3,887 | (470) | 3,417 |
| Furniture, equipment, tools and fixtures | 906 | (445) | 461 | 866 | (356) | 510 |
| Leasehold improvements | 241 | (48) | 193 | 248 | (35) | 213 |
| Eagle Rock Quarry project | 1,625 | - | 1,625 | 1,553 | - | 1,553 |
| Other exploration properties | 648 | - | 648 | 368 | - | 368 |
| Other marine receiving terminals | 265 | - | 265 | 98 | - | 98 |
| | 115,265 | (6,364) | 108,901 | 115,181 | (3,527) | 111,654 |

a) Orca Quarry

The Orca Quarry, located on tidewater west of the town of Port McNeill, BC, is a quarry with a plant capable of producing six million 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.

The Company has a beneficial interest in the Orca Quarry of 88%, the remaining 12% being owned by the Namgis First Nation which has asserted traditional territory rights over the area.

b) Richmond Terminal

The Company has a twenty-year lease, with two ten-year extensions, with Levin Enterprises, Inc. 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 after which the Company ceased to capitalize costs of the project unless they are capital in nature.

c) Eagle Rock quarry Project

The Eagle Rock Quarry 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.

d) 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, West Cluxewe and Cougar Deposits.

The Company has exclusive right to negotiate a lease associated with the Bear Creek deposit with Island Timberlands prior to September 30, 2008 to gain access to, and obtain rights to, the rock, stone and sand located thereon.

e) Other marine receiving terminals

- During the six month period ended June 30, 2008, the Company entered into an Agreement of Purchase and Sale to acquire a 12.4 acre site within Pier B in the Port of Long Beach, California. This site would initially accommodate a sand and gravel terminal with expansion capabilities for a crushed rock terminal on commencement of production at the Eagle Rock Quarry. The site also is also expected to provide the opportunity for an on-site ready-mix concrete plant. The Company placed a fully refundable $1 million deposit on the land and had 120 days in which to complete its due diligence before closing. The due diligence period was extended three times at a cost of $350,000, as the Company completed its due diligence investigation on the property. The $1.35 million will be applied to the Company's share of the purchase price on closing.

  On August 4, 2008, the Company committed to purchase 66% the land for $15.18 million, with Cemex committing to purchase the remaining 34% at a cost of $7.82 million. To facilitate the acquisition of Pier B the Company has arranged a CND$20 million, one year bridge loan facility. The purchase of the land and the bridge loan facility are expected to close on or before August 18, 2008.
- 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 its Redwood City construction aggregates marine receiving terminal and therefore wrote off $347 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.

## 5 Investment

The Company has an investment in third party asset backed commercial paper ("ABCP") with a par value of $5,786 (December 31, 2007 - $5,952) (CDN$5,900). 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 and no market quotations are currently available. In September, 2007, a Pan

Canadian Committee (the "Committee") was formed consisting 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.

Key elements of the restructuring plan include a comprehensive restructuring with distinct solutions. ABCP backed by traditional securitized assets will be 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 will be 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. Investors should receive senior and subordinated pooled notes in exchange for their ABCP. Finally, 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 has not yet issued a decision on the matter.

The Company's investment in ABCP has been classified as available-for-sale on initial recognition and was carried at fair value in cash and cash equivalents. As at December 31, 2007, the Company wrote down its investment in its ABCP by $2,039 and reclassified it as a long term investment to reflect the lack of liquidity in the ABCP market and the uncertainty surrounding the timing of cash flows. At March 31, 2008 and June 30, 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. Since there is no active market for ABCP securities, 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. For the purposes of estimating future cash flows, the Corporation estimated that the long-term financial instruments arising from the conversion of its ABCP would generate an interest return of $1,278. These future cash flows were discounted over eight years using a discount rate of 7%, which factors in liquidity. The Company also took into account its estimated share of the restructuring costs. As a result of this valuation, the Company's estimate of fair value remains unchanged. However, the fair value could range from $4,720 to $3,223 based on alternative reasonable assumptions. As at June 30, 2008, the face value of the investment, based on the types of series in the restructuring is allocated as follows: $4,877 is invested in Class A-1 notes which are expected to receive a AA rating at the completion of the restructuring, $151 is invested in Class C notes and $758 in IA Tracking notes which are mainly backed by US subprime assets.
There is a significant amount of uncertainty in estimating the amount and timing of cash flows associated with the ABCP. Changes in significant assumptions could substantially affect the value of ABCP securities in the coming quarters.

## 6 Security deposits

The Company has issued $1,149 (December 31, 2007 - $1,226) in irrevocable standby letters of credit and safekeeping agreements as performance bonds on the Orca Quarry. The letters of credit are automatically renewed each year until returned to the Company upon completion of the performance bond and are secured by interest-bearing deposits of $1,149 (December 31, 2007 - $1,226). Deposits bear interest at a rate of 2.75% to 4.25% as at June 30, 2008 and December 31, 2007.

## 7 Note receivable

As at June 30, 2008, the Company has a note outstanding of $5,373 (December 31, 2007 – $5,471) to a third party for the purchase of certain assets for the facilitation of shipping construction aggregates. The note bears interest of 5.5% per annum with interest payable monthly and the principal balance due by 2027. As at June 30, 2008, a total of $0.2 in principal and interest has been repaid on this note. The Company has security over various assets of the third party. The note has been accounted for under the amortized cost method. At June 30, 2008, the fair value of the note receivable approximates carrying value.

## 8 Capital leases

Included in property, plant and equipment is quarrying equipment that the Company has acquired pursuant to four, five year lease agreements, terminating October 28, 2011 at an interest rate of 7.0% and 7.05% and one, five year lease agreement, terminating February 28, 2013 at an interest rate of 6.2%. The quarrying equipment is the security for the indebtedness. Future minimum lease payments are as follows:

| | June 30, 2008 $ | December 31, 2007 $ |
|---|---|---|
| 2008 | 470 | 742 |
| 2009 | 941 | 742 |
| 2010 | 941 | 742 |
| 2011 | 1,797 | 1,621 |
| 2012 | 220 | - |
| 2013 | 449 | - |
| Total minimum lease payments | 4,818 | 3,847 |
| Less: Interest portion | (711) | (595) |
| Present value of capital lease obligation | 4,107 | 3,252 |
| Less: Current portion | (683) | (529) |
| Non-current portion | 3,424 | 2,723 |

## 9 Asset retirement obligation

During the year ended December 31, 2006, the Company recognized asset retirement obligations in connection with the Orca Quarry. As a result, the Company recorded liabilities totalling $1,540 in the year ended December 31, 2006 and increased capitalized property, plant and equipment associated with the Orca Quarry by the same amount. A determination of the fair value of the liability assumes undiscounted estimated future cash flows needed to settle the liability incurred to June 30, 2008 of approximately $10,400 (December 31, 2007 – $10,481), 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 security deposits (note 6) is a $901 (December 31, 2007 - $1,020) term deposit required by the British Columbia Ministry of Energy and Mines for reclamation at the end of the life of the Orca Quarry.

| | June 30, 2008 $ | December 31, 2007 $ |
|---|---|---|
| Obligation - beginning of period | 1,945 | 1,510 |
| Foreign exchange | (53) | 265 |
| Accretion expense | 82 | 170 |
| Obligation - end of period | 1,974 | 1,945 |

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.

## 10 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 | (40) |
| Foreign exchange | (48) |
| Balance – June 30, 2008 | 1,681 |

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. The principal terms of the loan agreement between the Company and the Namgis are as follows:

- 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 will 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.

## 11 Share capital

Authorized

Unlimited common shares without par value

Issued

| | June 30, 2008 | | December 31, 2007 | |
|---|---|---|---|---|
| | Number of common shares | Amount $ | Number of common shares | Amount $ |
| Balance - beginning of period | 37,325 | 131,773 | 29,650 | 79,820 |
| For cash | - | - | 6,900 | 52,923 |
| Share issue costs | - | - | - | (3,105) |
| On exercise of stock options | 255 | 632 | 775 | 2,135 |
| Balance - end of period | 37,580 | 132,405 | 37,325 | 131,773 |

Stock options

As at June 30, 2008, the maximum options to be allowed outstanding under the plan are 3,758 (December 31, 2007 – 3,732) and all options are exercisable in Canadian dollars.

| | Number outstanding | Weighted average exercise price $ | Expiry date |
|---|---|---|---|
| At December 31, 2006 | 2,108 | 2.25 | 2011 - 2016 |
| Granted | 1,406 | 13.77 | 2017 |
| Exercised | (775) | 1.95 | 2011 - 2016 |
| Cancelled | - | - | - |
| At December 31, 2007 | 2,739 | 8.61 | 2011 - 2017 |
| Granted | 765 | 10.79 | 2013 - 2018 |
| Exercised | (255) | 1.88 | 2011 - 2016 |
| Cancelled | - | - | - |
| At June 30, 2008 | 3,249 | 9.45 | 2011 - 2018 |

Warrants

As at June 30, 2008 and December 31, 2007, the Company has 2,153,846 warrants outstanding, exercisable into one common share at $4.67 (CDN$4.80) per share until November 30, 2010.

## 12 Contributed surplus

| | June 30, 2008 $ | December 31, 2007 $ |
|---|---|---|
| Balance - beginning of period | 9,833 | 2,179 |
| Stock-based compensation | 2,142 | 8,284 |
| Exercise of stock options | (149) | (630) |
| Balance - end of period | 11,826 | 9,833 |

## 13 Accumulated other comprehensive income

| | $ |
|---|---|
| Opening balances on adoption of new accounting standards | (95) |
| Realization of gain on cash and cash equivalents | (37) |
| Currency translation adjustment | 20,610 |
| Balance – December 31, 2007 | 20,478 |
| Currency translation adjustment | (3,711) |
| Balance – June 30, 2008 | 16,767 |
| **Components of accumulated other comprehensive loss** | |
| Currency translation adjustment | 16,767 |
| Balance – June 30, 2008 | 16,767 |

## 14 Commitments

a) The following minimum payments are required under operating leases, related to rent, equipment rentals car leases, information technology support contract, and aggregate throughput commitments at the Company's Richmond Terminal as at June 30, 2008.

| | $ |
|---|---|
| 2008 | 516 |
| 2009 | 1,063 |
| 2010 | 1,155 |
| 2011 | 1,149 |
| 2012 | 1,143 |
| Thereafter | 14,419 |
| | 19,445 |

b) On commencement of the marine contract on July 18, 2007, the Company is committed to ship the following tonnage through its initial marine freight contract. Failure by the Company to ship its annual cargo commitment will result in a deadfreight 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.

| | 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 |

The Company met its first contract year commitment and shipped in excess of 1.5 million tons.

c) The Company has a second shipping contract which commences in the third quarter of 2010. The Company has committed 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 commitment will result in a deadfreight 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.

## 15 Related party transactions

During the periods ended June 30, 2008 and 2007, directors of the Company or the Company's subsidiary, either directly or through a company controlled by them, provided services to the Company as follows:

a) Marketing services at a cost of $147 (June 30, 2007 - $130)

b) Technical services at a cost of $4 (June 30, 2007 - $nil)

At June 30, 2008, accounts payable of $24 (December 31, 2007 - $61) was due to a company controlled by a common director.

As at June 30, 2008, the Company has a loan outstanding of $1,831 (December 31, 2007 - $nil) to their joint venture (Note 16) for the construction of a berthing tug. The loan bears interest at prime +4% per annum and is repayable upon the joint venture entering into third party financing.

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

## 16 Joint venture interests

The Company conducts a portion of its business through a joint venture 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 venture.
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. As at June 30, 2008, the tugboat was under construction and the joint venture had no other operations. The Company has agreed to finance the construction of the tugboat until its completion and a marine mortgage has been arranged with a third party. A loan receivable of $1,831 remains outstanding as at June 30, 2008 which bears interest at prime plus 4%.
The following condensed statements of cash flows and balance sheet details the Company's share of its investments in its joint venture that has been proportionately consolidated:

| | June 30, 2008 $ | December 31, 2007 $ |
|---|---|---|
| **Proportionate Joint Venture Balance Sheets** | | |
| Equipment | 915 | - |
| | $ 915 | $ - |
| Current liabilities | 915 | - |
| | $ 915 | $ - |
| **Proportionate Statements of Joint Venture Cash Flows** | | |
| Investing activities | (915) | - |
| Financing activities | 915 | - |
| Increase in cash and cash equivalents | $ - | $ - |

## 17 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 four customers in the United States of America comprising 100% of the Company's sales. The customers with significant sales are as follows:

| | Three-month period ended June 30, | | Six-month period ended June 30, | |
|---|---|---|---|---|
| | **2008** | **2007** | **2008** | **2007** |
| | **$** | **$** | **$** | **$** |
| Customer A | 3,322 | **1,685** | **6,214** | 1,685 |
| Customer B | 2,503 | **1,202** | **4,965** | 1,202 |
| Customer C | 748 | **305** | **1,447** | 355 |
| Customer D | - | **1,206** | - | 1,206 |

The Company's sales by geographical area are as follows:

| | Three-month period ended June 30, | | Six-month period ended June 30, | |
|---|---|---|---|---|
| | **2008** | **2007** | **2008** | **2007** |
| | **$** | **$** | **$** | **$** |
| United States | 5,825 | 4,093 | 11,674 | 4,093 |
| Canada | 748 | 305 | 1,447 | 355 |
| | 6,573 | 4,398 | 13,121 | 4,448 |

The Company's Property, plant and equipment by geographical location are as follows:

| | **June 30, 2008** | **December 31, 2007** |
|---|---|---|
| | **$** | **$** |
| United States | 37,444 | 39,007 |
| Canada | 71,457 | 72,647 |
| | 108,901 | 111,654 |

## 18 Supplemental cash flow information

**Non-cash investing and financing activities**
Property, plant and equipment additions of $794 (2007 - $1,557) are financed by accounts payable, accruals and capital lease obligations. Interest paid during period was $63 (2007 - $205). Taxes paid during the period was $238 (2007 - $Nil).

## 19 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 related 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 and contributed surplus as capital, which at June 30, 2008 totalled $147,683 (December 31, 2007 - $145,058)
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.

## 20 Financial instruments

### Fair value

The Company's cash equivalents, security deposits, and investment in ABCP are carried at fair value as they are accounted for as available-for-sale financial assets, which are remeasured to fair value at the end of each reporting period.
The fair value of the Company's investment in ABCP has been estimated 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. As at June 30, 2008, the Company reassessed the fair value of its ABCP and as a result of this valuation, the Company's estimate of fair value remains unchanged.

The fair values of the Company's accounts receivable, deposits, accounts payable and accruals approximate their carrying values due to their short-term maturities. The Company estimates that the fair value of its loan receivable and capital leases approximates their carrying values at June 30, 2008 and December 31, 2007. The fair values of the loan receivable and capital lease have been estimated by discounting the cash flows payable or receivable at interest rates in effect at the balance sheet date.

### 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 five 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.
The amount that best represents the Company's maximum exposure to credit risk is $15,999, which is comprised of the following:

| | $ |
|---|---|
| Accounts receivable | 3,927 |
| Investment in ABCP | 3,719 |
| Loan receivable | 1,831 |
| Note receivable | 5,373 |
| | 14,850 |

Except for the note receivable (note 7) and ABCP (note 5), no collateral is held as security in respect of the amounts that comprise the Company's exposure to credit risk.
All of the Company's accounts receivables are current and no allowance for credit losses has been recorded at June 30, 2008.

### 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 19).
A maturity analysis of the undiscounted cash flows of the Company's liabilities is as follows:

| Due | Capital lease obligations | Asset Retirement Obligations | Accounts payable, income taxes payable and accruals |
|---|---|---|---|
| Within one month | 79 | - | 2,770 |
| Between 1 – 3 months | 235 | - | 502 |
| Between 4 – 12 months | 627 | - | 82 |
| Between 1 – 5 years | 3,877 | 307 | - |
| Between 6 - 20 years | - | 10,061 | - |
| | 4,818 | 10,368 | 3,354 |

### Market Risk

The Company is exposed to the following market risks:
*Currency risk* – The Company's functional currency is the Canadian dollar and the Company has operations in the USA, which are integrated with the Company's Canadian operations. As a result, the Company is exposed to foreign currency risk when it has financial assets or financial liabilities that are denominated in U.S. dollars. The Company does not use any derivative instruments to reduce its exposure to fluctuations in foreign currency exchange rates.

*Interest rate risk* – The Company is not exposed to significant interest rate risk. The Company's capital leases and note receivable are at fixed rates. The Company's cash and cash equivalents and loan receivable, which are short-term in nature, are at floating rates.

The following table shows the effect on net loss and other comprehensive loss for the three months ended June 30, 2008 had the US Canadian exchange rate increased or decreased by $0.01 as of June 30, 2008, assuming all other variables did not change.

| | **US Canadian dollar exchange rate** |
|---|---|
| Net loss | 79 |
| Other Comprehensive loss | 1,231 |

## 21 Subsequent events

Subsequent to June 30, 2008, the Company's President and Chief Executive Officer resigned, effective January 1, 2009. The Company has estimated $690 as severance in accordance with the terms of the termination agreement, to be paid on December 31, 2008.

## CORPORATE INFORMATION

### DIRECTORS AND SENIOR OFFICERS

| | |
|---|---|
| Marco A. Romero | President and Chief Executive Officer, Director |
| Roman Shklanka | Chairman and Director |
| R. Stuart (Tookie) Angus | Director |
| Robert M. Edsel | Director |
| Terrence A. Lyons | Director |
| Gary D. Nordin | Director |
| John H. Purkis | Director |
| David F. Singleton | Director |
| Paul B. Sweeney | Director |
| Lisa Dea | Vice President Finance and Chief Financial Officer |
| Herbert G.A. Wilson | Senior Vice President and Chief Operating Officer |

**VANCOUVER OFFICE:**
**Polaris Minerals Corporation**
Suite 2740, 1055 West Georgia Street
PO Box 11175
Vancouver, BC  V6E 3R5
Tel: 604.915.5000
Fax: 604.915.5001
Email: info@polarmin.com
www.polarmin.com

**PORT McNEILL OFFICE:**
**Orca Sand & Gravel Ltd.**
6505 Island Highway
PO Box 699
Port McNeill, BC  V0N 2R0
Tel: 604.628.3353
Fax: 604.628.3354

**PORT ALBERNI OFFICE:**
**Eagle Rock Materials Ltd.**
5500 Ahahswinis Drive
PO Box 211
Port Alberni, BC  V9Y 7M2
Tel: 250.723.5000
Fax: 250.723.5005