CONSOLIDATED INTERIM FINANCIAL STATEMENTS

June 30, 2010 and 2009
(U.S. dollars)

Polaris Minerals Corporation

Consolidated Balance Sheets
(Unaudited)

(thousands of U.S. dollars)

	June 30, 2010 $	December 31, 2009 $
Assets		
Current assets		
Cash	2,657	5,642
Accounts receivable (note 3)	3,755	3,139
Inventories (note 4)	3,523	2,785
Prepaid expenses and other	254	581
Current portion of loans and advances (note 5)	895	3,061
	11,084	15,208
Loans and advances (note 5)	5,380	6,132
Property held for sale (note 12)	12,052	12,210
Property, plant and equipment (note 6)	97,639	101,223
Other long-term assets	1,167	1,207
	127,322	135,980
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities (note 7)	3,241	3,907
Current portion of long-term debt (note 8)	750	734
	3,991	4,641
Long-term debt (note 8)	7,309	2,240
Other long-term liabilities (note 9)	2,307	4,030
	13,607	10,911
Non-controlling interest	229	785
Shareholders' equity		
Share capital	149,592	149,574
Warrants	6,837	6,837
Contributed surplus	13,829	13,683
Deficit	(70,089)	(60,348)
Accumulated other comprehensive income	13,317	14,538
	113,486	124,284
	127,322	135,980

Going concern and liquidity risk (note 1)
Commitments and contingencies (note 15)
Subsequent event (note 15)

Approved by the Board of Directors

"Paul Sweeney"
Paul Sweeney, Director

"Herbert G.A. Wilson"
Herbert G.A. Wilson, Director

– See Accompanying Notes –

Polaris Minerals Corporation

Consolidated Statements of Loss

(Unaudited)

(thousands of US dollars, except per share amounts)

	Three months ended June 30		Six months ended June 30	
	2010	2009	2010	2009
	$	$	$	$
Sales	4,723	6,217	9,607	9,142
Cost of sales				
Cost of goods sold	(4,950)	(5,342)	(9,887)	(7,761)
(Provision) reversal for annual minimum freight volume penalty (note 15)	(295)	-	1,506	-
Amortization, depletion and accretion	(1,420)	(1,217)	(2,677)	(2,127)
	(6,665)	(6,559)	(11,058)	(9,888)
Gross loss	(1,942)	(342)	(1,451)	(746)
Operating expenses				
Selling, general and administrative expenses	(1,524)	(1,384)	(2,749)	(2,748)
Stock-based compensation	(97)	(133)	(129)	(275)
Shipping contract renegotiation costs (note 15)	-	-	(5,991)	-
	(1,621)	(1,517)	(8,869)	(3,023)
Operating loss	(3,563)	(1,859)	(10,320)	(3,769)
Other income and (expenses)				
Interest on long-term debt	(192)	(53)	(247)	(150)
Interest expense	-	(99)	-	(124)
Interest income	94	89	402	180
Foreign exchange gain (loss)	55	(900)	(157)	(515)
Income from equity accounted investment	46	75	68	62
Other gains and (losses) (note 11)	16	(1)	24	44
	19	(889)	90	(503)
Loss before taxes and non-controlling interest	(3,544)	(2,748)	(10,230)	(4,272)
Income taxes				
Current income tax expense	(9)	(49)	(74)	(68)
Loss before non-controlling interest	(3,553)	(2,797)	(10,304)	(4,340)
Non-controlling interest	316	(540)	563	(394)
Net loss	(3,237)	(3,337)	(9,741)	(4,734)
Basic and diluted loss per common share	(0.06)	(0.06)	(0.18)	(0.09)
Weighted average number of common shares outstanding	53,247	53,205	53,236	52,514

– See Accompanying Notes –

Polaris Minerals Corporation

Consolidated Statements of Cash Flows

(Unaudited)

(thousands of U.S. dollars)

	Three months ended June 30		Six months ended June 30	
	2010	**2009**	**2010**	**2009**
	$	**$**	**$**	**$**
Cash flows from operating activities				
Net loss	(3,237)	(3,337)	(9,741)	(4,734)
Amortization and accretion	1,478	1,305	2,770	2,269
Non-cash shipping contract renegotiation costs (note 15)	-	-	5,453	-
Stock-based compensation	107	133	147	275
Unrealized foreign exchange loss (gain)	(166)	203	(73)	189
Provision (reversal) for annual minimum freight volume penalty (note 15)	295	-	(1,506)	-
Income from equity accounted investment	(46)	(75)	(68)	(62)
Other gains and losses	(14)	-	(35)	(44)
Non-controlling interest	(316)	540	(563)	394
	(1,899)	(1,231)	(3,616)	(1,713)
Changes in non-cash working capital items (note 13)	(397)	58	(1,352)	(1,259)
	(2,296)	(1,173)	(4,968)	(2,972)
Cash flows from financing activities				
Issue of common shares and warrants	17	-	17	21,030
Issue costs	-	-	-	(1,491)
Repayment of long-term debt	(186)	(153)	(367)	(17,118)
	(169)	(153)	(350)	2,421
Cash flows from investing activities				
Payments received on held-for-trading investments	-	57	-	224
Dividends received from equity accounted investment	29	-	59	-
Loans and advances funding	(124)	(113)	(124)	(206)
Loans and advances repayments	1,888	124	2,886	226
Property, plant and equipment purchases	(271)	(1,043)	(489)	(2,257)
Security deposit withdrawals	46	-	39	(3)
	1,568	(975)	2,371	(2,016)
Effect of foreign currency translation on cash	(108)	610	(38)	200
Decrease in cash	(1,005)	(1,691)	(2,985)	(2,367)
Cash - beginning of period	3,662	6,360	5,642	7,036
Cash - end of period	2,657	4,669	2,657	4,669

Supplemental cash flow information (note 13)

Polaris Minerals Corporation

Consolidated Statements of Shareholders' Equity

(Unaudited)

(thousands of U.S. dollars)

	Number of common shares (000's)	Amount of common shares $	Warrants $	Contributed surplus $	Deficit $	Accumulated other comprehensive income (loss) $	Total $
December 31, 2008	37,580	132,405	4,503	12,733	(42,490)	(3,603)	103,548
Units issued - net	15,625	17,148	2,334	-	-	-	19,482
Options exercised	20	21	-	(4)	-	-	17
Stock based compensation	-	-	-	954	-	-	954
Other comprehensive income	-	-	-	-	-	18,141	18,141
Net loss	-	-	-	-	(17,858)	-	(17,858)
December 31, 2009	53,225	149,574	6,837	13,683	(60,348)	14,538	124,284
Options exercised	22	18	-	(1)	-	-	17
Stock based compensation	-	-	-	147	-	-	147
Other comprehensive income	-	-	-	-	-	(1,221)	(1,221)
Net loss	-	-	-	-	(9,741)	-	(9,741)
June 30, 2010	53,247	149,592	6,837	13,829	(70,089)	13,317	113,486

Consolidated Statements of Comprehensive Loss

(Unaudited)

(thousands of U.S. dollars)

	Three months ended June 30		Six months ended June 30	
	2010 $	2009 $	2010 $	2009 $
Net loss	(3,237)	(3,337)	(9,741)	(4,734)
Other comprehensive (loss) income				
Currency translation adjustment	(5,487)	9,879	(1,221)	5,174
Comprehensive (loss) income	(8,724)	6,542	(10,962)	440

– See Accompanying Notes –

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

1. Going concern and liquidity risk

These unaudited financial statements are prepared in accordance with Canadian generally accepted accounting principles applicable to a going concern, which contemplate the realization of assets and settlement of liabilities in the normal course of business as they come due. Liquidity risk is the risk that the Company will be unable to meet its financial obligations as they fall due.

The Company's continuing operations depend on a number of factors beyond the Company's control. These include: improvement in the economic outlook, the recovery of demand for the Company's products, particularly in California, and access to capital markets. The previously expected recovery of demand in the California market has not yet materialized. These market conditions continue to result in reduced revenue levels, causing the Company to incur losses. Until the market recovers, it will be difficult to generate positive cash flows and the Company may incur additional penalties under the CSL shipping contract (note 15).

It will be necessary for the Company to obtain additional financing to meet its operating expenditures until it completes the sale of the Pier B property held by the Cemera Long Beach LLC joint venture (note 12). An offer has been received, subject to contract, and completion of the sale is expected within the next twelve months. To address the near-term liquidity requirement, the Company has begun discussions to obtain financing for operational needs. However, there can be no assurance that these financing negotiations will be successful or that the asset sale will be successful or completed on a timely basis.

There is some risk that the steps described above will not be successful in allowing the Company to meet its obligations, which may require the Company to postpone payment of interest on the senior secured notes (note 8), as allowed under the term of the notes; raise equity capital; curtail, reduce or delay expenditures; or seek strategic alternatives to maximize the benefits of the Company's long lived assets.

At June 30, 2010, the Company had working capital of $7.1 million, including cash of $2.7 million, a decrease of $3.5 million from its working capital position of $10.6 million and cash of $5.6 million at December 31, 2009. During the six months ending June 30, 2010, the Company incurred a net loss of $9.7 million (six months ending June 30, 2009 - $4.7 million), and as at June 30, 2010, has a deficit of $70.0 million (December 31, 2009 - $60.3 million). The Company's cash flow and losses continue to be negatively affected by the severe recession in the United States and particularly the low volume of demand for construction aggregates in the Company's main market, California. These circumstances create significant doubt about the Company's ability to continue as a going concern.

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

2. Basis of presentation

These unaudited interim financial statements have been prepared by the Company in accordance with Canadian generally accepted accounting principles for interim financial information using the same accounting policies and methods of application as the annual consolidated financial statements of the Company for the year ended December 31, 2009. These unaudited interim consolidated financial statements do not include all the disclosures required by Canadian generally accepted accounting principles for annual financial statements, and should be read in conjunction with the audited annual financial statements of the Company as at December 31, 2009.

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

Certain comparative figures have been reclassified to conform to the current period presentation.

3. Accounts receivable

(in thousands)	June 30, 2010 $	December 31, 2009 $
Trade receivables	3,249	2,810
Accrued interest	30	29
Income taxes receivable	269	224
Other taxes receivable	94	73
Other non-trade receivables	113	3
	3,755	3,139

4. Inventories

(in thousands)	June 30, 2010 $	December 31, 2009 $
Construction aggregates	3,005	2,060
Components and consumable supplies	518	725
	3,523	2,785

5. Loans and advances

(in thousands)	June 30, 2010 $	December 31, 2009 $
6.5% loan, advanced to a related party, CAD$1,149, unsecured, monthly payments of CAD$14,692 comprising principal and interest, due December 1, 2018	1,079	-
Bridge loan, advanced to a related party, (December 31, 2009 – CAD$4,165)	-	3,963
5.5% loan, secured, monthly payments of principal and interest, due March 1, 2028	4,839	5,028
Other	357	202
Total	6,275	9,193
Less: current portion	(895)	(3,061)
Non-current portion	5,380	6,132

Related party loans

At June 30, 2010, the Company has a loan of CAD$1,149,029, advanced to a related party, an entity in which the Company has a 33.3% ownership interest and was formed as a jointly controlled operation to construct and operate a tugboat for the berthing of freighters at the Orca Quarry. The loan is unsecured and matures December 1, 2018. The loan bears interest at an annual rate of 6.5% from April 1, 2010 to March 31, 2015, and the greater of 6.5% or Prime plus 4% from April 1, 2015 to December 31, 2018. Payments of CAD$14,692, representing principal and interest, are due from the related party on a monthly basis. The loan is carried at amortized cost.

At December 31, 2009, the Company retained a CAD$4,164,830 bridge loan advanced to the related party. The loan was unsecured and repayable upon the related party obtaining refinancing. Two thirds of the principal amount outstanding was classified as current as the related party was in the process of refinancing its obligations. The loan was carried at amortized cost.

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

5. Loans and advances - *continued*

On April 1, 2010, the Company and the other two ownership groups concluded an agreement to refinance on an equal basis the tug construction costs of CAD$3,497,484 included in the bridge loan, and repay the Company the outstanding operating and shareholder loans also included in the bridge loan. Under the terms of the agreement, the other owners have provided long-term loans to the related party of CAD$1,165,828, less CAD$120,000 previously paid, representing each ownership group's 33.33% proportionate share of the financing of the original tug construction costs.

6. Property, plant and equipment

(in thousands)	June 30, 2010			December 31, 2009		
	Cost $	Accumulated depletion or amortization $	Net book value $	Cost $	Accumulated depletion or amortization $	Net book value $
Orca Quarry						
Property, plant and equipment	67,111	(10,436)	56,675	67,769	(9,129)	58,640
Equipment under capital lease	4,851	(1,621)	3,230	4,914	(1,396)	3,518
Exploration properties	1,324	-	1,324	1,339	-	1,339
Richmond Terminal						
Property, plant and equipment	38,719	(4,583)	34,136	39,072	(3,663)	35,409
Head office						
Office equipment	494	(342)	152	500	(296)	204
Leasehold improvements	236	(101)	135	239	(88)	151
Eagle Rock Quarry project						
Property development costs	1,813	-	1,813	1,773	-	1,773
Long Beach Terminal project						
Berth D-44 site development costs	70	-	70	71	-	71
Other terminal projects						
Site development costs	104	-	104	118	-	118
	114,722	(17,083)	97,639	115,795	(14,572)	101,223

7. Accounts payable and accrued liabilities

(in thousands)	June 30, 2010 $	December 31, 2009 $
Trade payables	1,205	1,775
Accrued liabilities	2,036	2,031
Income taxes payable	-	101
	3,241	3,907

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

8. Long-term debt

(in thousands)	June 30, 2010 $	December 31, 2009 $
Senior secured notes at 7.5%, with quarterly interest payments. Principal outstanding of $6.35 million paid in twelve quarterly payments commencing March 31, 2015. Effective yield 10.6%.	5,479	-
Capital lease obligations	2,580	2,974
Total	8,059	2,974
Less: current portion	(750)	(734)
Non-current portion	7,309	2,240

Senior secured notes

On March 26, 2010, the Company issued $6.35 million ($1,000 par value per note) of 7.5% senior secured notes due December 31, 2017 with interest payable quarterly. Repayment of the notes commences on March 31, 2015 with quarterly payments of $525,000, with a final payment of $575,000 on December 31, 2017.

The notes are repayable by the Company, in whole or in part, at its option, at any time without premium or penalty. Mandatory prepayments are required from; certain debt or equity issuances, insurance proceeds, certain asset sales, or upon a change in control. The Company has the right to pay interest in the form of additional notes for a period of up to five years from the issue date.

The notes are secured by a first priority lien over the assets of the Company, including shares of certain subsidiaries. The notes contain certain covenants similar to those found in an arms-length bank financing.

The notes have been classified as financial liabilities measured at amortized cost. The notes are carried net of unamortized discount from par value, which is being amortized by the effective interest method over the life of the notes using an effective rate of 10.6%. For the six months ended June 30, 2010, non-cash accretion of the discount, included in interest on long-term debt, was $25,953 (June 30, 2009 – nil).

9. Other long-term liabilities

(in thousands)	June 30, 2010 $	December 31, 2009 $
Asset retirement obligations	2,268	2,186
Provision for annual minimum freight volume penalty (note 15)	-	1,800
Other	39	44
	2,307	4,030

10. Stock based compensation

Stock options

The Company's stock options at June 30, 2010 and changes for the period are as follows:

	Number outstanding	Weighted average exercise price (CAD$)
December 31, 2008	3,249,595	$9.20
Granted	725,000	$1.97
Exercised	(20,000)	$1.00
Forfeited	(247,000)	$8.84
December 31, 2009	3,707,595	$7.85
Granted	50,000	$1.80
Exercised	(22,500)	$0.78
Forfeited	(206,417)	$8.17
June 30, 2010	3,528,678	$7.79

At June 30, 2010, the following stock options are outstanding and exercisable:

	Options outstanding			Options exercisable		
Exercise prices (CAD$)	Number of options outstanding	Weighted average exercise price (CAD$)	Weighted average remaining contractual life (years)	Number of options exercisable	Weighted average exercise price (CAD$)	Weighted average remaining contractual life (years)
$0.75 - $2.00	1,005,833	$1.73	7.12	564,166	$1.54	5.61
$2.50 - $4.00	345,000	$3.47	3.90	345,000	$3.47	3.90
$4.56 - $5.60	413,345	$4.91	4.53	380,012	$4.94	4.66
$8.69	85,000	$8.69	7.64	63,750	$8.69	7.64
$11.41	555,000	$11.41	2.51	555,000	$11.41	2.51
$13.75	1,124,500	$13.75	7.26	1,124,500	$13.75	7.26
	3,528,678	$7.79	5.84	3,032,428	$8.67	5.38

During the six months ended June 30, 2010, options granted had a total fair value of $49,972 (June 30, 2009 - $19,782) and a weighted average grant-date fair value of $1.00 (June 30, 2009 - $0.79) per option. The options have been valued using the Black-Scholes option pricing model, with the following weighted average assumptions:

	Six months ended June 30, 2010	Six months ended June 30, 2009
Average risk free rate	2.92 %	2.34 %
Expected life	5.30 years	7.00 years
Expected volatility	63.47 %	68.03 %
Expected dividends	-	-

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

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

11. Other gains and (losses)

(in thousands)	Three months ended June 30 2010 $	Three months ended June 30 2009 $	Six months ended June 30 2010 $	Six months ended June 30 2009 $
Gain on investment in ABCP/long-term notes	-	115	-	167
Loss on credit facility	-	-	-	(7)
Gain on accrued property permitting obligation (note 12)	-	-	39	-
Exploration costs written off	-	(116)	-	(116)
Other	16	-	(15)	-
	16	(1)	24	44

12. Joint venture interest

Cemera Long Beach LLC

Cemera Long Beach LLC is a joint venture between the Company and Cemex Inc, to develop a site in the Port of Long Beach, California. The joint venture's 12.4 acre site at Pier B has the potential to accommodate a sand and gravel terminal, an on-site ready mix concrete plant and a crushed rock terminal on commencement of production at the Eagle Rock Quarry. Given the current expectation that it is probable that the Pier B property will be sold in the next twelve months, the Company's proportionate interest of $12,051,600 in the Pier B property costs has been classified as property held for sale.

The following details the Company's proportionate share of the joint venture:

(in thousands)	June 30, 2010 $	December 31, 2009 $
Assets		
Current assets	205	86
Property held for sale	12,052	12,210
Total assets	12,257	12,296
Liabilities		
Current liabilities	215	265
Total liabilities	215	265

(in thousands)	Three months ended June 30 2010 $	Three months ended June 30 2009 $	Six months ended June 30 2010 $	Six months ended June 30 2009 $
Revenue and expenses				
General and administrative expenses	(18)	-	(20)	-
Foreign exchange gain	11	-	19	-
Other gains	-	-	39	-
Net (loss) income	(7)	-	38	-

12. Joint venture interest - *continued*

	Three months ended June 30		Six months ended June 30	
(in thousands)	2010 $	2009 $	2010 $	2009 $
Cash flows				
Operating activities	(24)	29	(162)	20
Investing activities	-	(1,230)	-	(949)
Financing activities	125	1,193	200	928
Increase (decrease) in cash	101	(8)	38	(1)

13. Supplemental cash flow information

	Three months ended June 30		Six months ended June 30	
(in thousands)	2010 $	2009 $	2010 $	2009 $
Changes in non-cash working capital items				
Accounts receivable	454	(851)	(307)	53
Inventories	(498)	934	(808)	(846)
Prepaid expenses and other	201	187	329	382
Accounts payable and accrued liabilities	(554)	(212)	(566)	(848)
	(397)	58	(1,352)	(1,259)
Interest and taxes paid				
Interest paid	167	140	221	238
Income taxes paid	34	48	170	189
Significant non-cash investing and financing activities				
Property, plant and equipment in accounts payable and accrued liabilities	8	373	8	373

14. Related party transactions and balances

During the three months ended June 30, 2010, directors and/or an officer of a subsidiary company, either directly or through a company controlled by them, provided services to the Company at a cost of $102,735 (June 30, 2009 - $72,533). During the six months ended June 30, 2010, directors and/or an officer of a subsidiary company, either directly or through a company controlled by them, provided services to the Company at a cost of $208,862 (June 30, 2009 - $152,566). At June 30, 2010, trade payables include $30,364 (December 31, 2009 - $31,445) due to the related parties.

During the three months ended June 30, 2010, a related party (note 4) provided tug berthing services to the Company at a cost of $267,435 (June 30, 2009 - $336,485). During the six months ended June 30, 2010, the related party provided tug berthing services to the Company at a cost of $651,195 (June 30, 2009 - $505,906). At June 30, 2010, trade payables include $175,475 (December 31, 2009 - $851,678) due to the related party.

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

15. Commitments and contingencies

Shipping Tonnage

During the six months ended June 30, 2010, the Company restructured its shipping arrangements whereby the Company's two shipping contracts (CoA-1 and CoA-2) were amended and amalgamated into a single revised Contract of Affreightment ("NCoA") which is effective from January 1, 2010 with a term of 20 years. The Company paid a contract restructuring fee comprised of a cash payment upon signing of $500,000 and issuance of $6,350,000 in senior secured notes (note 8). The cash payment of $500,000 and the fair value of the notes, of $5,453,480, have been expensed in the first quarter of 2010. Under NCoA, potential annual minimum freight volume penalties incurred under CoA-1 have been cancelled. Due to the restructuring, the $1,800,000 annual minimum freight volume penalties accrued in 2009 have been reversed through cost of goods sold in 2010 (note 9).

The NCoA requires the Company to ship minimum tonnages per year, commencing on January 1, 2010, 1,543,000 short tons escalating to 5,787,000 short tons per annum over seven years. The Company has the option in any given year to increase or decrease the annual commitment by 10% without penalty. Failure by the Company to ship its annual cargo commitment will result in a dead-freight charge equal to 75% of the freight rate for the unshipped tons. During the three months ended June 30, 2010, the Company accrued $295,000 for penalties associated with the annual minimum volume requirement.

Lease agreement

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

16. 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 months ended June 30		**Six months ended June 30**	
(in thousands)	**2010 $**	**2009 $**	**2010 $**	**2009 $**
Customer A	2,415	2,560	5,335	3,965
Customer B	1,200	2,053	2,424	3,365
Customer C	420	1,291	829	1,291

Sales by geographic area are as follows:

	Three months ended June 30		**Six months ended June 30**	
(in thousands)	**2010 $**	**2009 $**	**2010 $**	**2009 $**
United States	4,352	5,904	8,922	8,621
Canada	371	313	685	521
	4,723	6,217	9,607	9,142

16. Segmented financial information - *continued*

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

(in thousands)	June 30, 2010	December 31, 2009
	$	$
United States	34,310	36,210
Canada	63,329	65,013
	97,639	101,223

17. Financial instruments

The classification, carrying amounts, and the related balance sheet item of each financial instrument are as follows:

(in thousands)	June 30, 2010	December 31, 2009
Financial assets "Held-for-trading"		
Cash	2,657	5,642
Financial assets "Held-to-maturity"		
Security deposits, included in other long-term assets	1,125	1,179
Loans and receivables		
Accounts receivable	3,392	2,842
Loans and advances (note 5)	6,275	9,193
Other financial liabilities		
Accounts payable and accrued liabilities	3,241	3,806
Senior secured notes (note 8)	5,479	-

At June 30, 2010, all of the Company's financial instruments are recorded on the balance sheet at amortized cost with the exception of cash.

(US dollars, except where noted)
(Unit of weight is US short tons)

Management's Discussion and Analysis
Quarter Ending June 30, 2010

The following discussion and analysis of the financial condition and operations of Polaris Minerals Corporation (the "Company" or "Polaris") has been prepared by management as of August 6, 2010, and should be read in conjunction with the Company's unaudited interim consolidated financial statements for the three and six months ended June 30, 2010, as well as the audited consolidated annual financial statements for the year ended December 31, 2009, which have been prepared in accordance with Canadian generally accepted accounting principles. This Management's Discussion and Analysis contains "forward-looking statements" that are subject to risk factors set out in a cautionary note contained herein. All amounts are in United States dollars unless otherwise noted.

Highlights

- **Revenue for the first 6 months of 2010 increased 5.1% on sales volumes which increased by 3.9% compared with the same period in 2009.**
- **Entered into a 5 year lease, which is extendable to 20 years, over the 8.3 acre Berth D-44 site in the Port of Long Beach previously held under option.**
- **Adjusted EBITDA for the quarter and six months ended June 30, 2010 and 2009 has remained consistent.**
- **California customer requirements for the second 6 months of 2010 remain flat, a reflection of the failure of the economic stimulus measures to produce the anticipated positive impacts on construction activity in northern California.**

Results of Operations

The Company incurred a net loss of $3.2 million ($0.06 per share) in the quarter compared to a net loss of $3.3 million ($0.06 per share) in the comparative quarter in 2009. The net loss for the three month period is mainly attributable to a continuing low level of sales and, consequently, production tonnage. During the six months ended June 30, 2010, the Company incurred a net loss of $9.7 million ($0.18 per share) compared to a loss of $4.7 million ($0.09 per share) in the comparative quarter in 2009. The loss for the six month period was negatively impacted by a one-time net charge of $4.2 million consisting of a $6.0 million charge for restructuring the Company's shipping contracts offset by the reversal of provisions of $1.5 million made in 2009 for potential penalties under the Company's original shipping contract (see Contractual Obligations, Commitments and Contingencies).

Revenue for the quarter decreased 24% to $4.7 million, compared with $6.2 million in the prior year, on sales of 344,000 tons a 29% decrease from sales of 487,000 tons in the prior year. Revenue for the six months ended June 30, 2010 increased 5.1% to $9.6 million from $9.1 million in the prior year. Sales in the first six months of 2010 increased by 3.9% to 720,000 tons compared with sales of 693,000 tons for the prior year.

(000's)	**Three months ended June 30, 2010**		Three months ended June 30, 2009		**Six months ended June 30, 2010**		Six months ended June 30, 2009	
	Tons	**$**	Tons	$	**Tons**	**$**	Tons	$
Sales	**344**	**4,723**	487	6,217	**720**	**9,607**	693	9,142
Gross loss		**(1,942)**		(342)		**(1,451)**[(1)]		(746)
Gross loss per ton		***(5.65)***		*(0.70)*		***(2.02)***		*(1.08)*

(1) Includes reversal, on a net basis, of $1.5 million of the provision for annual minimum freight volume penalties.

For the three and six month periods ended June 30, 2010, the Company incurred a gross loss of $1.9 million and $1.5 million, respectively, compared with $0.3 million and $0.7 million, respectively, in 2009. The increased losses for the three and six month periods are principally the result of increased shipping fuel surcharges in the period, compared with the first half of 2009, and increased quarry costs due to a strengthening Canadian dollar. The impacts were partially offset by increased average sales prices pre-shipping fuel surcharge price adjustments and changing proportions of tonnage delivered to California terminal locations. Gross loss for the three months was also impacted by a $0.3 million accrual for potential annual minimum volume shipping penalties, however, the six month period benefited from the reversal of the 2009 provision, on a net basis, of $1.5 million.

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

Shipping Fuel Surcharges

The Company's two major supply agreements in northern California were amended at the beginning of 2009 so that the Company absorbs changes in the cost of shipping fuel during a quarter and then passes the cost, or benefit, through to the customer during the following quarter. Prior to this amendment the fuel surcharge recovery had been made on an annual, rather than quarterly, basis. The commencement selling prices to both customers reflected actual fuel costs at the time of entering into the contracts.

The Company's sensitivity to changes in fuel prices is as follows: for every $10 movement per metric tonne in the price of IFO180/380, the main fuels used in shipping, the Company's delivered price is impacted, positively or negatively, by approximately 3.6 cents per ton.

Other Charges

During the three months ended June 30, 2010, selling, general and administrative expenses were $1.5 million, compared with $1.4 million in the same period for 2009. During the six months ended June 30, 2010, selling, general and administrative expenses were unchanged compared with the same period for 2009. The increase is principally due to increased professional fees as the Company transitions to International Financial Reporting Standards and increased legal fees in relation to the CSL contract restructuring.

The majority of the Company's sales, and shipping costs, are denominated in US dollars. Costs at the Orca Quarry are incurred in Canadian dollars and as such are susceptible to fluctuations in foreign exchange rates upon reporting. Sales into Vancouver, BC, which are denominated in Canadian dollars, offset a portion of the cash costs of production at the Orca Quarry and provide a partial hedge to the Company. Additionally, fixed quarry costs per ton fluctuate significantly with the level of production.

Segmented Analysis

The Company operates in one segment: the development and operation of construction aggregate properties and projects located in North America. See "Segmented Financial Information" (note 16) in the Company's June 30, 2010 financial statements for analysis of its customers and geographic segments.

Summary of Quarterly Results

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

($000's)	**2010**		2009				2008	
	June 30	Mar 31	Dec 31	Sept 30	June 30	Mar 31	Dec 31	Sept 30
Revenue	**4,723**	4,884	5,168	4,522	6,217	2,925	7,459	9,002
Loss from operations	**(3,563)**	(6,758)[1]	(3,547)[2]	(4,707)[2]	(1,784)	(1,923)	(2,742)	(2,789)
Net loss for the quarter	**(3,237)**	(6,505)[1]	(7,894)[2]	(5,230)[2]	(3,337)	(1,397)	(2,159)	(3,241)
Basic and diluted net loss per share	**(0.06)**	(0.12)	(0.15)	(0.10)	(0.06)	(0.03)	(0.05)	(0.09)
(000 Tons)								
Sales	**344**	376	391	336	487	206	608	694
Aggregate production	**360**	503	372	259	432[3]	444	338[4]	706

(1) Three months ended March 31, 2010 includes a reversal of the $1.8 million provision for potential annual minimum volume penalties under the Company's original shipping contract (see Contractual Obligations, Commitments and Contingencies).

(2) Three months ended September 30, 2009 includes a $1 million provision and the three months ended December 31, 2009 includes an additional $800,000 provision, for potential annual minimum volume penalties under the Company's original shipping contract (see Contractual Obligations, Commitments and Contingencies).

(3) An independent measurement of inventories at June 30, 2009 verified that the procedure for accounting for moisture losses implemented in 2009 was effective and no adjustments to recorded inventory were required.

(4) Net of 325,000 tons adjustment to yearend inventory.

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

Liquidity and Capital Resources

Working Capital

At June 30, 2010, the Company had working capital of $7.1 million, including cash of $2.7 million, compared to working capital of $10.6 million and cash of $5.6 million at December 31, 2009. The Company expects to strengthen its balance sheet through the sale of the freehold land on Pier B in the Port of Long Beach, California, which is presently being offered for sale, with net cash proceeds anticipated to be between approximately $12 million and $15 million. Because the timing for receipt of these funds is uncertain, the Company is actively pursuing options that could be available to meet short term cash requirements and bridge any shortfall. The funds to be received from the Pier B sale are presently anticipated to be sufficient to carry the Company through to a point where it generates free cash flow from the existing operations through a recovery in market demand for its products.

Operating, Financing and Investing Activities

For the three months ended June 30, 2010, cash used was $1.0 million compared with cash used of $1.7 million in the three months ended June 30, 2009. For the six months ended June 30, 2010, cash used was $3.0 million compared with cash used of $2.4 million in the six months ended June 30, 2009.

Operating activities, including non-cash items and non-cash working capital, used cash of $2.3 million in the six months ended June 30, 2010, compared to cash used of $1.2 million in the comparative period for 2009. Cash used in operations included the $0.5 million cash payment to CSL upon the restructuring of the Company's shipping contracts, $1.1 million to finance increased sales. At the end of the quarter inventories were 560,000 tons compared with 414,000 tons at December 31, 2009.

Investing activities during the six months ended June 30, 2010 strengthened the Company's cash position when the Company's joint venture partners in a related party provided loans to the joint venture, allowing it to repay to the Company $2.1 million of the $4.0 million bridge loan made to finance the building of the berthing tug which operates at the Orca Quarry. The Company expended $0.5 million on property, plant and equipment in the six months ended June 30, 2010 compared with $2.3 million in 2009. The 2010 expenditure relates mainly to payments for the installation of a second truck loadout system at the Richmond Terminal, completed in this first quarter of 2010, and for permitting costs on the Pier B property incurred in 2009. The 2009 expenditures related mainly to the completion of the installation of a second crusher at the Orca Quarry, permitting of the Pier B property, the feasibility study of the Eagle Rock Quarry and improvements to the load-out facilities and storage at the Richmond Terminal.

The Company may need to obtain additional financing to develop further terminals and the Eagle Rock Quarry, depending on satisfactory market evaluation.

Contractual Obligations, Commitments and Contingencies

Shipping Tonnage

During the six months ended June 30, 2010, the Company restructured its shipping arrangements whereby the Company's two shipping contracts of affreightment (CoA-1 and CoA-2) were amalgamated into a single amended and restated Contract of Affreightment ("NCoA") which is effective from January 1, 2010, with a term of 20 years. The Company paid a contract restructuring fee comprised of a cash payment upon signing of $500,000 and the issuance of $6.35 million in 7.5% senior secured notes maturing December 31, 2017. The cash payment of $500,000 and the fair value of the notes, of $5,453,480, have been expensed in the first quarter of 2010. The restructuring cost for NCoA included settlement of any potential annual minimum freight volume penalties under CoA-1. Due to the restructuring, the $1,800,000 potential minimum freight volume penalties accrued in 2009 have been reversed in the six months ended June 30, 2010.

NCoA requires the Company to ship minimum tonnages per year, commencing on January 1, 2010, of 1,543,000 short tons escalating to 5,787,000 tons per year over seven years. The Company has the option in any given year to increase or decrease the annual commitment by 10% without penalty. Failure by the Company to ship its annual cargo commitment will result in a dead-freight charge equal to 75% of the freight rate for the unshipped tons. During the three months ended June 30, 2010, the Company accrued $295,000 for penalties associated with the annual minimum volume requirement as a result of the failure of the economic stimulus measures to produce the anticipated positive impacts on construction activity in northern California on which the revised minimum tonnages were based.

Lease agreement

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

There is a full discussion and description of the Company's contractual obligations, commitments and contingencies in the 2009 management discussion and analysis.

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 loss may not be comparable to other similarly titled measures of other companies.

($000's, except per share amounts)	**Three months ended June 30,**		**Six months ended June 30,**	
	2010	2009	**2010**	2009
Net loss for the quarter	**(3,237)**	(3,337)	**(9,741)**	(4,734)
Adjustments				
Provision (reversal) of for annual minimum volume penalties	**295**	-	**(1,506)**	-
Stock based compensation	**107**	133	**147**	275
Shipping contract restructuring costs	**-**	-	**5,991**	-
Other gains and losses	**16**	(115)	**(24)**	(160)
Adjusted net loss for the year	**(2,819)**	(3,319)	**(5,133)**	(4,619)
per share	***(0.05)***	*(0.06)*	***(0.10)***	*(0.09)*

EBITDA and Adjusted EBITDA

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

($000's except per share amounts)	Three months ended June 30,		Six months ended June 30,	
	2010	2009	**2010**	2009
Net loss for the quarter	**(3,237)**	(3,337)	**(9,741)**	(4,734)
Interest	**192**	152	**247**	274
Current income tax expense	**9**	49	**74**	68
Amortization, depletion and accretion	**1,478**	1,305	**2,770**	2,269
EBITDA	**(1,558)**	(1,831)	**(6,650)**	(2,123)
per share	***(0.03)***	*(0.03)*	***(0.12)***	*(0.04)*
Adjustments				
Reversal of provision for annual minimum volume penalties	**-**	-	**(1,506)**	-
Stock based compensation	**107**	133	**147**	275
Shipping contract restructuring costs	**-**	-	**5,991**	-
Other gains and losses	**16**	(115)	**(24)**	(160)
Adjusted EBITDA	**(1,435)**	(1,813)	**(2,042)**	(2,008)
per share	***(0.03)***	*(0.03)*	***(0.04)***	*(0.04)*

Overview of the Company, Operations and Outlook

Recent Developments

Sales of the Company's construction aggregates in the second quarter of 2010 were 344,000 tons compared to 487,000 tons in the previous year. However, sales for the first half of the year totalled 720,000 tons, an increase from the 693,000 tons sold in the first half of 2009. It is difficult to draw conclusions from individual quarters, especially during the winter period, when weather and seasonal factors vary significantly year to year. However, the effectively static sales for the first half of 2010 compared with the same period in 2009 are a clear indication that the economic recession is still continuing and that the various stimulus measures implemented by federal and state governments have yet to impact demand in the Company's primary market. On March 31, 2010 the House Transportation and Infrastructure Committee reported to Congress in the United States that California had spent only 12% of the stimulus funds allocated to it under the American Recovery and Reinvestment Act of 2009 ("ARRA"). This lacklustre start is reflected in the markets and the most likely interpretation is that it represents a priority for expenditure on the design and planning for major projects which are expected to benefit the market significantly in 2011.

On February 17, 2009, President Obama signed a $787 billion economic stimulus package designed to provide immediate relief to the beleaguered US economy. Specifically included in the package was $48 billion in new transportation investments, of which California was to receive $3.9 billion for investment in highways and bridges, transit capital, fixed guideway modernization and clean water. The perilous state of California's budget financing, however, diminished the immediate benefits of the stimulus spending. At the federal level, the failure of Congress to reauthorize the multi-year highway funding bill, known as SAFETEA-LU, has created further uncertainty amongst state transportation departments regarding spending authorities as they move into 2010. In January 2010, the Senate approved a one year $1.1billion spending bill that includes a slight increase in highway funding. On March 18th, 2010 President Obama signed into law a Senate bill referred to as the "HIRE ACT" or more popularly referred to as the "jobs bill". This bill provided for $17.5 billion to help create employment and also included the transfer of $19.5 billion into the Highway Trust Fund as restoration of the funding rescission that took effect when SAFETEA-LU expired on September 30, 2009. This highway funding is for the period to December 31, 2010 by which time a Multi-Year Surface Transportation Authorization Bill, so vital to the construction economy will hopefully be in place. On May 28, 2010, The House of Representatives approved legislation that would provide $510 million in additional highway funding. The bill also contained an extension of Build America Bonds, which were created by the ARRA. Demand for construction aggregates is significantly higher per dollar of expenditure through infrastructure projects than in residential construction. Action taken at both federal and state levels during 2009 was intended to be the financial catalyst to reverse the unprecedented decline in the present economic cycle and signs of resurgence may be

emerging in the construction aggregates market in California as government stimulus funds begin to be released. In many states, relatively simple projects, such as road resurfacing, were the first "shovel ready" projects to get underway and with some larger, more complex infrastructure projects being approved to proceed. However the time required to build momentum in major infrastructure projects is such that significant benefits in aggregate demand will not occur until 2011 and thereafter.

Quarry Properties

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

The Company has also explored additional lands in the Orca Quarry area, over which it has certain rights, referred to as the East Cluxewe Extension and West Cluxewe deposits. After due consideration of the resource, environmental and permitting factors relative to these areas, the Company has decided to make the East Cluxewe Extension deposit, which is contiguous with its current operations, the first priority to be followed by the West Cluxewe deposit.

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

Marine Terminals

Despite having commenced production in 2007 the Company is still at a relatively early stage of development. Significant management time and expense is being devoted to developing additional marine receiving terminals in key markets which will be essential in reaching optimum economies of scale and profitability. Opportunities to develop suitable marine terminals are scarce and access, whether through owned and operated or third party facilities, is a key component in the logistical chain. The Company currently delivers construction aggregate to four terminals in San Francisco Bay. The Richmond Terminal, owned and operated by the Company, has a permitted capacity of 1.5 million tons per year and serves the north and east Bay areas. The Redwood City terminal in southwest San Francisco Bay and the Pier 92 terminal near downtown San Francisco are owned and operated by the Company's strategic alliance partner, Cemex, Inc. ("Cemex") having a combined annual capacity of over 1.5 million tons. The Landing Way Depot, on the Petaluma River in Sonoma County, owned and operated by Landing Way Depot, Inc., has an annual capacity of approximately 1.25 million tons and serves the requirements of Shamrock Materials Inc.

The Company's strategic objectives include the development of marine terminals in southern California. To further this objective, the Company, together with Cemex, formed a joint venture company, Cemera Long Beach, LLC, to develop a marine aggregates terminal in the Port of Long Beach, California. Cemera Long Beach, LLC, owns a 12.4 acre parcel of freehold land in the Port of Long Beach, California, known as Pier B. This land was acquired with the intention of developing a major receiving and distribution terminal for aggregates from the Company's quarry properties. However, in the third quarter of 2009, the Company secured an option to lease an existing marine aggregate importing terminal also in the Port of Long Beach, California. The 8.3 acre site is privately owned and has operated for many years receiving construction aggregates from barges with storage in open stockpiles. The site, which is permitted to receive and distribute up to 3 million tons of construction aggregates per year, is located on a deepwater channel and is close to Interstate 710, which services the greater Los Angeles area.

Following satisfactory due diligence, the Company entered into a Lease on July 1, 2010 which has an initial five year term with three, five year, options to extend the term at the Company's request. The Company believes that, subject to receipt of certain variations to the existing Development Permit, operations could commence in 2012. The sale process for the Pier B land is continuing and a net benefit to the Company's cash resources of between $12 million and $15 million is anticipated upon completion.

The Company, through its jointly owned subsidiary company, Cemera San Diego, LLC, is also pursuing an opportunity in the Port of San Diego for the development of a marine aggregate terminal to service the San Diego

market, which has significant aggregate supply deficiencies. On August 4, 2009, The Port of San Diego granted Cemera San Diego, LLC, an exclusive negotiating agreement (the "ENA") for an option to lease and develop an approximate 100,000 square foot building located at the Tenth Avenue Marine Terminal in San Diego for the purpose of receiving and distributing aggregates. On February 28, 2010, the ENA expired; however, the Port of San Diego issued a comfort letter in succession to the ENA and the parties continue to negotiate in good faith to agree on the terms of the option to lease. The Company expects to advance this opportunity over the next two years.

Markets

The Company's primary target markets continue to be the major urban centers along the west coast of North America, where new replacement resources are very difficult to permit. The Company currently sells sand and gravel into three distinct markets: the San Francisco Bay area, Hawaii and Vancouver, BC. Local production of construction aggregate has been diminishing in each of these markets as operating quarries are depleted, albeit at a reduced rate during this recessionary period. Longer and more costly overland trucking to consumers is required to meet local supply shortfalls, creating a market opportunity for the Company to competitively ship high quality construction aggregate in large ocean-going bulk carriers or, in the case of Vancouver, in customer contracted barges.

The California market has experienced an unprecedented reduction in demand, from a peak of 230 million tons in 2006 down to 141 million tons in 2009, an unprecedented of drop of 39%. A further 13% reduction was recorded in the first quarter of 2010 compared with the same quarter of 2009 (Source: *US Geological Survey*). Historically, public spending and private investment have been counter-cyclical. However, the significant decline in private spending, exacerbated by the current credit squeeze, out-paced the effect of any ramp-up of large infrastructure projects, thus creating the significant reduction in the overall demand. The federal and state stimulus packages, announced in early 2009, are beginning to increase the demand for construction aggregates in 2010 which the Company expects to accelerate through 2011, although a return to 2006 levels of demand is not expected until 2015. (Source: *Portland Cement Association 2009 Conference on the State of the US Cement Industry*). The anticipated recovery in 2011 will result from increased infrastructure expenditure and some small recovery in private housing activity. Unfortunately private commercial investment is not expected to contribute to further growth until 2012.

The combination of dwindling supplies and relatively stable demand for construction aggregate in Hawaii made this market favourable for the Company's products. The Hawaiian market has also experienced a reduction in demand, although the High-Capacity Transit Corridor (light rail system) infrastructure project in Honolulu, and continuing military spending, may reduce the impact of this slowdown. The reducing supply of locally available construction aggregate, particularly sand and the relatively poor quality of the coarse aggregate, should enable the Company to gradually increase sales of Orca materials into Hawaii when the market recovers.

The demand for Orca materials into Vancouver are beginning to increase as federal and provincial government stimulus spending begins to impact construction activity particularly in the lower mainland of British Columbia.

Shipping

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

On arrival in San Francisco Bay, CSL's vessels are partially unloaded while at anchor ("lightered") into barges provided by Shamrock Materials Inc. under the terms of a twenty-year aggregate supply agreement, or onto a barge operated by an independent towing contractor on behalf of Cemex. After lightering, the balance of the cargo may be unloaded at an existing terminal operated by Cemex at Redwood City or at the Company's Richmond Terminal. These arrangements offer the most economic shipping solution by utilizing fully loaded Panamax vessels from Vancouver Island to San Francisco Bay. However, the continuing decline in demand in construction aggregates in 2009 has had the effect of slowing the Company's previously anticipated rate of growth and created situations where individual ship dead freight costs have been incurred, most recently during 2009. This was not the case in 2008 and it is anticipated that a return to previous levels of demand for Orca Quarry products in northern California would again maximize shipping efficiency.

A serious consequence of this unprecedented decline in the California construction market was that the Company was unlikely to meet its contractual shipping commitments commencing with the third contract year ending July 17, 2010 and as a result, the Company entered into negotiations with its exclusive shipper, CSL, to restructure its contractual commitment. These negotiations were concluded in March 2010. (See: *"Contractual Obligations, Commitments and Contingencies")*

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

Customers

The Strategic Alliance formed with Cemex in 2007, coupled with the Shamrock Supply Agreement, represent the cornerstone of the Company's long term growth plans and supports progress toward the permitted production of 6.6 million tons per year from the Orca Quarry. Shamrock and Cemex together currently account for approximately 80% of the Company's sales.

Cemex is a Mexican public company and one of a small number of major international cement producers, as well as a major producer of construction aggregate and ready mixed concrete. The Company maintains a close working relationship with Cemex management. Shamrock Materials is a well established private company and close relations are maintained with the principals.

The Company has supply contracts with customers in Hawaii and Vancouver, BC both of which are substantial private companies with whom management maintains close relationships.

As a consequence of the Company's four purchase and supply contracts, the Company's base selling prices, net of recovered shipping fuel surcharges, remained stable throughout 2009 and during the first quarter of 2010. The Hawaiian contract is linked to a Producer Price Index which has short term fluctuations whereas the British Columbia pricing is affected upon translation by the Canadian dollar exchange rate although the underlying rate has not declined.

Sales and Seasonality

Although the Company's sand and gravel quarry operates year-round, seasonal changes and other weather related conditions can 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 also sensitive to market conditions and particularly to cyclical swings in construction spending. Sales related to construction projects delayed by poor weather tend to be recovered as projects accelerate to meet deadlines in the following periods. Historically, the highest sales are achieved in the summer (second and third quarters) of any year and the lowest realized in the winter (first and fourth quarters) when construction activity may be impacted by adverse weather.

Related Party Transactions

During the three months ended June 30, 2010, directors and/or an officer of a subsidiary company, either directly or through a company controlled by them, provided services to the Company at a cost of $102,735 (June 30, 2009 - $72,533). During the six months ended June 30, 2010, directors and/or an officer of a subsidiary company, either directly or through a company controlled by them, provided services to the Company at a cost of $208,862 (June 30, 2009 - $152,566). At June 30, 2010, trade payables include $30,364 (December 31, 2009 - $31,445) due to the related parties.

During the three months ended June 30, 2010, a related party (note 4) provided tug berthing services to the Company at a cost of $267,435 (June 30, 2009 - $336,485). During the six months ended June 30, 2010, a related party (note 4) provided tug berthing services to the Company at a cost of $651,195 (June 30, 2009 - $505,906). At June 30, 2010, trade payables include $175,475 (December 31, 2009 - $851,678) due to the related party.

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

Critical Accounting Policies and Estimates

The Company's accounting policies are described in Note 1 to the December 31, 2009 audited consolidated financial statements. Both the accounting polices used and the estimates made by management can impact the consolidated financial statements. The Company considers the accounting policies and estimates for; inventories, property plant and equipment, the impairment of long-lived assets, the fair value of financial instruments, asset retirement obligations, stock-based compensation, income taxes, and the translation of foreign currency to be significant. There is a full discussion and description of the Company's critical accounting estimates in the 2009 management discussion and analysis.

Convergence with International Financial Reporting Standards

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

The Company's IFRS conversion project consists of three phases: assessment, design and implementation. The Company, with the assistance of its qualified third party advisor, has completed the diagnostic assessment phase ("phase 1") by performing comparisons of the differences between CGAAP and IFRS as they affect the Company's accounting policies, systems and processes and other areas of the business. This assessment has provided insight on the high impact and complex areas relating to the conversion. These areas include:

<u>The Effects of Changes in Foreign Exchange Rates</u>
The Company's reporting currency is the United States dollar. The functional currency of the parent Company is the Canadian dollar and certain subsidiaries of the Company are integrated. These subsidiaries rely on the parent company to obtain and finance for their operations. The concept of integrated and self-sustaining foreign operations does not appear under IAS 21 – *The Effects of Changes in Foreign Exchange Rates*. IFRS requires companies to identify the "functional currency" of the reporting entity and of each of its foreign operations.

<u>Property, Plant & Equipment</u>
CGAAP allows components of plant and equipment to be capitalized as a single asset if allocation to separate classifications is impractical. Costs incurred subsequent to the initial purchase are capitalized when they constitute 'betterment', defined as either: increased production capacity, extension of useful life or when associated operating costs are reduced. Otherwise, these costs are expensed. Under IFRS, costs incurred for plant and equipment on initial recognition are allocated to significant components, capitalized and depreciated separately over the estimated useful lives of each component. Costs incurred subsequently are capitalized when it is probable that future economic benefits will flow and the costs can be measured reliably. Upon capitalization, the carrying amount of components replaced, if any, are derecognized. The Company expects to record an opening IFRS balance sheet adjustment at January 1, 2010 to reflect the retrospective componentization of its terminals and accounting for costs incurred subsequent to initial purchases in accordance with IFRS.

<u>Impairment of Assets; Provisions</u>
Under IFRS, both the testing for impairment of assets and the determination of impairment losses differ from CGAAP. IFRS dictates an entity must assess assets for impairment indicators each reporting period, CGAAP only has a passive requirement to make such an assessment. The requirement for testing goodwill and indefinite life intangibles remains unchanged with an annual impairment test performed, regardless of whether impairment indicators exist. IFRS removes the undiscounted cash flow test under CGAAP for impairment testing, and instead uses a one-step process based on discounted cash flows. In addition, impairment losses are required to be assessed for reversal or reduction under IFRS, if certain criteria are met. Management will have to track both impaired and unimpaired balances over the life of each asset. The reversal of impairment losses related to goodwill is prohibited under both CGAAP and IFRS.

<u>Provisions, Contingent Liabilities and Contingent Assets (including Asset Retirement Obligations)</u>
IFRS does not have a standard that deals specifically with closure costs but applies the general principles set out in IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*. The closure provision is measured based on the best estimate of expenditure required to settle the obligation at the balance sheet date using current discount rate and inflation assumptions; thus simplifying the calculation by removing the layering concept used for CGAAP. In addition, IFRS requires that the liability be re-measured at each reporting date versus the passive requirement in CGAAP to re-measure in the event of changes in the amount or timing of cash flows required to settle the obligation.

<u>Interest in Joint Ventures</u>
Under IAS 31 - *Interests in Joint Ventures*, the Company has the option to account for its interests in a jointly controlled berthing tug operation and the Cemera Long Beach LLC joint venture using proportionate consolidation. The IASB issued Exposure Draft 9 – *Joint Arrangements* ("ED-9") in September 2007, which proposed to eliminate the choice to proportionately consolidate jointly controlled entities and required such entities to be accounted for using the equity method. The new IFRS standard was originally planned for issuance in the third quarter of 2009 but has not yet been issued. During 2009, the IASB commenced re-deliberations of ED-9 and now proposes to allow

proportionate consolidation of a jointly controlled entity if the agreement between joint venture partners indicate that the rights of each joint venture partner to the assets and net earnings of the joint arrangement, and obligations of each joint venture partner to the risks and liabilities of the joint arrangement are in proportion to their respective interests in the joint arrangement. A final IFRS is expected to be issued by the IASB in 2010.

Share-based Payments

Under IFRS 2 share based payments effected through employee share purchase plans are within the scope of the share-based payment standard and any discount provided to employees is recognized as compensation. CGAAP allows employee share purchase plans to be outside the scope of the stock-based compensation standard when certain conditions are met.

Related Party Disclosure

IFRS and CGAAP are similar in that related parties are those with control or significant influence in the Company, including key management and close family members. The two differ with regards to disclosure requirements, with IFRS being more extensive. Under IFRS disclosure of related party relationships between a parent and its subsidiaries is required even if there have been no transactions between them and key management compensation must also be disclosed.

IFRS 1 – First-time adoption of International Financial Reporting Standards (“IFRS 1”)

IFRS 1 First-time Adoption of International Financial Reporting Standards outlines guidance for a first-time adopter with the objective to ensure that an entity’s first IFRS financial statements contain information that:

- Is transparent for users and comparable over all periods presented;
- Provides a suitable starting point for accounting under IFRSs; and
- Can be generated at a cost that does not exceed the benefits to users.

Transition to IFRS requires retrospective application of accounting policies adopted with all adjustments applied from the date of the Company’s inception. IFRS 1 allows certain exemptions from retrospective application. In the absence of an exemption, all such adjustments to assets and liabilities are taken to retained earnings. The Company has elected to apply the following exemptions to its first IFRS financial statements:

(i) Recognizing the cumulative translation differences from translating foreign operations previously recorded in AOCI in retained earnings at January 1, 2010;

(ii) Not re-measuring stock-based compensation expense relating to stock options and restricted share units granted prior to November 7, 2002 and those granted after November 7, 2002 but have vested as at January 1, 2010;

(iii) Not applying the recognition and measurement principles of IFRIC 1 – *Changes in Existing Decommissioning, Restoration and Similar Liabilities* for changes in such liabilities that occurred prior to January 1, 2010; and instead measuring the Company’s reclamation and closure cost obligations at fair value on January 1, 2010, estimating the decommissioning liability as at the date of transition to IFRS in accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets.* The Company will estimate the amount that would have been included in the cost of the related asset, as well as the accumulated depreciation up until the date of transition;

(iv) Not accounting for any business combinations that occurred prior to January 1, 2010, using the principles of IFRS 3 – *Business Combinations*;

(v) Designating the date of transition, January 1, 2010, as the date to apply the transitional provisions set out in IAS 23 *Borrowing Costs*. The capitalization of borrowing costs related to all qualifying assets will commence from this date onwards;

(vi) Taking the IFRIC 4 exemption and assessing whether an arrangement contains a lease on the basis of facts and circumstances existing at the date of transition to IFRS. The Company will not reassess the determination of whether an arrangement contains a lease under IFRS if the determination made under CGAAP gives the same outcome as that from the application of IAS 17 *Leases* and IFRIC 4 *Determining Whether an Arrangement Contains a Lease*.

Phase 2 involves the design of business, reporting and system processes to support the compilation of data to enable the Company to produce IFRS compliant data for the opening balance sheet date of January 1, 2010 and thereafter. The extent of the impact on the Company's information systems for transitioning to IFRS has been assessed during phase 1 and modifications are being considered as part of phase 2. Adoption of IFRS will not have a significant impact on the Company's information systems and with the assistance of our third party advisor we are in the process of designing and implementing changes for an efficient conversion to IFRS.

The Implementation stage ("phase 3") involves ongoing training for key personnel in both financial and operating capacities, required changes to the Company's internal control environment, completion of formal authorization processes to approve recommended accounting policy changes, and disclosure controls and procedures. Phase 3 will continue to be conducted throughout 2010 in anticipation for transition in 2011.

The Company is currently assessing the effects of adoption and finalizing its conversion plan under phase 2. The Company continues to focus on analyzing and developing implementation strategies and processes for the key IFRS transition issues identified. Where applicable, key IFRS transition alternatives are being considered and evaluated. The International Accounting Standards Board ("IASB") has a number of active agenda topics, which will add to, amend or replace current standards and interpretations. The Company continues to monitor the IASB activities, and amend its transition plan. The Company continues to perform preliminary accounting assessments on less critical IFRS transition issues and has commenced analysis of IFRS financial statement presentation and disclosure requirements. These assessments will need to be further analyzed and evaluated throughout phase 3, implementation of the Company's project. At this time, the impact on the Company's financial position and results of operations is not determinable or estimable.

Control activities: Internal control over financial reporting
The required accounting process changes that result from the application of IFRS accounting policies are not anticipated to be significant. The Company will complete the design, implementation and documentation of the internal controls over accounting process changes that result from the application of IFRS accounting policies in the second half of 2010.

Control activities: Disclosure controls and procedures
All accounting policy changes from the transition to IFRS and the corresponding adjustments to the financial statements will be subject to review by senior management and approval by the audit committee of the board of directors.

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

Financial Instruments and Related Risk

The classification and amounts of each financial instrument are as follows:

($000's)	**June 30, 2010**	December 31, 2009
Financial assets "Held-for-trading"		
Cash	2,657	5,642
Financial assets "Held-to-maturity"		
Security deposits	1,125	1,179
Loans and receivables		
Accounts receivable	3,392	2,842
Loan advanced to a related party	1,079	-
Bridge loan advanced to a related party	-	3,963
Loan receivable	4,839	5,028
Other financial liabilities		
Accounts payable and accrued liabilities	3,241	3,806
Senior secured notes	5,479	-

At June 30, 2010, all of the Company's financial instruments are recorded on the balance sheet at amortized cost with the exception of cash.

On April 1, 2010, the Company and the other two ownership groups in a related party concluded an agreement to refinance on an equal basis the tug construction costs of CAD$3,497,484 included in the bridge loan, and repay the Company the outstanding operating and shareholder loans also included in the bridge loan. Under the terms of the agreement, the other owners have provided loans to the related party, representing each ownership group's 33.33% proportionate share of the financing of the original tug construction costs. Each ownership group agreed to advance a CAD$1,165,828 long-term loan to the related party, less CAD$120,000 previously paid. The Company's refinanced loan to the related party is unsecured and matures December 31, 2010. The loan bears interest at an annual rate of 6.5% from April 1, 2010 to March 31, 2015, and the greater of 6.5% or Prime plus 4% from April 1, 2015 to December 31, 2018. Payments of CAD$14,692, representing principal and interest, are due from the related party on a monthly basis. The loan is carried at amortized cost.

On March 26, 2010, the Company issued $6.35 million ($1,000 par value per note) of 7.5% senior secured notes due December 31, 2017 with interest payable quarterly. Repayment of the notes commences on March 31, 2015 with quarterly payments of $525,000, with a final payment of $575,000 on December 31, 2017. The notes are repayable by the Company, in whole or in part, at its option, at any time without premium or penalty. Mandatory prepayments are required from; certain debt or equity issuances, insurance proceeds, certain asset sales, or upon a change in control. The notes are secured by a first priority lien over the assets of the Company, including shares of certain subsidiaries. The notes contain certain covenants similar to those found in an arms-length bank financing. The notes have been classified as financial liabilities measured and recorded at fair value at inception and subsequently on an amortized cost basis. The notes are carried net of unamortized discount from par value, which is being amortized by the effective interest method over the life of the issue using an effective rate of 10.6%.

Capital Stock

As at the date of this report, the Company had unlimited common shares authorized, of which 53,247,102 were issued and outstanding. The Company also had 3,448,345 options outstanding, exercisable into 3,448,345 common shares of which 3,215,430 are currently vested and 10,916,346 warrants outstanding, all of which are vested.

Risks and Uncertainties

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

Current global financial conditions have been subjected to increased volatility and access to financial markets has been severely restricted, which may impact the ability of the Company to obtain equity or debt financing in the future and, if obtained, it may not be on terms favourable to the Company. Failure to obtain financing in the future may result in the delay or indefinite postponement of the future development of the Company's properties and terminals and could potentially result in the loss of those property interests.

The Company's continuing operations depend on a number of factors beyond the Company's control. These include: improvement in the economic outlook, the recovery of demand for the Company's products, particularly in California, and access to capital markets. The previously expected recovery of demand in the California market has not yet materialized. These market conditions continue to result in reduced revenue levels, causing the Company to incur losses. Until the market recovers, it will be difficult to generate positive cash flows and the Company may incur additional penalties under the CSL shipping contract.

It will be necessary for the Company to obtain additional financing to meet its operating expenditures until it completes the sale of the Pier B property held by the Cemera Long Beach LLC joint venture. An offer has been received, subject to contract, and completion of the sale is expected within the next twelve months. To address the near-term liquidity requirement, the Company has begun discussions to obtain financing for operational needs. However, there can be no assurance that these financing negotiations will be successful or that the asset sale will be successful or completed on a timely basis.

There is some risk that the steps described above will not be successful in allowing the Company to meet its obligations, which may require the Company to postpone payment of interest on the senior secured notes, as allowed under the term of the notes; raise equity capital; curtail, reduce or delay expenditures; or seek strategic alternatives to maximize the benefits of the Company's long lived assets.

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 majority of the Company's sales are in US dollars, currency fluctuations may adversely affect the Company's revenues. Furthermore, the Company must secure access to additional discharge points and additional shipping volumes for its products. An additional risk exists that the Company may be unable to meet minimum freight contract volumes, particularly during the earlier years of the contract which could have a materially adverse affect on the Company's revenues, operations and financial condition.

Quarrying involves a high degree of risk and the Company has a limited history of construction aggregate project development or operations. Additionally, certain groups are opposed to quarrying and could attempt to interfere with the Company's operations, whether by legal process, regulatory process or otherwise. The Company's title to its properties may be subject to disputes or other claims, including land title claims of First Nations. Construction aggregate quarrying, processing and development activities are highly regulated and changes to government regulations or interpretation of those regulations may also adversely affect the Company. The Company currently depends on a single property with a construction aggregate reserve that has an estimated life at inception 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

The Company's management is responsible for establishing and maintaining adequate internal control over financial reporting. Any system of internal control over financial reporting, no matter how well designed, has inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation. There have been no changes in the Company's internal control over financial reporting during the six months ended June 30, 2010 that have materially affected, or are reasonably likely to materially affect, internal control 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, 2009, both of which are filed with Canadian regulators on SEDAR (www.sedar.com). The Company expressly disclaims any intention or obligation to update or revise any forward-looking statements and

information whether as a result of new information, future events or otherwise. All written and oral forward-looking statements and information attributable to us or persons acting on our behalf are expressly qualified in their entirety by the foregoing cautionary statements.

Other Information

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

Glossary of Terms

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

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