



(US dollars, except where noted)

(Unit of weight is US short tons)

Management's Discussion and Analysis Year Ending December 31, 2014

The following discussion and analysis of the financial condition and operations of Polaris Materials Corporation, formerly Polaris Minerals Corporation, (the "Company") has been prepared by management as of March 05, 2015, and should be read in conjunction with the Company's audited annual consolidated financial statements for the year ended December 31, 2014, which have been prepared in accordance with International Financial Reporting Standards ("IFRS"). This Management's Discussion and Analysis contains "forward-looking statements" that are subject to risk factors set out in a cautionary note contained herein. All amounts are in United States dollars unless otherwise noted.

Highlights

- Sales of 3.4 million tons is the highest annual sales volume yet recorded;
- Margin expansion continued as gross profit for 2014 increased to \$1.2 million compared with \$24,000 in the prior year;
- Operating financial metrics continued to improve, 2014 Adjusted EBITDA was \$0.5 million compared with \$0.1 million in 2013;
- Long Beach terminal construction was substantially completed.

Results of Operations

Record aggregate sales volumes of 3.4 million tons in 2014 increased 2% over the previous record set in 2013 and similarly revenues of \$45.2 million increased 1% over the same period. During 2014, the Company reported reduced costs of goods sold of \$12.83 per ton compared to \$13.33 per ton in 2013, as customer sales mix reduced delivery costs and production efficiencies reduced the costs of quarry operations. The year on year decline in the Canadian dollar exchange rate also helped reduce reported costs from the Orca quarry. Gross margin for the year ended December 31, 2014, continued to improve over the prior year as the Company recorded a gross profit of \$1.2 million or \$0.35 per ton compared to \$24,000 or \$0.01 per ton for 2013.

(000's, except per ton amounts)	Year ended December 31, 2014		Year ended December 31, 2013	
	Tons	\$	Tons	\$
Sales	3,434	45,241	3,364	44,893
Cost of goods sold		(44,048)		(44,869)
Gross profit		1,193		24
<i>Gross profit per ton</i>		<i>0.35</i>		<i>0.01</i>

Revenue and tons sold

Aggregate sales for the year ended 2014 were 3.43 million tons, a 2% increase over 2013. Revenue for the year ended 2014 increased by 1% to \$45.2 million, compared with \$44.9 million for the year ended 2013. Average selling price ("ASP") for 2014 was \$13.17, a decrease of \$0.18 from \$13.35 in 2013. Compared with 2013, revenue had a favorable price variance of \$0.51 per ton or 3.8%, due to pricing increases, offset by a sales mix variance which reduced revenue by \$0.69 per ton. The ASP decrease is consistent with increased tons sold on a Free-On-Board ("FOB") basis at the Orca quarry. Sales made ex-quarry do not include freight charges for shipping to California and therefore have a significantly lower selling price. The favorable price variance was recorded despite the impact of tons sold in 2014 under two fixed price contracts, which either terminate, or have the price adjusted, during the first quarter of 2015. ASP per ton is influenced quarter by quarter by: changes in selling prices; shipping fuel surcharges; the proportion of tonnage delivered to the various California terminals; and any variance in the proportions between delivered and ex-quarry sales.



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Selling Price and Fuel Surcharge Indices

The predominant business of the Company during 2014, was the supply of its aggregate products to several locations in San Francisco Bay, either delivered under two long term supply agreements or sold ex-quarry to a third contracted customer that has its own shipping contract and terminal in San Francisco (See: “Customers”). Each delivery point has a different selling price that can vary quarter by quarter, either for commercial reasons or from the pass-through of shipping fuel surcharges. The indices below are provided to assist understanding of the movement of prices, and the impact of the fuel surcharges, starting in Q1-2013. The selling price index is based on the delivered price at the end of the quarter, net of fuel surcharges, assuming each of the five delivery points in the Bay has equal weighting in order to provide a comparison that is not distorted by constant changes in activity levels. The Company has achieved an increase in delivered prices in each quarter since the first quarter of 2013 with a total increase of 8.3% over the two year period. Over the same period the shipping fuel prices have remained relatively stable with only minor quarterly impacts. Fuel surcharges have ranged between \$1.65/ton and \$2.59/ton.

	2013				2014			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Selling Price Index (Q1-2013=100)	100	101.8	103.5	103.8	105.1	106.4	107.2	108.3
Fuel Surcharge Index (Q1-2013=100)	100	95.8	97.9	102.8	96.3	100.2	102.3	101.4

Cost of goods sold

Overall cost of goods sold for 2014 decreased by 2% to \$44.0 million from \$44.9 million last year whereas aggregate tons sold for the year increased 2% over tons sold in 2013. Accordingly, cost of goods sold per ton declined to \$12.83 from \$13.34 in 2013. The reduction in cost of goods sold per ton benefited from additional volumes supplied ex-quarry and the decline in the Canadian dollar. During 2014, the cost of goods sold was increased by \$0.8 million of additional barge lightering costs and inefficiencies in shipping caused by a reduction in draft to access the Redwood City terminal, which handled 61% of the Company’s delivered tonnage.

Gross profit

For the year ended December 31, 2014 the Company’s gross profit was \$1.2 million, or \$0.35 per ton, a significant improvement over the prior year gross profit of \$24,000, or \$0.01 profit per ton. Similarly, gross margin improved to 2.6% in 2014 from 0.1% in 2013. In 2014 the Company’s gross margin benefited from reduced delivery costs and favourable foreign exchange rates.

Selling, general and administrative costs

During the year ended December 31, 2014, selling, general and administrative (“SG&A”) expenses were \$6.6 million, including \$1.5 million of non-cash stock based compensation, compared to \$5.4 million, including \$0.9 million of stock based compensation, in the same period for 2013. SG&A during 2014 was 14.5% of sales compared to 11.9% of sales during 2013. Net of non-cash charges for stock based compensation, 2014 SG&A represented 11.3% of sales compared with 9.9% last year.

Provision for property tax assessment

In 2013 ERA received a payment demand, including penalties, for property tax dating back to 2008. Under the terms of its lease agreement with Levin Terminals Inc. (“Levin”), ERA has paid its pro-rata share of property tax on the Richmond terminal land each year to Levin. The County’s assessment was in regard to personal property taxes on the value of the building, leasehold improvements, and equipment at the site. During 2013 the Company was successful in reducing the original assessment period from five years to four under a statute of limitations applicable to the tax code and entered into an Escape Assessment Instalment Plan (the “Plan”) with the County, whereby the remaining outstanding balance of the taxes are payable in five annual installments commencing August 31, 2013. During 2014 the Company withdrew its appeal seeking exclusion of costs originally included in the assessment and concluded a negotiated settlement for the application of credits based on the past utilization of assets. During 2014 the Company revised its provision for property taxes owing by \$568,000 to a total of \$2.103 million, of which \$1.535 has already been provided. The liability at December 31, 2014 of \$1.277 million is net of amounts already paid. Of this amount \$898,000 has been classified as a long-term liability based on the Plan agreed with the County.



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Net loss

The Company incurred a net loss attributable to shareholders of \$6.7 million (\$0.08 per share loss) for the year ended December 31, 2014, compared to a net loss attributable to shareholders of \$8.2 million (\$0.11 per share loss) for the ended December 31, 2013. The year-on-year net loss comparison benefited from improved gross margins as well as a significant decrease in finance charges due to the repayment of long term debt in 2013.

Selected Annual Information

(\$000's, except per share amounts)	2014	2013	2012
Revenue	45,241	44,893	32,196
Net loss attributable to shareholders	(6,685)	(8,208)	(12,238)
<i>per share (basic and diluted)</i>	<i>(\$0.08)</i>	<i>(\$0.11)</i>	<i>(\$0.23)</i>
Total assets	83,878	78,571	80,153
Total non-current liabilities	4,974	4,538	11,155

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

Liquidity and Capital Resources

The Company's primary sources of liquidity and capital resources are cash and cash equivalents, other working capital items, finance leases for the procurement of heavy equipment, and access to capital markets. The Company manages its working capital and long-term capital structure and resources in order to minimize the cost of capital while properly managing credit, liquidity, and other market risks.

Working Capital

At December 31, 2014, the Company had working capital of \$19.0 million that included cash and cash equivalents of \$14.2 million. Comparatively, at December 31, 2013 the Company had working capital of \$11.8 million including cash and cash equivalents of \$9.4 million.

Operating, Financing and Investing Activities

During the year ended December 31, 2014 the Company used cash for operations of \$3.8 million (\$1.10 per ton) which was principally absorbed for non-cash working capital items as trade accounts receivable increased by \$2.2 million through a combination of increased sales prices and a major customer returning to contracted payment terms whereas their payments had previously been accelerated. Accordingly, after factoring in the increase in trade receivables the current year was comparable to cash used for operations for 2013 of \$1.4 million (\$0.40 per ton).

For the year ended December 31, 2014 financing activities provided cash of \$15.4 million compared to cash provided by financing activities of \$7.2 million for the year ended 2013. During the second quarter of 2014, the Company completed a bought deal financing of 6.8 million common shares, issued at CAD\$2.57 per share, for gross proceeds of CAD\$17.4 million. Net proceeds, after the deduction of the underwriters' commission and other fees and expenses were CAD\$16.3 million. The proceeds are being used to evaluate a potential limestone resource development and additional port terminal opportunities, and for working capital purposes.

Investing activities during the year ended December 31, 2014, used cash of \$5.4 million compared to cash used of \$1.7 million for 2013. Investing activities for the year ended December 31, 2014 are mainly attributable to site development costs and purchases of equipment for the Long Beach terminal project, along with purchases of plant and equipment at the Orca quarry.

Non-IFRS Measures

Adjusted Loss

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

(\$000's, except per share amounts)	2014	2013
Net loss for the period attributable to shareholders of Polaris	(6,685)	(8,208)
Adjustments		
Share-based employee benefits	1,470	900
Loss on settlement of loan	-	870
Property tax provision	568	1,535
Other (gains) losses	505	(246)
Adjusted net loss for the period	(4,142)	(5,149)
<i>per share</i>	(0.05)	(0.07)
<i>per ton</i>	(1.21)	(1.53)

EBITDA and Adjusted EBITDA

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

The following table reconciles these non-IFRS measures to the most directly comparable IFRS measure.

(\$000's except per share amounts)	2014	2013
Net loss for the period attributed to shareholders of Polaris	(6,685)	(8,208)
Interest expense	210	714
Income tax expense	15	40
Amortization, depletion and accretion	4,457	4,495
EBITDA	(2,003)	(2,959)
<i>per share</i>	(0.02)	(0.04)
<i>per ton</i>	(0.58)	(0.88)
Adjustments		
Share-based employee benefits	1,470	900
Loss on settlement of loan	-	870
Property tax provision	568	1,535
Other (gains) losses	505	(246)
Adjusted EBITDA	540	100
<i>per share</i>	0.01	0.00
<i>per ton</i>	0.16	0.03



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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)	2014				2013			
	Dec 31	Sept 30	June 30	Mar 31	Dec 31	Sept 30	June 30	Mar 31
Revenue	10,038	13,429	13,246	8,528	14,067	9,398	10,904	10,524
Gross profit (loss)	657	720	129	(313)	1,234	(118)	(503)	(589)
Earnings (loss) before interest and income taxes	(1,238)	(2,174)	(1,754)	(1,671)	88	(2,967)	(2,538)	(1,643)
Net income (loss)	(1,416)	(2,140)	(1,806)	(1,597)	339	(3,062)	(3,824)	(2,088)
Net income (loss) attributable to shareholders of Polaris	(1,439)	(2,096)	(1,624)	(1,526)	63	(2,847)	(3,545)	(1,879)
Basic and diluted net loss per share	(0.02)	(0.02)	(0.02)	(0.02)	0.00	(0.03)	(0.05)	(0.03)
(000's Tons)								
Sales	750	1,032	1,020	632	1,068	687	836	773
Aggregate production	789	989	864	776	1,009	770	866	641

FOURTH QUARTER 2014

Aggregate sales for the quarter were 750,000 tons, a 30% decrease from sales of 1,068,000 tons in same quarter for 2013. Compared to the same quarter in the prior year, the current quarter saw an impact from more seasonally expected factors with high rainfall in the Company's principal market in the quarter.

Revenue for the quarter decreased by 29% to \$10.0 million compared with \$14.1 million in the comparable quarter for the previous year. Fourth quarter revenue benefited from further selling price increases compared to the prior year quarter. ASP during the fourth quarter increased \$0.21 per ton to \$13.38 from \$13.17 in the same period of 2013. Compared with 2013, fourth quarter revenue had a favorable price variance of \$0.45 per ton or 3.4%, due to pricing increases. This was partially offset by a sales mix variance that reduced revenue by \$0.24 per ton, and is consistent with the additional tons sold under fixed price contracts.

Cost of goods sold in the quarter decreased by 27% to \$9.4 million compared with \$12.8 million in the same quarter of the previous year. Cost of goods sold per ton of \$12.52 was an increase of \$0.50/ton compared to \$12.02/ton for the same period in 2013. The per ton increase is mainly attributable to the reduced effect of operating leverage over fixed costs, which is a consequence of the reduced sales and the continuing impact of reduced drafts into the Redwood City terminal. It was partially offset by the declining Canadian dollar as quarry costs are incurred in Canadian dollars and translated into US dollars for reporting purposes.

During the fourth quarter of 2014 the Company's gross profit was \$0.7 million, or \$0.88/ton, compared with a gross profit of \$1.2 million or \$1.16/ton in the prior period. SG&A expenses represented 18.3% of sales and were \$0.5 million higher than in the same period of 2013 when they represented 9.3% of sales. Net of non-cash charges for stock based compensation, SG&A represented 15.6% of sales in this current quarter compared with 8.1% last year.

The Company incurred a net loss attributable to shareholders of \$1.2 million (\$0.02 per share loss) during the three months ended December 31, 2014, compared to net earnings attributable to shareholders of \$0.3 million (\$0.00 per share) during the three months ended December 31, 2013. The result this quarter was principally attributable to the factors discussed above combined with increased property holding costs and a provision made for the settlement of the property tax assessment.



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Segmented Analysis

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

Contractual Obligations, Commitments and Contingencies

Commitments

As at December 31, 2014, the Company's contractual obligations are outlined in the following table:

(in thousands)	Within 1 year \$	Between 1 – 2 years \$	Between 2 – 3 years \$	Between 3 – 4 years \$	Between 4 – 5 years \$	Over 5 years \$
Trade and other payables	3,640	-	-	-	-	-
Finance leases	418	311	284	270	-	-
Commitments relating to operating and through-put agreements	2,178	2,155	2,196	2,195	2,248	8,525
Restoration provision	-	-	12	-	-	3,454
	6,236	2,466	2,492	2,465	2,248	11,979

Lease and through-put agreements

For the Richmond Terminal the Company has a 20 year ground lease with Levin Enterprises Inc. and a 20 year facilities use agreement with Pacific Atlantic Terminals LLC, both ending January 2028, however, the Company has the option to extend the ground lease for two additional ten-year periods to 2048 and to extend the facilities use agreement by ten years to 2038. Base rent and through-put charges based on minimum aggregate volumes purchased and/or sold through the Richmond Terminal, are payable in monthly payments.

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

Shipping Tonnage

The Company has a Contract of Affreightment ("NCoA") which is effective from January 1, 2010 with a term of 20 years. The NCoA requires the Company to ship minimum tonnages per year. On December 19, 2013 the Company and its exclusive shipper amended the NCoA to reflect changes in the operation that included a fixed annual minimum tonnage commitment of 2,970,000 tons in each of the remaining years of the contract. The Company has the option in any given year to increase or decrease the annual commitment by 10% without penalty. Sales under the Company's supply agreement with a new customer, that commenced February, 2013, are FOB shipping point and are not included toward the Company's minimum shipping commitment. Failure by the Company to ship its annual cargo commitment will result in a dead-freight charge equal to 75% of the freight rate for the unshipped tons. Minimum freight volume penalties are payable annually in the first quarter following the year in which freight volumes do not meet the minimum volume requirements in the NCoA. The Company did not pay penalties in respect of the 2014 year.

Royalty Assessment for Eagle Rock Quarry Project

The Company is disputing a royalty assessment for 2012 and 2013. During the first quarter of 2014, the Company's subsidiary Eagle Rock Materials Ltd. was notified by the British Columbia Ministry of Forests, Lands and Natural Resource Operations that royalties were due of CAD\$456,000 for 2012 and CAD\$496,000 for 2013, based on the tenure date, in respect of the Company's quarrying lease for the Eagle Rock Quarry project. The Company position is that royalties are only payable based on actual production, in accordance with a written undertaking from the responsible government agency prior to commencement of the lease, and as the project has not been developed, no royalties are currently due. Accordingly, the Company has not recorded a provision for the royalties. The Company has presented its case to the Ministry but has yet to receive a response.



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Community Benefit Fund

In accordance with the Impact and Benefits Agreement (“the Agreement”) established with the Namgis First Nation (“the Namgis”), part owner of the Orca Quarry, the Company was obliged, within five years of commencement of operations, to make contributions of \$0.06 per metric tonne to a foundation dedicated to the development of the communities specified in the Agreement. Currently, the Namgis are in the process of establishing the financial structures and governance practices of the foundation. Based on existing discussions with the Namgis a foundation or similar entity will be established within the next year. Therefore the Company has recorded a provision, based on tonnes sold by Orca from and after the date of commencement of contributions (March 2012), of CAD\$472,000 which has been classified as a current liability.

Strategic alliance and supply agreements

The Company has a long-term alliance with Cemex Inc. (“Cemex”), an international construction materials company. The alliance consists of a 10 year strategic alliance agreement, a standstill agreement, a 20 year supply and distribution agreement for northern California and a 10 year joint cooperation and development agreement. These agreements were executed with an effective date of September, 25, 2007. The Company also has a 20 year aggregates supply agreement with Shamrock Materials Inc., a well-established construction aggregates consumer located in the San Francisco Bay, area that commenced in April 2007. See “Commitments and contingencies” (note 21) in the Company’s December 31, 2014 financial statements for additional disclosures.

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

Overview of the Company, Operations, Markets and Outlook

MARKET OUTLOOK AND RECENT DEVELOPMENTS

Sales in 2014 were 3,434,000 tons, an increase of 2% over 2013 which resulted from a 13% increase in sales to terminals in the busy San Francisco/San Jose corridor which were largely offset by a reduction of 30% in sales into the north and east San Francisco Bay markets. The market overall is continuing to increase in northern California as private housing, private commercial, and public infrastructure sectors all continue to improve following the recession, however, it was patchy during 2014 as the disparity in sales in these areas demonstrated. Sales in the fourth quarter of 2014 were impacted by exceptional rainfall events which had not occurred for some years. The City of San Francisco recorded 14.45 inches of rainfall in the quarter, whereas the comparative figure for the fourth quarter of 2013 was 1.65 inches. A similar pattern was observed in Long Beach with intense storm events occurring in December. The Company had secured a dedicated smaller self-discharging vessel with which to supply a one-off major contract through the Port of Redwood City, the start of which was delayed until the second quarter. This contract contributed significantly to the volume in the last three quarters of 2014 and will be completed early in 2015 when the volume is expected to be replaced at current market prices, which are higher than those prevailing in the contract.

The continuing increase in northern California’s demand, coupled with the increasing recognition of the value of the high quality Orca aggregate to meet exacting specifications for concrete, is enabling the Company to achieve real price increases. The California customers that service the markets from the city of San Francisco down the peninsula to San Jose, the corridor generally referred to as Silicon Valley, are seeing the strongest demand driven by the very successful high-tech sector in those areas. However, the market remains patchy with the east and northern Bay markets not yet demonstrating a substantial recovery although the Company anticipates that this will begin to change in 2015 with a number of large projects planned.

In the US, the aggregates market nationally continues to be impacted through uncertainty regarding the future funding for highways and major infrastructure, despite a clear consensus in Congress regarding support for infrastructure investment. A major issue has been the potential insolvency of the Highway Trust Fund. On July 31st, 2014, Congress authorized a short-term financing patch that extended MAP 21, a multi-year transportation bill enacted in 2005, through May 2015, and provided \$11 billion of transfers to the Highway Trust Fund, however, the need for a long term solution



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remains. One positive initiative that is in place enables states to apply for funding assistance under the Transportation Infrastructure Finance and Innovation Act (TIFIA) which will provide \$1.75 billion of Federal credit assistance through 2015 for nationally or regionally significant surface transportation projects. Each dollar of Federal funds can provide up to \$10 in TIFIA credit assistance, leveraged up to \$30 in transportation infrastructure investment. The latest economic outlook from the Portland Cement Association, in September 2014, forecast that cement consumption would increase by 8.2% in 2014 with further increases of the same magnitude in each of 2015 and 2016. These are national forecasts and significant regional variances should be anticipated, however, the Company expects that California will perform better than the national average. Further evidence of a broad-based construction industry recovery came from the Dodge Momentum Index which in December 2014 was 128.7, 17% higher than in December 2013.

In respect of private sector construction investment, the Company believes that the encouraging statistics showing a resurgence in private housing will continue albeit at a measured pace. Statistics in terms of housing sales, starts, inventories and pricing have been difficult to read as they often appear contradictory, however, a view from Stan Humphries, the top economist at real estate site Zillow in 2014, was "The reality is that the market is moving from one defined by distortions including high negative equity and constricted inventory, to one defined by fundamentals like household formation rates, jobs and income growth.....we are slowly getting back to normal". Although this sector is less influential on the demand for Orca Quarry materials than private commercial investment, it is nonetheless helpful that each sector of the construction economy recover towards normalized levels enabling a return to logical competitive factors. Increased multiple occupancy unit construction activity in San Francisco, coupled with strong private commercial activity, particularly in the San Francisco/San Jose corridor is contributing significantly to increasing demand for Orca Quarry product. House prices are reported to be increasing strongly in the San Francisco market which can be expected to benefit housing starts and commercial development to the north of the Golden Gate Bridge and also in the east Bay, areas that have lagged behind the upsurge in demand experienced in the south and west Bay area.

Local reserves of construction aggregate continue to decline and the development of new replacement quarries is still strongly opposed by local residents in most markets, especially those crucial to our business. The California Geological Survey released a report titled "Aggregate Sustainability in California, 2012" which is essentially an update to similarly titled reports published in 2002 and 2006. The report contains a considerable amount of data which demonstrates that aggregate resource shortages remain a major problem in a number of major markets in the State, where they continue to decline and are not being replaced, with complete exhaustion projected in a decade or so. Despite these dire predictions, the quarrying industry's problems in permitting new resources have not changed and it remains extremely difficult, especially around major urban markets, to obtain new permits. The Company's development strategy has been delayed by the severe economic recession that began in 2008 but the fundamental principles remain and future sources of aggregate, particularly sand and gravel, will be considerably further from the ports serviced by Orca aggregate which will place further upward pressure on selling prices.

Recent examples of the difficult resource permitting climate are: Lehigh-Hanson ceasing limestone aggregate production in Cupertino at the end of 2014, this operation had been suspended some three years earlier pending resolution of a permitting issues; the refusal to permit a proposed large new granite quarry in Riverside County north of San Diego; and the rejection of a new hard rock quarry proposed near Fresno. Both the San Diego and Fresno proposals failed due to the high level of public concern about such operations. In August, 2014, an application to develop a sand and gravel quarry at Paicines Ranch, approximately 90 miles south of San Jose, was abandoned by the proponent before the county board could consider it following "significant opposition". Not all applications fail. In July, 2014, West Coast Aggregate Supply received a thirty year extension to their mining permit. This operation, in Riverside County to the east of Los Angeles, has been in production since 1982. The January 2011 San Diego Region Aggregate Supply Study prepared under the direction of SANDAG (San Diego Area Governments) stated; "One of the challenges facing this region is how to meet the increasing demand for aggregate at a time when the local supply is shrinking", this being particularly with reference to materials necessary to meet planned public sector expenditure. The report highlighted the need for further land based resources, coupled with the requirement to import materials by ship, train or barge and supported the Company's original interest to supply that market.

In Hawaii, the Company is focusing on major infrastructure projects where the ability of Orca Quarry materials to meet stringent performance requirements provides strong technical and economic justification for their usage. For example, a major trial at the Hickam Air Force Base was supervised by the US Army Corps of Engineers. The trial involved concrete paving for runway construction made exclusively from Orca aggregate and the results were extremely positive. This will eventually benefit sales for very demanding applications although the Company recognizes that the expected increase in volumes would be modest in comparison to California demand. The initial term of the Company's supply agreement with its Hawaiian customer has expired following which sales continued at previous levels during 2014. The outlook for sales to Hawaii is somewhat uncertain following the acquisitions by local development companies, in 2014, of two of the three customers using Orca aggregate. This has resulted in the termination of the previous working



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arrangement for the imports. The Company expects to supply Honolulu again in 2015 but details have not yet been decided.

Relatively small quantities of materials continue to be sold occasionally for use in British Columbia or Alaska and are loaded into barges provided by the customers.

OPERATIONS

Quarry Properties

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

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

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

In June, 2014, the Company announced that it would investigate a potential limestone deposit, located close to the Orca Quarry that, if viable, would provide coarse aggregates to complement the sand-rich Orca deposit. Initial field studies commenced in 2015.

Marine Terminals

Marine receiving terminals are a crucial component in the Company's logistics and opportunities to develop further suitable terminals are scarce and may require substantial investment. The Company currently delivers construction aggregate to five terminals in San Francisco Bay where it is now the exclusive supplier by ocean-going vessel. The Richmond Terminal is owned and operated by the Company and has a permitted capacity of 1.5 million tons per year serving 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. During 2014, Cemex received an increased permit for Redwood City such that these terminals have a combined annual capacity exceeding 2.0 million tons.

The shipping channel leading into the Port of Redwood City had required dredging for some time because of silting. A reduced draft negatively affects the capacity of the CSL vessels to deliver and therefore impacts the efficiency and costs of shipping. Dredging of this Federal Channel is the responsibility of the US Army Corps of Engineers and it has taken more than two years for the Port and the Corps to obtain funding for this work which finally commenced in October, 2014 and approximately 75% had been completed at the yearend with a final phase to be carried out in summer 2015. Unfortunately, while carrying out surveys necessary for planning this dredging during the first half of 2014, the Corps had found the silting to be worse than expected and immediately placed a further reduction in the safe navigation draft for the channel which caused the Company and Cemex to incur additional barge lightering costs which were shared on a 50:50 basis in 2014.

Since February, 2013, the Company has supplied aggregates for the Pier 94 terminal of Hanson Aggregates in the Port of San Francisco. 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.



(US dollars, except where noted)

(Unit of weight is US short tons)

The Company's strategic objectives include the development of marine terminals in southern California. In the third quarter of 2009, the Company secured an option to lease an existing marine aggregate importing terminal in the Port of Long Beach, California, at Berth D-44 and, in July 2010, exercised this option and entered into a five year lease with renewal at the Company's option for a further three, five-year, periods to a total of 20 years. This 8.3 acre site is privately owned and operated for many years receiving construction aggregates from barges with storage in open stockpiles. The site, which was previously permitted to receive and distribute up to 3 million tons of construction aggregates per year, is located on a deep-water channel and is close to Interstate 710, which services the greater Los Angeles area. The Los Angeles market is now exhibiting strong recovery and following enquiries from major contractors experienced in the use of Orca aggregates, the Company decided to proceed with the development of the terminal. The Ports of Long Beach and Los Angeles are currently engaged in major construction projects designed to enhance their ability to receive and efficiently handle much larger container vessels. As a consequence, the demand for concrete aggregate to meet these massive construction projects will increase significantly.

Previously aggregates were delivered by barges and the Company obtained a Harbor Development Permit for the site to enable delivery by Panamax size vessels following the submission of an Environmental Impact Report. During the second quarter of 2013 the Company received a dredging permit from the US Army Corps of Engineers for the maintenance dredging required at Berth D-44 in order to accommodate the Panamax vessels of CSL and, following a procedural delay, this work was carried out in March, 2014. The Company had to apply to the Southern California Air Board for an Air Permit for the new operation and the permit was finally issued in September, 2014. This permit has an initial capacity of one million tons per year which the Company was able to secure without requiring the purchase of offsets, an increasingly prevalent component in permitting in these most difficult locations. However, the permit may be expanded in the future on an incremental basis.

The Company placed orders in the first quarter of 2014 for long lead-time conveying and material handling equipment, along with berthing equipment to be used for mooring vessels at the site and construction commenced on-site in July 2014. Extreme rainfall events in December 2014 and January 2015 have resulted in further requirements for grading and drainage works to be negotiated with the city. All material handling and ship mooring installations are complete, and the company hopes to have agreement on the final drainage and to have completed the work by the end of the first quarter of 2015.

The Company has appointed Richard A. Williams as Director Business Development for its US marketing and distribution. Mr. Williams is an experienced concrete engineer and marketing professional based in the greater Los Angeles area who provides technical expertise in design for projects where the premium quality of the Orca Quarry sand and gravel can offer cost effective solutions. An extensive test program of the Orca aggregate in Southern California has provided excellent results to support the marketing.

The Company, through a jointly owned subsidiary, Cemera San Diego, LLC, had continued to register an interest in an opportunity in the Port of San Diego for the development of a marine aggregate terminal to service the San Diego market, which has significant aggregate supply deficiencies. On August 4, 2009, The Port of San Diego granted Cemera San Diego, LLC, an exclusive negotiating agreement (the "ENA") for an option to lease and develop an approximate 100,000 square foot building located at the Tenth Avenue Marine Terminal for the purpose of receiving and distributing aggregates. On February 28, 2010, the ENA expired; however, the Port of San Diego issued a comfort letter in succession to the ENA. By the end of 2014 it was increasingly clear that the port was involved in a lengthy process to determine the vision for the future use of its lands and that certain entities were pressing for alternate uses that would see the end of marine-based activities. In recognition of the complex issues and uncertainty of outcome, the Company will only maintain a low-key relationship and as a consequence, Cemera San Diego LLC was dissolved in January 2015. The Company has maintained an interest in the Port of Hueneme to the north of Los Angeles. The opportunity to develop a terminal in this location, where coarse aggregate supply shortages have been identified, was originally of interest, however, demand for the Company's Orca coarse aggregate (gravel) has increased substantially in the northern California markets and it would no longer be possible to support sales in this location. This situation mitigates the Company's need to further develop coastal terminals.

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"). Sales to Hawaii, Alaska, British Columbia, and under the supply agreement to California that commenced in the first quarter of 2013, are made on an FOB, basis by loading ships or barges provided and paid for, by the customer.

On arrival in San Francisco Bay, CSL's vessels are partially unloaded while at anchor ("lightered") into barges provided by either Shamrock Materials Inc., or Cemex, under the terms of the twenty-year aggregate supply agreements. Barges



(US dollars, except where noted)

(Unit of weight is US short tons)

are chartered occasionally from an independent operator, particularly during the period of significant draft restrictions for vessels going to Redwood City. After lightering, the balance of the cargo may be unloaded at Cemex's Redwood City terminal or at the Company's Richmond Terminal. These arrangements offer the most economic shipping solution by utilizing fully loaded Panamax vessels from Vancouver Island to San Francisco Bay. The increasing demand for Orca Quarry products in northern California assists in maximizing shipping efficiency although balance between the individual terminals requires careful management being market driven and therefore highly variable.

Shipping Fuel Surcharges

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

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

North American Emission Control Area

On August 1, 2012, the USA EPA and Environment Canada established a North American Emission Control Area (the "ECA") of 200 nautical miles around the US and Canadian coasts. All vessels operating within the ECA must now use Low Sulphur Fuel Oil (LSFO) which has a limit of 1% sulphur. This action significantly increased the cost of shipping from August 1st, 2012, which the Company has passed on to its customers under pass-through clauses in the Company's sales agreements. On January 1, 2015, Phase II of the ECA regulation was implemented that required a further reduction in the sulphur content of the marine fuels to a maximum of 0.1%. The Company had anticipated that this final ECA implementation would result in a further overall increase in the cost of fuels that would be again passed through to customers. However, the unforeseen and substantial fall in world crude oil prices has meant that 2015 has opened with fuel costs below those experienced in 2014 despite the use of the more refined fuel. The Company is unable to predict how long this situation may prevail.

The objective of the ECA is to reduce emissions from ships that might be harmful to coastal environments, a principle supported by marine cargo shippers including CSL International, the Company's exclusive shipper. However, the US EPA directed that the ECA be 200 miles offshore without the benefit of new research which clearly establishes that an ECA limit beyond 50 miles provides no further benefit to coastal environments. This new regulation has adversely impacted many freight movements in North America and these coastal regions would actually be seriously impacted by the increased air pollution and road congestion that would arise should millions of tons per annum of products, including construction aggregate, be forced to use shore-based truck or rail transportation rather than ships. A Coalition of Short-Sea Shippers, coupled with the Maritime Industrial Transportation Alliance, are actively pressing for the ECA to be modified to 50 miles for smaller, short-sea, coastal vessels which would include those operated by CSL. The Company is engaged with the National Stone and Sand and Gravel Association to support the coastal shippers in trying to achieve a modification to the ECA regulations to enable the economic benefits to be maintained in the vital supply of construction aggregates to coastal cities, without negatively impacting the coastal environment. The coalition continues to tackle this issue, despite implementation of the second stage of ECA restrictions on fuel sulphur on January 1, 2015. It is anticipated that a decision will be made by mid-2015, by the coalition, in respect of continuation or abandonment of this campaign.

CUSTOMERS

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

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



(US dollars, except where noted)

(Unit of weight is US short tons)

The Company maintains a close relationship with the management of both Shamrock and Cemex, which together accounted for approximately 70% of the Company's sales in 2013.

In December 2012, the Company entered into a sales agreement with Hanson Aggregates Mid-Pacific Inc., a subsidiary of a major international building materials company headquartered in Germany. The agreement has a fixed first period of three years with two, three-year, renewal options requiring mutual agreement to extend. Sales under the agreement commenced in February, 2013.

The Company also supplies customers in Hawaii and British Columbia, which are substantial private companies with whom management maintains a working relationship, however, these sales are effectively made on a spot basis.

SALES AND SEASONALITY

The Company's Orca sand and gravel quarry operates year-round, however, sales demand is seasonal due to the impact of poor weather conditions, particularly in the first (winter) quarter which have an impact on production volumes and demand for the Company's products. As a consequence the Company's financial results for any individual quarter are not necessarily indicative of results to be expected for that year. Sales and earnings are typically sensitive to regional and local weather, market conditions, and, in particular, to cyclical variations in construction spending.

Related Party Transactions

During the year ended December 31, 2014, the Company accrued for or paid the following services by related parties. Proconsult UK Ltd. ("Proconsult"), a company controlled by David Singleton, provided to the Company, management and marketing services at a cost of \$151,783 (year ended December 31, 2013 - \$292,917). The Company had an agreement to pay Proconsult a retainer of \$14,500 per month plus expenses until June 30, 2014, at which time the agreement expired. Navigator Management Ltd. ("Navigator"), a company controlled by Marco Romero, provided to the Company, consulting services at a cost of CAD\$42,165 (year ended December 31, 2013 - CAD\$42,055). The Company has agreed to pay Navigator a retainer of CAD\$3,000 per month plus expenses under the agreement. Martineau & Associates ("Martineau"), a company controlled by Eugene Martineau, provided to the Company commercial and marketing services at a cost of \$13,500 (year ended December 31, 2013 - nil). The Company has agreed to pay Martineau a fee of \$1,500 per day plus expenses under the agreement.

These costs are included in general and administrative expenses. Transactions with related parties are recorded at the price agreed between the parties.

At December 31, 2014, accounts payable included; \$6,425 due to Proconsult, (December 31, 2013 - \$19,252) and CAD\$3,244 due to Navigator, (December 31, 2013 - CAD\$3,850).

Significant Accounting Judgments and Estimates

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

(i) **Determination of mineral reserves**

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

(ii) Asset values and impairment charges

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

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

(iii) Estimated Reclamation and Closure Costs

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

Accounting standards and amendments issued but not yet adopted

Unless otherwise noted, the following revised standards and amendments are effective for annual periods beginning on or after January 1, 2015.

- (i) IFRS 9, *Financial Instruments*, was issued in November 2009 and addresses classification and measurement of financial assets. It replaces the multiple category and measurement models in IAS 39 for debt instruments with a new mixed measurement model having only two categories: amortized cost and fair value through profit or loss. IFRS 9 also replaces the models for measuring equity instruments. Such instruments are either recognized at fair value through profit or loss or at fair value through other comprehensive income. Where equity instruments are measured at fair value through other comprehensive income, dividends are recognized in profit or loss to the extent that they do not clearly represent a return of investment; however, other gains and losses (including impairments) associated with such instruments remain in accumulated comprehensive income indefinitely. Requirements for financial liabilities were added to IFRS 9 in October 2010 and they largely carried forward existing requirements in IAS 39, *Financial Instruments – Recognition and Measurement*, except that fair value changes due to credit risk for liabilities designated at fair value through profit and loss are generally recorded in other comprehensive income. IFRS 9 was amended in November 2013, to (i) include guidance on hedge accounting, (ii) allow entities to early adopt the requirement to recognize changes in fair value attributable to changes in an entity's own credit risk, from financial liabilities designated under the fair value option, in OCI (without having to adopt the remainder of IFRS 9) and (iii) remove the previous mandatory effective date of January 1, 2015. The July 2014 publication of IFRS 9 is the completed version of the Standard, replacing earlier versions of IFRS 9 and superseding the guidance relating to the classification and measurement of financial instruments in IAS 39, *Financial Instruments: Recognition and Measurement* (IAS 39). The completed version of IFRS 9 is effective for annual periods beginning on or after January 1, 2018, with early adoption permitted. The Company is currently assessing the effect of this standard on our financial statements.
- (ii) In May 2014, the IASB and the Financial Accounting Standards Board (FASB) completed their joint project to clarify the principles for recognizing revenue and to develop a common revenue standard for IFRS and United States Generally Accepted Accounting Principles (US GAAP). As a result of the joint project, the IASB issued IFRS 15, *Revenue from Contracts with Customers* (IFRS 15) to replace IAS 18, *Revenue* and IAS 11, *Construction Contracts* and the related interpretations on revenue recognition.

(US dollars, except where noted)

(Unit of weight is US short tons)

The new revenue standard introduces a single, principles based, five-step model for the recognition of revenue when control of a good or service is transferred to the customer. The five steps are identify the contract(s) with the customer, identify the performance obligations in the contract, determine transaction price, allocate the transaction price and recognize revenue when the performance obligation is satisfied. IFRS 15 also requires enhanced disclosures about revenue to help investors better understand the nature, amount, timing and uncertainty of revenue and cash flows from contracts with customers and improves the comparability of revenue from contracts with customers.

IFRS 15 will be effective for annual periods beginning on or after January 1, 2017, with early adoption permitted. The Company is currently assessing the effect of this standard on our financial statements.

Financial Instruments and Related Risk

Fair value of financial instruments

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

	December 31, 2014		December 31, 2013	
	Carrying amount	Fair value	Carrying amount	Fair value
(in thousands)	\$	\$	\$	\$
Loans and receivables				
Cash and cash equivalents	14,231	14,231	9,385	9,385
Trade and other receivables	6,118	6,118	3,943	3,943
Security deposits	973	973	1,059	1,059
Other long-term receivables	-	-	131	131

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

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's cash and cash equivalents consists of demand deposit accounts with major banks in Canada and the USA as well as Canadian government treasury bills. The Company has four significant customers, three of which at December 31, 2014 comprise 100% (2013 – four customers comprise 100%) of trade receivables. The Company's largest customer is one of the world's largest international construction materials companies and the remaining customers are significant construction materials companies within their markets of San Francisco and Hawaii.

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

	2014	2013
(in thousands)	\$	\$
Demand deposits	9,067	9,385
Trade and other receivables	6,118	3,943
Security deposits	973	1,059
Other long-term receivables	-	131
	16,158	14,518

At December 31, 2014, no allowance for credit losses has been recorded against accounts receivable. No collateral or other form of security is held in respect of the amounts that comprise the Company's exposure to credit risk.

Liquidity Risk

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



(US dollars, except where noted)

(Unit of weight is US short tons)

A maturity analysis of the undiscounted cash flows of the Company's financial liabilities at December 31, 2014 is as follows:

(in thousands)	Within 1 year \$	Between 1 – 2 years \$	Between 2 – 3 years \$	Between 3 – 4 years \$	Between 4 – 5 years \$	Over 5 years \$
Trade and other payables	3,640	-	-	-	-	-
Finance leases	418	311	284	270	-	-
	4,058	311	284	270	-	-

Market Risks

Foreign currency risk

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

For the year ended December 31, 2014 a \$0.01 change in the US/Canadian exchange rate, assuming all other variables did not change, would affect net gain/(loss) by \$210,000.

Interest rate risk

The Company's interest rate risk arises primarily from the interest received on demand deposit accounts which are at floating rates.

For the year ended December 31, 2014 a 100 basis point change in interest rates, assuming all other variables did not change, would affect annual interest income by \$140,000.

Capital Stock

As at the date of this report, the Company had unlimited common shares authorized, of which 87,665,186 were issued and outstanding. The Company also has 4,932,542 options outstanding, exercisable into 4,932,542 common shares, of which 3,490,872 are currently vested, and 964,250 warrants outstanding, all of which are vested.

Risks and Uncertainties

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

The Company's operations may require further capital

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



(US dollars, except where noted)

(Unit of weight is US short tons)

Reliance on Certain Customers

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

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

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

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

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

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

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

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

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

The parties to the Eagle Rock Shareholders Agreement have been negotiating and will continue to negotiate the terms and conditions of an arrangement with respect to Eagle Rock Aggregates, Inc. and the financing, construction, and

operation of the Richmond Terminal, and the purchase, shipping, distribution and sales of construction aggregates from the Orca Partnership. There is no certainty when or if an agreement will be reached.

The Company's amended NCoA secures sufficient volume capacity to transport approximately 3.27 million short tons of construction aggregates per annum. To achieve the anticipated sales from the Orca Quarry and the Eagle Rock Quarry Project, the Company will have to secure additional shipping capacity. If the Company is unable to secure the additional shipping volumes, or fails to meet the contracted annual minimum volumes, its revenues, operations and financial condition could be materially adversely affected.

The quarrying industry is competitive

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

Government regulation and assessments may adversely affect the Company

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

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

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

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

In a landmark decision in 2004, the Supreme Court of Canada determined that there is a duty on government to consult with and, where appropriate, accommodate First Nations where government decisions may impact on claimed, but as

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

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

Quarrying involves a degree of risk

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

Construction aggregates resources are estimates only

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

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

Currency fluctuations may adversely affect the Company's revenues

The effects on financial performance and cash flows from the Canadian dollar foreign exchange rate versus the U.S. dollar are significant. The Company does not enter into hedging contracts in connection with foreign currencies. Changes in the Canadian dollar against the U.S. dollar could materially affect the Company's U.S. dollar-reported operational profitability and financial condition.

The Company currently depends on a single property

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

The actual costs of reclamation are uncertain

The actual costs of reclamation included in the Company's plan for the Orca Quarry are estimates only and may not represent the actual amounts required to complete all reclamation activity. It is not possible to determine the exact amount that will be required, and the amount that the Company is required to spend could be materially different than



(US dollars, except where noted)

(Unit of weight is US short tons)

current estimates. Reclamation bonds or other forms of financial assurance represent only a portion of the total amount of money that will be spent on reclamation over the life of the operation of the Orca Quarry. Although the Company has included estimated reclamation amounts in its plan for the Orca Quarry, it may be necessary to revise the planned expenditures, and the operating plan for the Orca Quarry, in order to fund required reclamation activities. Any additional amounts required to be spent on reclamation may have a material adverse effect on the Company's financial condition and results of operations.

The Company will require other construction aggregates resources in the future

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

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

The Company's operations are subject to environmental risks

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

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

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

The Company does not insure against all risks

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



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from these events may cause the Company to incur significant costs that could have a material adverse effect upon its financial condition and results of operations.

Certain groups are opposed to quarrying

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

The Company is dependent on its key personnel

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

The Company's growth will require new personnel

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

The Company may not meet minimum freight contract volumes

The Company's freight contract, which was again amended and restated in December 2013, provides for minimum annual volumes of construction aggregates. If the Company is unable to secure sufficient sales volumes to meet those minimum freight volumes, its revenues, operations and financial condition could be materially adversely affected.

Eagle Rock Quarry Project Royalty Assessment

The Company has received a royalty assessment from the British Columbia Ministry of Forests, Lands and Natural Resource Operations for overdue royalties of CAD\$456,000 for 2012 and CAD\$496,000 for 2013, in respect of the Company's quarrying lease for the Eagle Rock Quarry project ("ERQ project") located on the Alberni Inlet to the south of the City of Port Alberni, British Columbia. The Company is disputing the assessment. The Company has not recorded a provision for the royalties. The amount of any payment, if required, is currently uncertain and it may be necessary to record a provision in future periods. There can be no assurance that the Company's position will prevail.

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

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

Controls and Procedures

Disclosure Controls and Procedures

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

As at December 31, 2014, an evaluation of the design and effectiveness of the Company’s DC&P was carried out under the supervision and with the participation of management including its certifying officers. Based on that evaluation, the Company’s certifying officers concluded that the design and operation of the Company’s DC&P were effective as at December 31, 2014 and would provide reasonable assurance that material information relating to the Company and its consolidated subsidiaries would be made known to them by others within those entities during the period in which the annual filings were prepared, and that information required to be disclosed by the Company would be recorded, processed, summarized and reported within the time periods specified in the applicable securities legislation.

Internal Controls over Financial Reporting

Internal Controls over Financial Reporting (“ICFR”) is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with IFRS. ICFR can only provide reasonable assurance and may not prevent or detect misstatements. Projections of an evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate due to changes in conditions, or that the degree of compliance with the policies and procedures may deteriorate. As at December 31, 2014, an evaluation of the design and effectiveness of the Company’s internal controls over financial reporting was carried out under the supervision and with the participation of the Company’s management including its certifying officers. This evaluation included confirmation of the Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (“COSO”) control framework (2013) used to design the ICFR. Based on the evaluation, the CEO and CFO found the Company’s ICFR to be effective. During the year ended December 31, 2014, there were no changes in the Company’s internal controls over financial reporting that have materially affected, or are reasonably likely to materially affect, the internal control over financial reporting. Based on their inherent limitation, disclosure controls and procedures and internal control over financial reporting may not prevent or detect misstatements, errors or fraud. Control systems, no matter how well conceived or operated, can provide only reasonable, but not absolute, assurance that the objectives of the control systems are met.

Cautionary Note Regarding Forward Looking Statements

This Management’s Discussion and Analysis release contains “forward-looking statements” and “forward-looking information” within the meaning of applicable securities laws. These statements and information appear in a number of places in this document and include estimates, forecasts, information and statements as to management’s expectations with respect to, among other things the future financial or operating performance of the Company, costs and timing of the development of the construction aggregate quarry, the timing and amount of estimated future production, costs of production, capital and operating expenditures, requirements for additional capital, government regulation of quarrying operations, environmental risks, reclamation expenses, and title disputes. Often, but not always, forward-looking statements and information can be identified by the use of words such as “may”, “will”, “should”, “plans”, “expects”, “intends”, “anticipates”, “believes”, “budget”, and “scheduled” or the negative thereof or variations thereon or similar terminology. Forward-looking statements and information are necessarily based upon a number of estimates and assumptions that, while considered reasonable by management, are inherently subject to significant business, economic and competitive uncertainties and contingencies. Readers are cautioned that any such forward-looking statements and information are not guarantees and there can be no assurance that such statements and information will prove to be accurate and actual results and future events could differ materially from those anticipated in such statements. Important factors that could cause actual results to differ materially from the Company’s expectations are disclosed under the heading “Risks and Uncertainties” in the Company’s Annual Report and under the heading “Risk Factors” in the Company’s Annual Information Form (AIF) in respect of its financial year-ended December 31, 2014, 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.



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Other Information

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

Glossary of Terms

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

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