Polaris
MINERALS CORPORATION

2006 ANNUAL REPORT

MOVING MOUNTAINS

› With the launch of the Orca Quarry, Polaris has set the stage to grow into one of the largest, most efficient and progressive suppliers of marine-transported construction aggregates on the west coast of North America.

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CAUTIONARY NOTE REGARDING FORWARD LOOKING STATEMENTS

Certain information contained in this annual report contains "forward-looking statements" and "forward-looking information" within the meaning of applicable securities laws. These statements and information appear in a number of places in this document and include estimates, forecasts, information and statements as to management's expectations with respect to, among other things 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, 2006, 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.

› The Orca Quarry, located near Port McNeill, Vancouver Island, B.C., is permitted to produce 6.6 million tons of high quality sand and gravel per year.

The Orca Quarry began production in February 2007.

The first 79,000 ton Panamax-class freighter sailed for San Francisco on April 1, 2007.

MOVING MOUNTAINS

2006 Highlights (including early 2007)

- Successfully completed an initial public offering on the Toronto Stock Exchange on January 10, 2006, raising gross proceeds of CDN$79.8 million, and arranged a US$31 million bridge debt facility to fund the first stage of Polaris' business plan.
- Completed construction of the Orca Quarry on time and on budget. Production of high quality sand and gravel began in late February 2007.
- First barge shipment to the Vancouver area dispatched on March 22, 2007.
- First bulk freighter shipment to San Francisco Bay made on April 1, 2007.
- Completed a bought deal equity financing in March 2007, raising gross proceeds of CDN$62.1 million.
- Repaid US$31 million bridge debt facility on April 16, 2007.
- Received permit approval and began ground stabilization and preparation of the Richmond, CA site in October 2006. Construction of the Richmond Terminal began in January 2007. Capital costs for the redesigned terminal are estimated at US$27.4 million, a reduction of US$9.1 million from the original budget.
- Staked the Cougar sand and gravel deposit, a promising exploration target located 19 kilometres west of the Orca Quarry on northern Vancouver Island, B.C.
- Received two major awards recognizing Polaris for the excellence of its environmental and social practices.
- Received British Columbia's Stewart O' Brian Safety Award for the construction and operation of the Orca Quarry without a lost time accident.

2007 Goals:

- Complete construction of the Richmond Terminal.
- Secure permits for construction of the Redwood City Terminal in California.
- Secure additional port terminal capacity in the Company's target markets.
- Exceed the Orca Quarry Feasibility Study sales projection of 1.54 million tons during the first full year of operation.
- Sign additional long term supply agreements for the Orca Quarry.
- Evaluate development and marketing options for the proposed Eagle Rock Quarry.

Polaris
MINERALS CORPORATION

LETTER TO SHAREHOLDERS

Marco Romero receiving the e3 Environmental Excellence in Exploration Award from the Prospectors and Developers Association of Canada, on behalf of the Polaris team.

Dear Shareholders,

Once again, I am very pleased to report on a fantastic year for Polaris. The event that stands out over all our other achievements of the past year is the successful start of production at the Orca Quarry. With this achievement, we have become a supplier of high quality construction aggregates poised to grow into a major producer over the coming years.

In 2006, we built one the largest and most modern sand and gravel plants in Canada, as well as all its related ship loading facilities. Notably, we did this on budget and on schedule. This achievement is a credit to the remarkable Polaris team, our suppliers and contractors, and to the great crew at the Orca Quarry, particularly in light of the abnormally severe weather conditions that we experienced on the coast of British Columbia during the past winter and our very tight construction schedule. Production commenced on February 20, the first barges were dispatched to Vancouver area markets on March 22, and our first fully-laden ship sailed for San Francisco Bay on April 1, 2007.

I am very pleased that the maiden freighter shipment of sand and gravel from the Orca Quarry met the requirements of our first customer, Shamrock Materials Inc., which has been a supporter of our business plan since 2005. Shamrock is a leading San Francisco Bay area ready-mix concrete producer, and has a long term, exclusive supply and distribution agreement for Orca Quarry products within the northern San Francisco Bay area. To support our logistics, Shamrock will utilize a new and extremely efficient receiving terminal, located on the Petaluma River, to distribute sand and gravel from the Orca Quarry for decades to come.

While our initial business plan was built around shipping construction aggregates into California using Panamax vessels, we are also pleased to have commenced sales to our first customer in the Vancouver ready-mix concrete market. On March 22, we loaded a first shipment of sand and gravel into barges under a five-year supply agreement with this customer. We expect to commence shipments to additional customers in the coming months.

In March 2007, we closed a “bought deal” equity financing of CDN$62.1 million with a syndicate of underwriters led by GMP Securities L.P. and including Canaccord Capital Corporation, CIBC World Markets Inc., Orion Securities Inc., TD Securities Inc. and Wellington West Capital Markets Inc. With this share issue, we have significantly strengthened our balance sheet and paid down the bridge debt that we arranged at the time of our initial public offering. Now that we are virtually debt-free, we are in a great position to advance with our ambitious growth plans.

Customer demand for construction aggregates continues to be strong in west coast cities, despite the recent downturn in residential housing construction that is dampening some of the recently experienced aggregate demand increase and the corresponding upward pressure on prices. We expect overall aggregate demand for California in 2007 to be roughly in-line with 2006, driven principally by commercial and infrastructure construction. In the longer run, we anticipate aggregate prices continuing to escalate, reflecting their scarcity, the increasing need to haul alternative resources even longer distances on congested roads, the high cost of reserve replacement and increased demand.

What is most supportive of our entry into coastal urban markets up and down the west coast of North America is the rapidly dwindling supply of local materials. The anticipated growth in demand for imported aggregates in California is well supported by the 2006 Aggregate Availability Study issued in February 2007 by the State of California, which notes that there is a serious shortage of permitted aggregate reserves around the State's major coastal cities, and that the gap between locally available supply and demand is widening rapidly in many areas. Underpinning short and longer term aggregate demand is the massive infrastructure development programs approved by California's legislators and voters in November 2006. These are part of a US$222 billion plan that has been described by Governor Schwarzenegger as a "down payment" on the State's actual infrastructure requirements, as the State's aging public infrastructure is overwhelmed by relentless population growth.

I am also pleased to report that the sand and gravel from the Orca Quarry has been tested and shown to be of very high quality. The California Department of Transportation, after independent laboratory testing, has added Orca Quarry products to its pre-qualified materials listing. With this recognition, Orca material becomes an approved source of aggregates for reduced mineral admixture concrete on Department projects. Orca Quarry is only the ninth quarry to be so recognized and the only non-U.S. site. These results, and the accompanying endorsements from the testing personnel, highlight what we have known all along: this deposit is without peer on the west coast.

Securing discharge terminal capacity in the congested west coast ports is one of the greatest challenges we have faced since we created Polaris. Marine terminals become "virtual quarries" on the waterfront of coastal cities and strategic entry points into the surrounding markets. They are a critical element of the logistical chain that we need to establish before we are able to bring products to market. Securing sufficient terminal capacity in our target markets will remove the final barrier to growing our business and is a top priority for Polaris.

I am pleased to report that construction at the Richmond Terminal is proceeding very well and that we are now expecting completion around the end of the third quarter of 2007. On April 25, at a public hearing, Eagle Rock Aggregates' Mitigated Negative Declaration application for our second proposed terminal, located in the Port of Redwood City, received the unanimous vote of support from the port's commissioners, a significant step forward in the permitting process. These two terminals, coupled with the Landing Way Depot in Petaluma utilized by Shamrock, and the two barge terminals on Vancouver's Fraser River, are the first gateways into the markets that we have targeted.

Access to additional receiving terminals may allow us to reach a larger market area and to accelerate our production ramp-up at the Orca Quarry. Additionally they will trigger the development of the Eagle Rock Quarry, by providing us port capacity to land these products. Customer interest in crushed stone for asphalt paving applications continues to be encouraging, and is expected to increase as the State of California delivers on its commitment to invest in road infrastructure projects. We have now embarked on a review of our development options at Eagle Rock, with the objective of accelerating its development schedule.

In February 2007, we applied for tenure over the Cougar Deposit, located 19 kilometres from the Orca Quarry, as a potential complement to the Orca Quarry. As local aggregate production declines in our target markets, in California and elsewhere, deposits such as Cougar will become increasingly more valuable and may give us the ability to significantly augment our production of natural sand and gravel on northern Vancouver Island, while retaining our very long resource life. This summer, we plan to begin the quantitative and qualitative evaluation of this promising deposit that appears to be similar to those deposits at the Orca Quarry.

We are extremely proud to have received two prestigious awards applauding our efforts to achieve environmental and social excellence: the 2006 Mining and Sustainability Award from the Mining Association of British Columbia, and the 2007 e3 Environmental Excellence in Exploration Award from the Prospectors and Developers Association of Canada. Conscientiously balancing very high environmental, social and economic standards is something we continuously strive to achieve, and it is very gratifying to have these efforts recognized. We wouldn't be where we are today if it hadn't been for this approach. When you do the right thing, everyone wins.

I would like to take the opportunity to highlight the great work and effort of the Polaris and Orca teams during the past years. When we started loading the first shipment to San Francisco, it was the realization of a dream we held for almost seven years. It was great to see smiles on the faces of our employees, many of whom have been working with us since we began construction, and have been training for months to run and maintain the various components of this sophisticated operation. Having seen Orca rise from the ground up, they have grown to know every aspect of the quarry, plant and ship loader, to understand how it works, and, importantly, what it means for their own futures. I could see that, in common with our management team, they now enjoy the sense of ownership and pride that comes with this achievement.

We have built a solid foundation for long term profitable operations and set the stage for sustainable growth. Many people and organizations have made this possible, and they are too many to name here. I would like to thank our management team for their remarkable dedication and great skill, and our employees for their great attitude and efforts. I would also like to thank the members of our Board of Directors for their clear direction and wise guidance. Lastly, I must also thank our shareholders and partners for believing in us and for supporting our plan.

I look forward to reporting further progress to you soon.

Yours sincerely,

Marco Romero
President & Chief Executive Officer

The Orca Quarry team.

CALIFORNIA MARKET ANALYSIS

› 46% of the demand for construction aggregate in the U.S.A. is driven by public sector infrastructure needs, including road and bridge building, infrastructure maintenance, airports and all kinds of public buildings, as well as water and sewer developments.

Approximately 54% of the demand for construction aggregate in the U.S.A. is generated by the private sector which includes housing construction and related infrastructure, as well as commercial construction. The remaining 46% is driven by public sector infrastructure needs, including road and bridge building, infrastructure maintenance, airports and all kinds of public buildings, as well as water and sewer developments.

In coastal cities, particularly in California, the combination of the exhaustion of urban quarries coupled with the growth in population, and its related increasing demand for infrastructure, is leading to a supply deficit of construction aggregates. Urban sprawl has engulfed many of the operating quarries, limiting their ability to expand to meet the increasing long term demand. Ready-mix concrete manufacturers are progressively being forced to transport these critical materials over increasingly longer distances, typically by truck, leading to higher transportation and delivered costs.

The recent decline in the housing construction sector moderated the value of construction work completed in the U.S.A. during 2006, which increased by 4.8% compared with 2005, against a growth of 10.5% between 2004 and 2005.

In California, home sales during the last quarter of 2006 declined by 21% over the last quarter of 2005 and residential building permits declined by 23%. However, there is increasing evidence that the inventory of unsold new homes is declining, suggesting some signs of underlying market strength, which may become apparent later in 2007 and in 2008.

In the meantime, commercial building activity around San Francisco Bay has significantly quickened during 2006. Recent reports suggest that this sector is recovering from the aftermath of overbuilding in the late 1990's prior to the technology boom collapse. Traditionally, private commercial building represents around 17% of the total demand for construction aggregate.

In November 2006, California voters approved a $37.2 billion bond measure, as well as a reallocation of the gasoline tax collected by the State exclusively for transportation infrastructure spending, which should begin to have a significant impact on construction aggregate demand in the second half of 2007 and thereafter. Governor Schwarzenegger stated before the November 2006 election that: "For the last three decades we haven't built anything and we are bursting at the seams – we need more of everything".

The initial bond money, part of a much larger $222 billion infrastructure development program combining State and Federal funds, will be applied to transportation, schools, flood control and a multitude of public works projects, all of which are expected to demand large quantities of construction aggregates commencing in the second half of 2007.

Based on the foregoing analysis, demand for aggregate in 2007 is likely to be similar to 2006 requirements, with a rising demand trend expected to resume in 2008.

Average delivered prices continued to advance through 2006, reflecting increased operational and transportation costs and some margin increases reflecting aggregate scarcity. Although the pace of price increases is expected to slow somewhat in 2007, industry awareness of the cost of long-term resource replacement, coupled with longer haulage distances from resource to market, will continue to drive up real prices in the heart of coastal city markets. It is these markets which Polaris is targeting for the marine delivery of materials from the Orca Quarry, and eventually the proposed Eagle Rock Quarry.

PROJECTS

ORCA QUARRY (in Production)

Product: High quality sand and gravel
Target application: Ready-mix concrete
Reserve: 134 million tons*
Status: Producing and shipping
Permitted for 6.6 million tons per year
Ownership: Polaris 88%, Namgis First Nation 12%

*The Reserve numbers have been verified by a Qualified Person under NI 43-101. Please refer to the Company AIF dated March 30, 2007 (stated in short tons)

COUGAR DEPOSIT (Exploration Stage)

Product: Sand and gravel
Target application: Ready-mix concrete
Deposit Size: To be determined
Status: Staked, will undergo qualitative and quantitative assessment in the summer of 2007

EAGLE ROCK QUARRY (Proposed)

Product: High quality crushed granite
Target application: Asphalt paving
Resource: 757 million tons*
Status: Permitted for 6.6 million tons per year production, feasibility study partially completed
Ownership: Polaris 70%, Hupacasath 10%, Ucluelet 10%, Tseshaht 10% (in trust)

*The Resource numbers have been verified by a Qualified Person under NI 43-101. Please refer to the Company AIF dated March 30, 2007 (stated in short tons)

High quality sand production at the Orca Quarry.

ORCA QUARRY

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Product:	High quality sand and gravel
Target application:	Ready-mix concrete
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*The Reserve numbers have been verified by a Qualified Person under NI 43-101. Please refer to the Company AIF dated March 30, 2007 (stated in short tons)

Orca Quarry: one of the largest and most modern sand and gravel plants in Canada.

The Orca Quarry is a modern and efficient aggregate producer designed and built to yield over 6.6 million tons per annum of natural sand and gravel. Orca is expected to meet, for decades to come, the needs of west coast ready-mix concrete producers that require a long term supply of extremely high quality construction aggregates.

Following five challenging years of evaluation, planning, community consultation and environmental permitting, construction of the Orca Quarry and ship loading terminal commenced in early March 2006. Development was completed on schedule and on budget in only ten and a half months, a remarkable achievement, especially considering the extremely busy construction industry in British Columbia and the unusually severe winter storms that pounded the coast of B.C. during the winter of 2006-2007. Production commenced on February 20, 2007.

The majority of the design, planning, fabrication, construction, and installation of the Orca plant, ship loading terminal and related infrastructure was executed by British Columbia companies, many of which are located on Vancouver Island. The end result has been the development of a state-of-the-art quarry, designed and built for long-term, cost-effective production of high quality construction aggregates.

Commissioning of the plant has demonstrated that the attention to detail during the design and planning phases, in conjunction with the high quality craftsmanship applied during the construction, has paid off handsomely. The commissioning of this very large sand and gravel production facility has gone extremely well.

The Orca Quarry plant processes material extracted from a large, high quality sand and gravel reserve located near deep navigable tidewater approximately four kilometres west of Port McNeill, on northern Vancouver Island. Two other adjacent deposits await further evaluation and offer significant potential to extend the quarry's life. Orca produces three products: concrete sand, fine gravel and coarse gravel, all of which exceed Canadian, California and U.S. specifications.

The Orca Quarry is owned 88% by Polaris, and 12% by the Namgis First Nation, and commenced production on February 20, 2007. The first barges destined for the Vancouver area were loaded on March 22, 2007. The first Panamax freighter destined for San Francisco Bay was loaded with 79,000 tons of finished products on March 31, 2007.

Tractor scrapers efficiently collect the loosely consolidated raw material and carry it to the dump hopper.

The Orca Quarry's sand and gravel processing plant, constructed by Metso Minerals, is a state-of-the-art facility designed to produce over 6.6 million tons per annum. Subject to securing additional permitted reserves, shipping capacity and receiving terminals, the existing Orca plant has the potential to cost-effectively increase future production to keep pace with the expected increase in demand in the various North American west coast markets. At the current 6.6 million tons per annum permitted production level, the utilization of the quadrant beam shiploader will be approximately 30%, leaving significant installed capacity available for a potential increase in throughput.

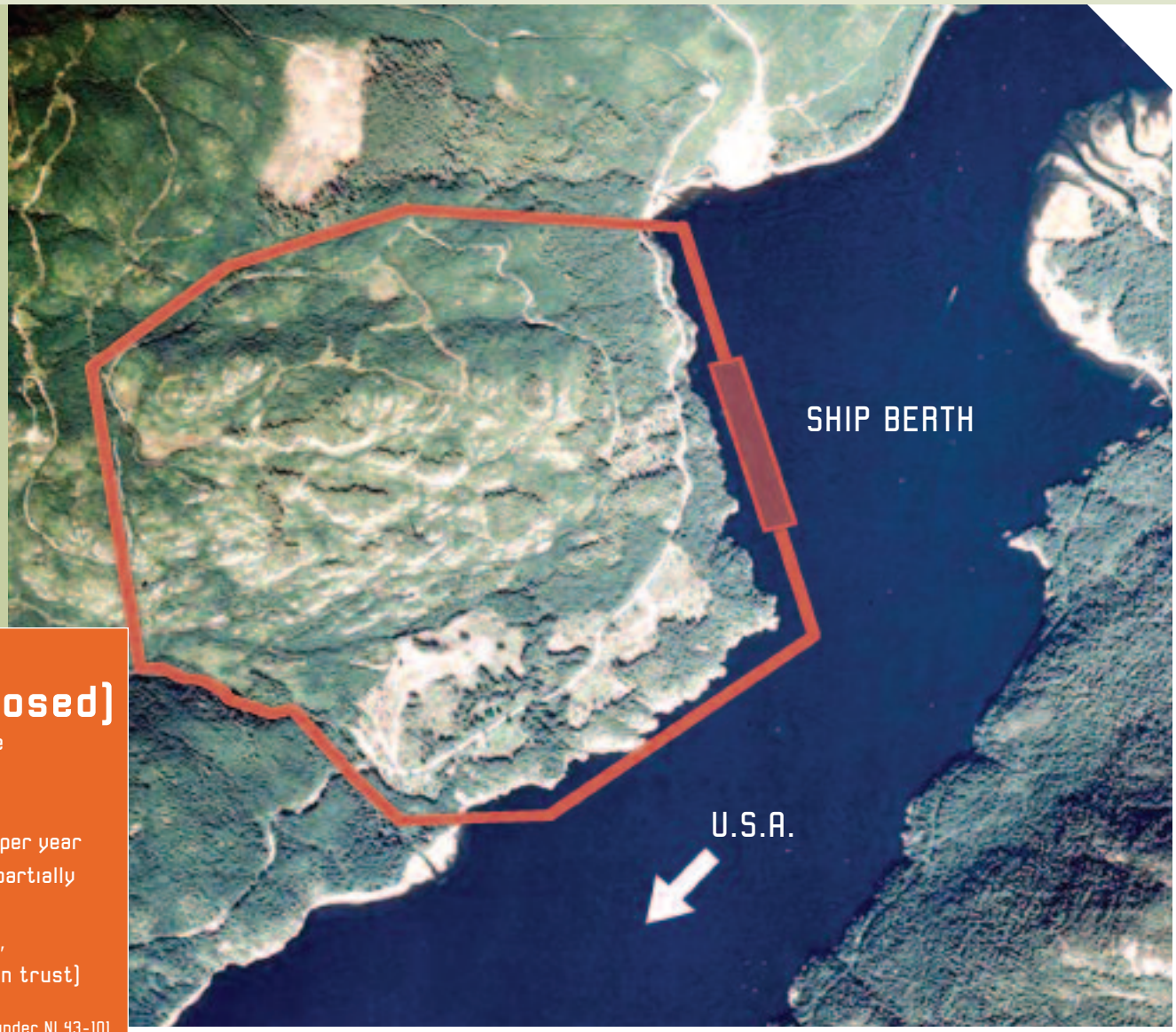
The Orca deposit is situated near deep and navigable tidewater, adjacent to a highway and electrical power, and is within a short distance of several coastal communities which provide an excellent pool of labour and services. Quarry operations are straightforward and very cost efficient. The unconsolidated material lends itself to excavation using tractor scrapers that collect and carry the raw material from the pit and dump it directly into a hopper, feeding a primary surge pile. After processing, two washed grades of gravel and one of sand are stockpiled above a recovery tunnel, and carried via high-speed conveyors to the quadrant beam shiploader. Loading of 79,000 tons into a Panamax-class ship can be achieved in less than 24 hours.

The Orca Quarry is designed to the highest standards of environmental sustainability, and includes progressive reclamation, wide buffer zones surrounding the project, the use of biodegradable vegetable oils wherever possible and a closed washing water circuit. These high standards have not gone unnoticed; Polaris was recently awarded two major awards recognizing its excellent environmental and social sustainability standards and practices.

The Orca Quarry has already become a significant contributor to the economy of northern Vancouver Island, currently providing well-paid, year-round employment for around 34 people, all residents of the local communities. When Orca reaches full production, the quarry will employ up to 50 local men and women. Today, half of the quarry's labour force are members of the Kwakiutl and Namgis First Nations and approximately forty percent of the employees are women. Many local businesses provided goods and services during construction, and will continue to do so during the life of the operation. The quarry also pays royalties to the surface landowner, Western Forest Products Inc., as part of a 50-year lease, and to the Kwakiutl First Nation as part of an Impacts and Benefits Agreement. Regular contributions are also payable to foundations that will benefit local communities on northern Vancouver Island, and support the environment, education, health, wellness, recreation and culture.

The Orca Quarry produces very high quality sand and gravel. Tests by an independent San Francisco area laboratory, exceeded all California (CALTRANS) and national (ASTM) specifications for use in concrete. The strength of Orca products comes from its predominantly volcanic origin, and from glacio-fluvial reworking at the end of the last ice age. The result of this natural processing is that only the hardest, rounded particles remain in the deposit, with virtually no silt or clay, and with very few boulders. Only a relatively small amount of crushing is required in the processing of this deposit. These characteristics are a substantial benefit to the ready-mix concrete industry as the Orca sand and gravel yields significantly superior strength concrete, permitting cement savings relative to locally available aggregates in conventional concrete mixes. The rounded nature of the particles also enables easier concrete pumping and finishing.

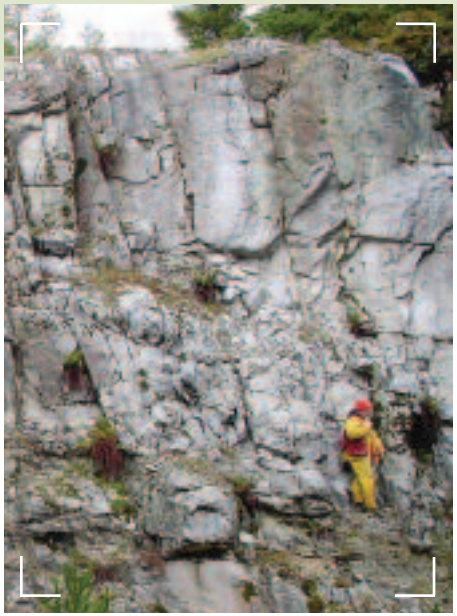
EAGLE ROCK



EAGLE ROCK QUARRY (Proposed)

Product:	High quality crushed granite
Target application:	Asphalt paving
Resource:	757 million tons*
Status:	Permitted for 6.6 million tons per year production, feasibility study partially completed
Ownership:	Polaris 70%, Hupacasath 10%, Ucluelet 10%, Tseshaht 10% (in trust)

*The Resource numbers have been verified by a Qualified Person under NI 43-101. Please refer to the Company AIF dated March 30, 2007 (stated in short tons)



Eagle Rock is very large undeveloped resource of high quality granite.

The proposed Eagle Rock Quarry is anticipated to be the Company's next quarry development. It is clear evidence of Polaris' growth potential.

Eagle Rock is very large undeveloped resource of high quality granite ideally suitable for road construction, asphalt paving and for certain ready-mix concrete applications. It is fully permitted for production of 6.6 million tons per year and is located immediately adjacent to deep, navigable tidewater, 15 kilometres south of the town of Port Alberni on Vancouver Island, B.C. The Eagle Rock Quarry has the potential to become one of the largest and highest quality crushed rock quarries on the west coast of North America.

Like the sand and gravel from the Orca Quarry, the crushed granite from Eagle Rock is a very high quality material, meeting or exceeding all U.S. and California specifications for asphalt paving and ready-mix concrete manufacturing. One of the most significant characteristics of this material is its extremely low absorbency, which minimizes the consumption of costly bitumen in road surface construction. Although most of the end users in the Company's markets prefer to use natural sand and gravel for concrete manufacturing rather than crushed stone, due to its ease of use and less abrasive nature, the Eagle Rock crushed stone can also serve to produce high strength, low-shrinkage concrete. However, in many markets elsewhere in the world, crushed stone is increasingly used to make concrete when a shortage of natural sand and gravel exists. Accordingly, the Company anticipates that customers will switch to products such as those that Eagle Rock can produce as sand and gravel becomes increasingly scarce.

A feasibility study on the quarry was commenced in 2003, but was put on hold until Polaris establishes that the demand for crushed material in the target markets can support the development. In November 2005, the Preliminary Assessment was updated by AMEC, who concluded that the project should be reactivated once a market for Eagle Rock's products had been confirmed. Recently, customer interest in the crushed rock product has increased, and an evaluation of development options has become a high priority for the Company.

The Eagle Rock Quarry is owned 70% by Polaris and 30% by local First Nations. The Hupacasath and Ucluelet First Nations each own 10%, and the remaining 10% is held in trust for the Tseshaht First Nation.

COUGAR DEPOSIT

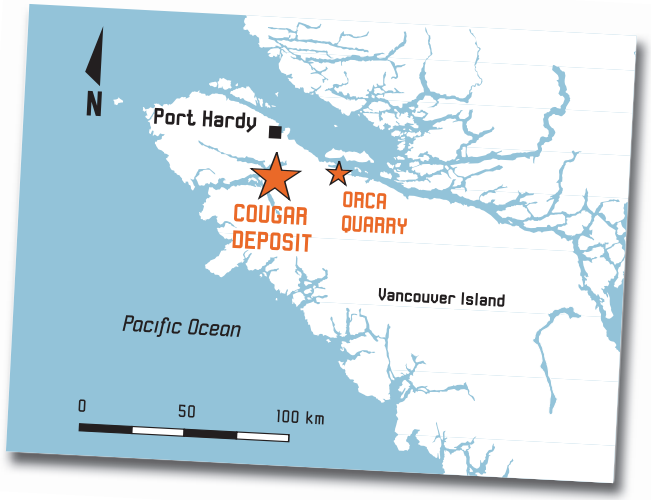
COUGAR DEPOSIT

Product:	Sand and gravel
Target application:	Ready-mix concrete
Deposit Size:	To be determined
Status:	Staked, will undergo qualitative and quantitative assessment in the summer of 2007

Polaris Chairman, Dr. Roman Shklanka, at the Cougar deposit.

The Cougar deposit is a promising exploration target located on the shores of Rupert Inlet, approximately 19 kilometres west of the Orca Deposit, directly across from the former Island Copper open pit mine. This project is a potential opportunity for Polaris to significantly enhance its sand and gravel resource inventory on northern Vancouver Island. Polaris plans to initiate preliminary exploration of the site, an environmental scoping study and community consultation during 2007.

Cougar is located in a forested area that can be easily accessed by an excellent forestry road network from either Port Hardy or Port McNeill.



Orca Quarry team member on the quadrant beam shiploader.

CUSTOMER AGREEMENTS

Shamrock takes delivery of sand and gravel from the Orca Quarry into barges in San Fransico Bay.

Polaris has secured two customers under long-term Aggregate Supply Agreements and is actively pursuing additional outlets for sand and gravel from the Orca Quarry, as well as for crushed stone from the proposed Eagle Rock Quarry.

The first Aggregate Supply Agreement was entered into on October 14th, 2005, effective on the commencement of supplies which took place on April 5th, 2007. The Agreement is to supply Shamrock Materials Inc., a major ready mix concrete producer, headquartered at Petaluma, CA, with sand and gravel from the Orca Quarry, for use in Shamrock's ready mix concrete plants, situated in the Counties of Marin, Sonoma, Mendocino and Napa, all in the State of California. Shamrock also has the exclusive right to distribute sand and gravel from the Orca Quarry to third parties within the four County areas. The Shamrock Agreement has a 20-year term and includes minimum and expected annual volume requirements for barged materials to Petaluma and for sales collected at the Richmond terminal, which are expected to begin in the third quarter of 2007.

The second long-term supply agreement has been secured with a ready mix concrete producer operating in the lower mainland area of Vancouver. In this instance, Orca Quarry products will be loaded onto barges provided by the customer, who is then responsible for transportation to an established off-loading facilities located on the banks of the Fraser River. The term of this agreement is five years and contains minimum and expected tonnages.

The combined sales to these two initial customers are expected to be around 1.5 to 2 million tons per annum by 2010.

Polaris is in advanced discussions with other potential customers for sand and gravel from the Orca Quarry. The outcome is expected to enable the Company to achieve a steady increase in annual sales, with the goal of exceeding the Orca Quarry Feasibility Study sales projection of 1.54 million tons during the first full year of operation. The Company is also pursuing markets for crushed stone destined for the road paving industry from its proposed Eagle Rock Quarry and has received expressions of interest in these products. Control and utilization of Company-owned or third party-owned terminals in the target markets of northern and southern California represents one of the greatest challenges for Polaris, and every effort is being made to achieve progress on this front. The competitive advantage of this market access cannot be under-estimated.

SHIPPING

Polaris has built a state-of-the-art quadrant beam shiploader and associated conveying equipment at its Orca Quarry terminal.

Utilizing joystick and computer technology from a central control station overlooking the ship, the Orca shiploader operator can control all ship loading operations,

Large capacity Panamax self-unloading bulk carriers that carry the products of the Orca Quarry, make possible the shipment of construction aggregates from British Columbia to U.S. west coast markets by bringing about important economies of scale.

The long distance shipment of low-value bulk products, such as aggregates, requires cost-effective transportation methods. The key to developing coastal quarries far from their markets is the utilization of modern, large carrying capacity, self-unloading bulk freighters, such as the Panamax-class vessels that Polaris uses to bring its Orca Quarry products to market. Efficient marine transportation allows a coastal aggregate producer like Polaris to extend the commercial reach of its operations and to gain access to distant markets it could not otherwise have served.

Panamax-class self-unloading bulk carriers are currently the largest and most efficient delivery option available to Polaris. These ships can carry up to 79,000 tons of aggregates, resulting in low unit transportation costs. The energy employed per unit of cargo weight is materially lower than any comparable overland transportation method. By utilizing onboard self-unloading equipment, Panamax vessels can discharge cargo at a rate of around 5,000 tons per hour, thus minimizing waiting time and associated port costs. This self-unloading technology is not new, but it has evolved a great deal. Self-unloading vessels eliminate the need for shore-mounted cranes and grabs that a conventional “gearless” ship has, and enables rapid unloading thereby minimizing the time in port and enhancing the vessel’s productivity. This frees the ship to do what it is supposed to do, which is to cost-effectively carry large quantities of products over long distances.

In 2005, Polaris entered into a ten year shipping agreement with CSL International, the world’s largest operator of self-unloading bulk carriers. This agreement provides Polaris with shipping capacity to California which progressively increases to over 5 million tons per year to meet the longer term forecast shipments from the Orca Quarry. Additional shipping capacity for other markets will be made available by CSL.

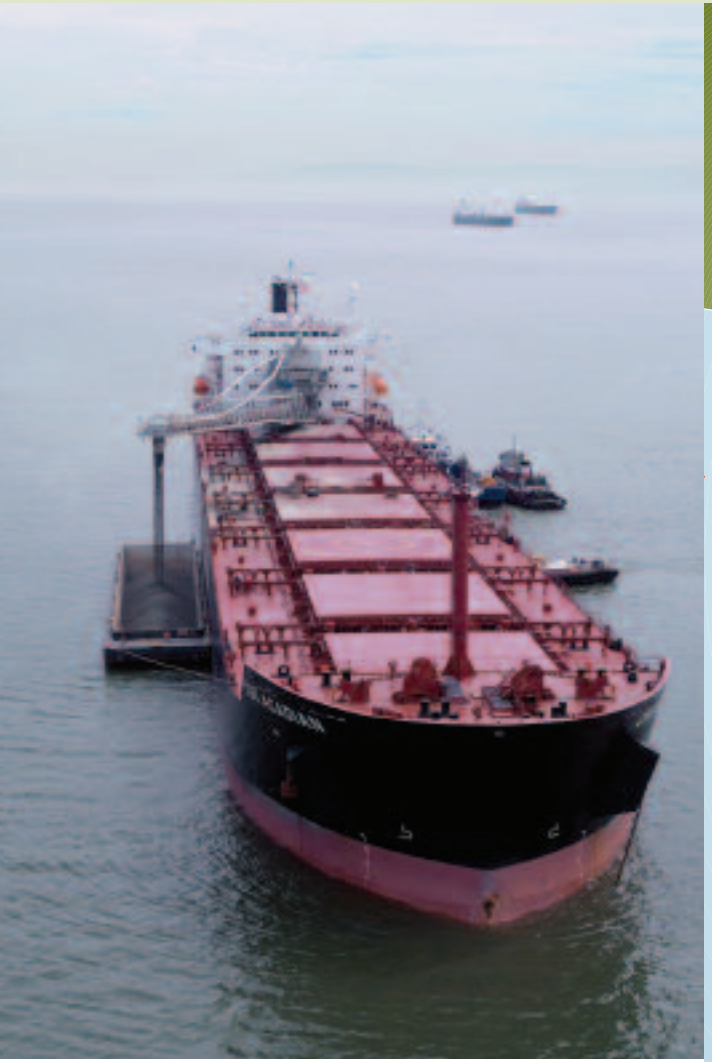
Loading a customer's barge at the Orca Quarry marine terminal.

Polaris has built a state-of-the-art quadrant beam shiploader and associated conveying equipment at its Orca Quarry terminal to rapidly load Panamax vessels. Utilizing touch screen technology from a central control station overlooking the ship, the Orca shiploader operator can control all ship loading operations, from the flow gates under the product stockpiles at the Quarry to the high-speed conveyor system leading to the shiploader. This single control function provides a loading rate up to 5,000 tons per hour. A round trip for bulk carriers steaming between Orca Quarry and San Francisco Bay, including loading and unloading, is approximately eight days. The CSL Acadian was the first ship loaded at the Orca Quarry and set sail for San Francisco Bay carrying over 79,000 tons of sand and gravel on April 1, 2007.

Although the shiploader at the Orca Quarry was designed for large Panamax-class bulk carriers, it can also load smaller vessels and barges to supply local markets requiring lower draft vessels. On March 22, 2007, Polaris loaded barges for a Vancouver-based customer as the commencement of a five year supply contract with Orca Quarry.

Inaugural Orca Quarry shipment en route to San Francisco Bay.

TERMINALS



Barges are loaded directly from the Panamax ship in San Francisco Bay and are then towed to the Landing Way Depot in Petaluma utlized by Shamrock Materials.

Sand and gravel from the Orca Quarry being stockpiled at two customers' terminals in San Francisco Bay.

"Securing receiving port terminals is the key to unlocking new markets for Polaris' products. It is our principal challenge, our top priority and our greatest opportunity."

Marco Romero

Aggregate receiving terminals in targeted market areas are a critical element in the logistical chain linking a coastal quarry to its customers. Polaris' early focus on this need has allowed it to secure strategic positions in key target markets, and to identify potential terminal locations on which detailed negotiations are continuing. Receiving terminals are "virtual quarries" that can be created in the heart of the coastal urban markets. By efficiently unloading high volumes of aggregates into receiving, storage and distribution terminals, Polaris will be able to competitively supply customers in the surrounding area with superior quality products. Access to terminals is a key barrier to entry for anyone wishing to enter the marine aggregates market, and as the production of aggregates from local urban quarries continues to decline, the strategic value of terminals will increase.

Polaris' first receiving terminal in Richmond, San Francisco Bay, is expected to be operational by the end of the third quarter of 2007. Offering covered storage for 80,000 tons of aggregates, the Richmond Terminal will load material into trucks for road delivery to ready-mix concrete producers in the surrounding urban area. This modern, highly mechanized and cost-effective operation owned by Eagle Rock Aggregates Inc. (ERA), a company owned by Polaris, the Hupacasath First Nation, the Ucluelet First Nation and the Tseshaht First Nation (in trust), will become a key gateway for aggregate distribution into the northeastern portion of San Francisco Bay.

The required permits for ERA's second receiving terminal in the Port of Redwood City, in southwestern San Francisco Bay, are anticipated to be secured in 2007. On April 25, 2007, the Mitigated Negative Declaration application for this proposed terminal received a unanimous vote of support from the port's commissioners, a significant step forward in the permitting process.

Shamrock Materials Inc., a Polaris customer in northern San Francisco Bay, will utilize the Landing Way Depot, a new receiving terminal in Petaluma, to receive Orca products by barge. This terminal will handle marine aggregates exclusively from the Orca Quarry and, ultimately, from the proposed Eagle Rock Quarry, all of which will be supplied by ERA.

By aligning itself with key customers and through exclusive supply and distribution agreements, Polaris, through ERA, plans to gain access to additional terminal capacity in California, thus increasing market access for its products and raising competitive barriers to potential alternative suppliers.

SUSTAINABILITY

› As Polaris develops into one of the largest, most efficient and progressive suppliers of marine-transported construction aggregates on the west coast of North America, it will remain the Company's goal to maintain its very high standards of excellence.

Polaris has built an enthusiastic and capable operating team at the Orca Quarry, all of which are residents of northern Vancouver Island.

When you invest responsibly, everyone wins.

Since the creation of Polaris, the team has worked hard to balance its business objectives with the need to protect the environment. Along with this prime objective, Polaris has a second goal: to be a well integrated and valued corporate citizen of the communities in which it works. At the Orca Quarry, the end result of this principled approach has been the implementation of leading edge environmental practices and very strong community, First Nation and government support for the operation. The same approach was employed, and similarly strong community support secured, at Polaris' proposed Eagle Rock Quarry, near Port Alberni, B.C., which is fully-permitted.

The Orca Quarry is already an engine of regional economic growth and diversification in northern Vancouver Island. Polaris' commitment to using competitive local suppliers has maximized the benefits for the community and allowed the Company to discover and use numerous high quality goods and services providers. Polaris is fortunate to have access to a very high level of professional and industrial services in British Columbia. Local companies and individuals, many of them from Vancouver Island, have played an enormous role in the highly successful commissioning of the Orca Quarry, which was achieved on budget and on schedule.

Prior to the construction decision for the Orca Quarry, Polaris spent approximately $3.6 million evaluating and planning the Orca Quarry, virtually all of which was expended in British Columbia. During 2006, Polaris spent approximately $55 million on construction of the Orca Quarry, the majority of which was spent in British Columbia, benefiting a large number of B.C. businesses and individuals. The most significant construction challenge was the ship loading facility located across an environmentally sensitive inter-tidal zone and in an area with significant seasonal presence of salmon and marine mammals, including orcas. As a result of careful planning and execution by the contractors, which were overseen by the Company's environmental monitor, a local marine biologist, this was achieved without adverse impacts on the marine environment.

Polaris has also built an enthusiastic and capable operating team at the Orca Quarry, all of which are residents of northern Vancouver Island. First Nations workers represent 50 percent of the workforce and, together with the rest of the team, have been trained to carry out skilled operational and maintenance duties. Polaris is also pleased that 40 percent of the Orca workforce is comprised of women who carry out a wide variety of duties at the quarry.

The Orca Quarry is a model of innovative and sensible environmental practices. Many features have combined to make it progressive in its approach, including a closed

The 2006 Mining and Sustainability Award from the Mining Association of British Columbia and the British Columbia Government, focused on Polaris' precedent-setting partnership with local First Nations and its innovative environmental practices.

circuit wash-water recycling system, buildings that are heated by the facility's waste oils consumed in clean burning furnaces, wide protective buffers between the project and the neighboring river that exceed minimum requirements, and the use of biodegradable oils and lubricants wherever possible.

Progressive site reclamation at Orca will minimize the area of land disturbance at any given time, and facilitate a rapid return to a natural forest environment. In the ocean, Polaris created a large artificial reef as compensation for the minor impacts caused by the construction of the shiploader, and populated the reef and surrounding area with 4,400 juvenile Northern Abalone, a highly endangered shellfish which is on the federal "species at risk" list. This outplanting was in fact considerably greater than the 1,000 abalones required under the Company's permit.

The Orca Quarry management team is committed to maintaining a strong culture of safety awareness and practices. Throughout the construction and operation of the quarry, there has not been a single lost-time accident, a remarkable accomplishment for a new team building a major industrial operation from the ground up. In recognition of this achievement, Polaris was awarded the celebrated Stewart O'Brian Safety Award by the Government of British Columbia on April 16, 2007. This award is given to B.C. operations achieving exemplary safety records. Polaris is grateful to have its safety-focused team at the Orca Quarry recognized by the industry.

Polaris' uncompromising work in achieving environmental and social excellence has also been publicly acknowledged by its peers and by the Provincial Government with the awarding of two prestigious awards. The 2006 Mining and Sustainability Award from the Mining Association of British Columbia and the British Columbia Government, focused on Polaris' precedent-setting partnership with local First Nations and its innovative environmental practices. Secondly, the Company received the 2007 e3 Environmental Excellence in Exploration Award from the Prospectors and Developers Association of Canada (PDAC). The e3 award is given to companies operating worldwide achieving exemplary environmental and social performance in exploring for mineral deposits and developing mining operations. Given the Company's strong focus in these areas, these awards have been particularly gratifying to Polaris' management team.

As Polaris develops into one of the largest, most efficient and progressive producers of construction aggregate on the west coast of North America, it will remain the Company's goal to maintain these very high standards of excellence. Polaris is committed to establishing and operating an ISO 14001 Environmental Management System for the Orca Quarry and, ultimately, at the Eagle Rock Quarry. The Company will monitor and report periodically on its ongoing social and environmental responsibility performance.

The 340 tonne quadrant beam shiploader at the Orca Quarry was the largest metal fabrication project on Vancouver Island in decades.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis of the financial condition and operations of Polaris Minerals Corporation (the "Company") has been prepared by management as of March 29, 2007, and should be read in conjunction with the Company's audited consolidated financial statements for the year ended December 31, 2006, which have been prepared in accordance with Canadian generally accepted accounting principles.

OVERVIEW

2006 was an important year for the Company. In January, following a successful Initial Public Offering, the Company became public and listed on the Toronto Stock Exchange (Symbol: PLS). Thereafter, in March, we commenced construction of the Orca Sand & Gravel Quarry ("the Orca Quarry") on tide water near Port McNeill, British Columbia and later in the year commenced construction of an associated receiving terminal in San Francisco Bay. These developments fulfilled the Company's strategy to establish itself in the emerging trade of marine exports of construction aggregates from its properties located in British Columbia, Canada to urban markets located on the west coast of North America, particularly California, Hawaii and British Columbia.

Local production of construction aggregates in the Company's target markets is rapidly diminishing as operating quarries are depleted and new resources become more difficult to permit. Increasingly longer and more costly overland haulages to consumers to meet the supply shortfall are raising the prices of aggregate products in the target markets of San Francisco Bay, Los Angeles Basin, and San Diego. This supply gap and price escalation has created a market opportunity for producers along the west coast of British Columbia to ship high quality construction aggregates to those markets in large ocean-going bulk carriers or tugs and barges.

Construction on the Orca Quarry and its associated deep ocean ship loading facility, progressed rapidly during 2006 and production at the site commenced in February, 2007 in order to build product inventories ready for shipping. The products, washed and graded sand and gravel construction aggregates, will be shipped in bulk carriers to Pacific coastal urban markets under a long term contract with CSL International Inc., the world's leading operator of self-discharging vessels.

The Company has secured a long-term aggregates supply agreement (the "Supply Agreement") with Shamrock Materials, Inc ("Shamrock"), a well established construction aggregates consumer located in the San Francisco Bay area (the "Bay"), one of the Company's target markets. Shipments to the Bay will be partially discharged into Shamrock's barges ("lightered"), provided under the Supply Agreement, while at anchorage in the Bay prior to discharging the balance of the cargo at the Company's receiving, storage and distribution facility or a third party terminal, access to which is being sought. This lightering arrangement offers the most economical shipping solution. The Supply Agreement will initially account for approximately 55% of the projected first year sales of 1.4 million tonnes. The Company will begin loading its first shipment to California on March 31, 2007. In addition, the Company is pursuing a sales strategy focused on securing further short or long-term customer sales contracts. The Company is in discussions with third-party consumers, and to date, customers' reactions to the potential of supplies from the Orca Quarry have been generally positive. The Company anticipates achieving a balance between long-term contracted sales and shorter term arrangements. The Company believes this approach should provide flexibility and allow the Company to participate in any future increases in the sales prices of its construction aggregates products.

On March 8, 2007, the Company entered into its second long term sales agreement, 5 year sand and gravel products supply agreement with an arm's length third party concrete manufacturer located in the lower mainland of British Columbia. Shipments commenced to this customer from the Orca Quarry on March 22, 2007 in barges chartered by the customer.

The Company owns the rights to develop the Eagle Rock Quarry Project, a very large granite resource located on deep tidewater in the Alberni Inlet, south of the town of Port Alberni, British Columbia. A Mine Permit was obtained for this quarry in 2003 and the Company is actively seeking market outlets which would support the development of the quarry to produce crushed rock construction aggregate products on site. Products would also be shipped in bulk carriers to coastal urban markets in the Pacific. The Eagle Rock Quarry is held by Eagle Rock Materials Ltd. which is owned 70% by the Company and 30% by First Nations that have asserted traditional territorial rights over the quarry area.

The Company has a long-term lease with Levin Enterprises, Inc. for a construction aggregates storage and distribution terminal in the Port of Richmond in the Bay (the "Richmond Terminal"). The initial design for the construction of the Richmond Terminal proved to be too expensive and a redesign of the terminal was completed with construction cost savings of US$9.1 million for a projected total cost of US$27.4 million. The redesign more economically accommodates the complex ground conditions prevalent around the Bay. Following receipt of a Building Permit on August 10, 2006, the Company began site

preparation and ground stabilization on the site in the fourth quarter of 2006, and construction of the terminal facilities commenced in the first quarter of 2007 and is anticipated to be complete in the third quarter of that year. The Company is also progressing discussions with other ports and port operators in pursuance of the objective to establish multiple entry locations to serve major cities on the Pacific coast.

Funding for the development of the Orca Quarry and Richmond Terminal was raised in January 2006 when the Company closed its initial public offering (IPO) on the Toronto Stock Exchange and raised net proceeds of approximately $74 million. At the same time, the Company closed a bridge debt facility for up to US$31 million. On March 15, 2007, the Company closed an equity issue for gross proceeds of $54 million and on that same day issued its 30 day notice of repayment to debt holders. Repayment of the debt facility is scheduled on April 15, 2007.

During the fourth quarter of 2006 the Supreme Court of British Columbia dismissed the petition filed by the Komoyue Heritage Society and others disputing the issuance to the Company of the environmental assessment certificate for the Orca Quarry and no appeal was filed.

SELECTED ANNUAL INFORMATION

The following table sets out selected consolidated financial information for the Company prepared in accordance with Canadian generally accepted accounting principles. The Company's reporting currency is the Canadian dollar. This information has been summarized from the Company's audited consolidated financial statements for the fiscal years ended December 31, 2006, 2005 and 2004. This selected consolidated financial information should only be read in conjunction with the Company's consolidated financial statements.

	Year Ended December 31		
	2006 $	2005 $	2004 $
Revenue	Nil	Nil	Nil
Interest income	1,993,000	83,000	158,000
Loss for the year	(3,777,000)	(3,447,000)	(2,786,000)
Basic and diluted loss per share	(0.13)	(0.27)	(0.22)
Cash and cash equivalents	49,405,000	1,160,000	6,160,000
Net working capital	37,941,000	189,000	5,822,000
Total assets	137,636,000	11,055,000	11,538,000
Total long term liabilities	43,182,000	1,314,000	Nil
Dividends declared	Nil	Nil	Nil

RESULTS OF OPERATIONS

During the year ended December 31, 2006, the Company incurred a loss of $3,777,000 ($0.13 per share) compared to a loss of $3,447,000 ($0.27 per share) in the comparative year. Operating activities, taking into account non-cash items and non-cash working capital, used cash of $5,892,000 for the year ended December 31, 2006 compared to a cash outflow of $2,095,000 in the 2005 year.

The Company was in a development and construction phase only and therefore had no operating revenues during the year ended December 31, 2006. The losses were attributable to expenses incurred, as discussed below.

Expenses of $6,010,000 were charged to operations during the year ended December 31, 2006, compared to expenses of $3,668,000 in the comparative year.

- Community relations expenses decreased for the year ended December 31, 2006 to $179,000 from $641,000 in the comparative year. The majority of the 2005 costs represented funding of the Kwakiutl and Namgis First Nations in connection with the restructuring of their participating interests in the Orca Project. These matters have now been resolved and costs declined in line with the lower level of community consultation activities at the Orca Quarry and the Eagle Rock Quarry Project.
- General and administrative costs in the year ended December 31, 2006 increased to $2,132,000 from $972,000 in the 2005 year. The increase is mainly attributable to increased investor relations activity as a result of the Company listing on the Toronto Stock Exchange, increased insurance costs due to the public nature of the Company, increased legal fees for the defence of the Komoyue petition, and increased consultants fees as well as increased general office costs due to the growth of the Company.
- Marketing costs in the year ended December 31, 2006 increased to $405,000 from $385,000 in the year ending December 31, 2005. The increase is attributable to increased consulting fees for the Company's shipping, discharging, and marketing arrangements and an overall increase in marketing activities in the Pacific coastal region.
- Regulatory compliance costs increased to $71,000 for the year ended December 31, 2006 compared to $Nil in the 2005 year as a result of completing the Company's initial public offering in the first quarter of 2006.
- Salaries and benefits increased to $2,028,000 in the year ended December 31, 2006 from $804,000. This increase is mainly attributable to $800,000 in management bonuses paid as certain milestones were achieved, in accordance with senior managements' employment contracts. Increased staffing levels account for the remaining increase for the year ended December 31, 2006.
- An expense of $945,000 was recorded in the year ended December 31, 2006 for stock-based compensation compared with $818,000 in the 2005 year. Further, $120,000 in stock based compensation was capitalized to property, plant & equipment for the year ended December 31, 2006, respectively, compared with $Nil in the comparative year.

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:

	Three Months Ended							
	2006				2005			
	Dec 31 $	Sept. 30 $	June 30 $	Mar. 31 $	Dec. 31 $	Sept. 30 $	June 30 $	Mar. 31 $
Revenue	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil
Interest income	104,452	982,495	699,326	206,661	12,969	20,480	27,015	22,974
Loss for the quarter	(1,528,526)	(9,489)	(94,046)	(2,144,629)	(663,615)	(1,077,440)	(621,716)	(1,084,368)
Basic and diluted loss per share	(0.04)	(0.00)	(0.01)	(0.08)	(0.06)	(0.08)	(0.05)	(0.08)

FINANCING

During the year ended December 31, 2006, the Company closed its IPO and issued 16,628,185 common shares at $4.80 per share for net proceeds of $73,937,905. A cash commission equal to 6.0% of the gross proceeds was paid to the agent. On January 10, 2006 the Company's shares were listed on the Toronto Stock Exchange and commenced trading with the symbol PLS.

Subsequent to December 31, 2006, the Company closed a bought deal for 6,000,000 common shares at $9.00 per share for gross proceeds of $54,000,000. The Company also granted the underwriter an option to purchase up to an additional 900,000 common shares at $9.00 per share which were exercised on March 22, 2007 for gross proceeds of $8.1 million. A cash commission equal to 5.0% of the gross proceeds was paid to the agent.

At the same time as the IPO, the Company closed a US$31 million debt facility. In the fourth quarter of 2006 the Company drew down the entire facility of US$31 million. The facility is comprised of two Tranches, A and B, for US$21 million and US$10 million, respectively. The loans are repayable on January, 2012, but may be repaid at any time without penalty. The loans bear interest that increases annually, commencing at 10% and 15% for Tranche A and Tranche B respectively, in 2006 and increasing to a maximum of 20% to 25% per annum respectively in 2011. The Company has issued its 30 day notice to the holders of the debt for repayment of the debt facility on April 15, 2007.

Subsequent to the first sale of a shipment of construction aggregates from the Orca Quarry to California, the Company must elect either to grant 1,000,000 warrants or grant a royalty of US$0.21 per short ton on 88% of construction aggregates shipments for the life of the quarry to the lenders as the Tranche A fee. Similarly, with respect to the Tranche B fee, the Company elects either to grant 1,153,846 warrants or grant a royalty of US$0.03 per short ton on 88% of construction aggregates shipments for each US$1 million of that facility. Each Tranche A and B warrant is exercisable into one common share at $4.80 per share until November 30, 2010. The Tranche A and B warrants and royalty certificates have been issued and are being held in trust. Interest payable at December 31, 2006 was $238,000.

The Company issued 25,000 common shares for proceeds of $120,000 pursuant to the exercise of options during the year ended December 31, 2006, compared with 40,000 common shares for proceeds of $36,000 during the year ended December 31, 2005.

During the year ended December 31, 2006 the Company entered into five year leases for heavy equipment for the Orca Quarry, terminating on October 28, 2011, at annual interest rates of 7.0% and 7.05% for total minimum lease payments over the five years totalling $4,549,000.

INVESTING

The Company capitalizes only direct costs incurred on projects determined to be viable, and charges certain other costs to operations, including salary and support costs; marketing studies and initiatives; and community relations programs.

Property Plant and Equipment

Orca Quarry

The Company capitalized $54,939,000 to the Orca Quarry during the year ended December 31, 2006 compared to $2,809,000 in the year ended December 31, 2005. Included in this increase for the December 31, 2006 year is $47,595,000 of Construction in progress which relates to the commencement of construction on the Orca Quarry with a major portion of these costs being associated with the Company's shiploader, process plant, and load-out conveyor system. Also included in capitalized costs are future site reclamation costs of $1,760,000 resulting from a corresponding asset retirement obligation. Other costs incurred in the year ended December 31, 2006 include sampling & testing, geotechnical surveys, development of drawings for the Orca Quarry shiploader and the remediation of an old dump adjacent to the Cluxewe River, but outside the Company's lease area. This remediation was mandated by the Land Titles Act and was therefore a precondition to the execution and registration of the lease agreement with Western Forest Products Inc. ("WFP"). However, an agreement is in place to recover 50% of these costs from Orca Quarry royalties payable to WFP. The costs incurred to December 31, 2005 were principally attributable to the preparation and filing of the environmental and mine permit applications and assessment work on the mineral claims, the development of the independent feasibility study, development of the engineering drawing for the shiploader and remediation of the dump near the Cluxewe River.

Richmond Terminal

During the year ended December 31, 2006, $15,274,000 was capitalized to the Richmond terminal compared to $467,000 in 2005. Included in this increase for the December 31,

2006 year is $11,419,000 of construction in progress which relates to the commencement of construction of the Richmond Terminal with a major portion of these costs being associated with the ground stabilization work, foundations and the building fabrication. Other costs in 2006 were principally incurred in connection with the Company's redesign of the Richmond Terminal, the attainment of the building permit for that terminal and dredging costs for the terminal's ship berth. Costs in 2005 are related to the lease costs of the Richmond Terminal, permitting and product testing.

Other Property, Plant and Equipment

The remaining increase of $4,636,000 in Property, Plant & Equipment for the year ended December 31, 2006 is mainly attributable to the lease of heavy equipment, motor vehicles, and additional office furniture, equipment and fixtures related to the operation of the Orca Quarry. The increase of $14,000 for the year ended December 31, 2005 was attributable to office furniture and equipment.

Quarrying & Terminal Interests

Eagle Rock Quarry Project

During the year ended December 31, 2006, $17,000 was capitalized to the Eagle Rock Quarry Project compared with $Nil expenditures in 2005. Costs incurred in 2006 comprised lease costs to keep the property in good standing.

Other Marine Receiving Terminals

During the year ended December 31, 2006, the Company capitalized costs of $27,000 compared to $90,000 in 2005. Costs in 2006 were principally incurred in connection with the permitting process of the Company's target marine receiving terminals in California.

LIQUIDITY AND CAPITAL RESOURCES

At December 31, 2006, the Company had working capital of $37.9 million, including cash and cash equivalents of $49.4 million compared to working capital of $189,000 and cash of $1.2 million at December 31, 2005. On January 10, 2006, the Company raised net proceeds of approximately $74 million and arranged a debt facility of approximately $36 million (US$31 million). Subsequent to December 31, 2006, the Company closed an equity issue for gross proceeds of $54 million and the Company intends to use a portion of these proceeds to repay the Company's debt facility. The Company expects that the remaining funds from the bought deal and IPO will finance the construction of the Orca Quarry and Richmond Terminal, and fund their operations through to sustainable positive net cash flows.

As at December 31, 2006, the Company's has the remaining contractual obligations for the construction of the Orca Quarry and Richmond Terminal and operating leases, as outlined in the following table:

	Payments Due by Period				
	Total $	Less than one year $	2-3 years $	4-5 years $	After 5 years $
Operating leases	22,797,000	790,000	1,990,000	2,200,000	17,817,000
Orca Quarry –					
Construction Contracts	685,000	685,000	–	–	–
Richmond Terminal –					
Construction Contracts	13,793,000	13,793,000	–	–	–

RELATED PARTY TRANSACTION

During the year ended December 31, 2006, a company controlled by a director of the Company provided services to the Company in the United States in connection with its proposed shipping, discharging, and marketing arrangements, at a cost of $308,000 compared to $247,000 for the year ended December 31, 2005 and family members of a director provided clerical services to the Company at a cost of $Nil compared to $5,000 in the 2005 year. A director of one of the Company's subsidiaries provided community relations services to the Company during the year amounting to $Nil compared with $17,000 in 2005.

RECENT ACCOUNTING PRONOUNCEMENTS

Financial Instruments

On January 27, 2005, the CICA issued Handbook section 3855, *Financial Instruments – Recognition and Measurement. It expands Handbook section 3860, Financial Instruments – Disclosure and Presentation,* by prescribing when a financial instrument is to be recognized on the balance sheet and at what amount. It also specifies how financial instrument gains and losses are to be presented.

All financial instruments will be required to be classified into various categories. Held to maturity investments, loans and receivables are measured at amortized cost with amortization of premium or discounts of losses and impairment included in current period interest income or expense. Held for trading financial assets and liabilities are measured at fair market value with all gains and losses included in net income in the period in which they arise. All available for sale financial assets are measured at fair market value with revaluation gains and losses included in other comprehensive income until the asset is removed from the balance sheet and losses due to impairment included in net income. All other financial liabilities are to be carried at amortized cost.

The mandatory effective date is for fiscal years beginning on or after October 1, 2006, with optional early recognition. The Company intends to adopt this standard in its fiscal year ending December 31, 2007, effective January 1, 2007.

At present, the Company's most significant financial instruments are cash and cash equivalents, accounts receivable and accounts payable and accrued liabilities. This new section requires little difference in accounting for these financial instruments from their current standards.

Comprehensive Income

CICA Handbook section 1530, *Comprehensive Income,* introduces a new requirement to temporarily present certain gains and losses outside of income. Section 1530 defines comprehensive income as a change in equity during a period, from transactions and events from non-owner sources. Comprehensive income and its components should be presented in a financial statement with the same prominence as other financial statements.

The effective date of this section is for fiscal years beginning on or after October 1, 2006, with optional early recognition. The Company intends to adopt the standard in its fiscal year ending December 31, 2007. The Company does not expect this new Guideline will have a material impact on the consolidated financial statements at this time.

CHANGES IN SIGNIFICANT ACCOUNTING POLICIES INCLUDING INITIAL ADOPTION

The Company adopted the following new accounting policies in 2006:

Inventories

Construction aggregates inventory is stated at the lower of cost or net realizable value. Cost for construction aggregates inventory is determined on a average cost basis and includes fuel, repair parts and supplies, raw materials, direct labour and production overhead. Consumable supplies are stated at the lower of cost and replacement cost. Costs for consumable supplies are determined on a first in, first out basis.

CRITICAL ACCOUNTING ESTIMATES

The Company's accounting policies are described in Note 2 to the December 31, 2006 audited consolidated financial statements. Both the accounting polices used and the estimates made by management can impact the consolidated financial statements. The Company considers the estimate of stock-based compensation and asset retirement obligations to be significant.

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

The Company records the fair value of any asset retirement obligation as a long-term liability in the period in which the related environmental disturbance occurs, based on the net present value of the estimated future costs. The obligation is adjusted at the end of each fiscal period to reflect the passage of time and changes in the estimated future costs underlying the obligation. In determining this obligation, management must make a number of assumptions about the amount and timing of future cash flows and the discount rate to be used.

FINANCIAL INSTRUMENTS AND OTHER INSTRUMENTS

The fair values of cash and cash equivalents, accounts receivable, security deposits, accounts payable and accruals and provisions approximate their book value due to their short-term nature. The Company estimates that the fair value of the capital leases and long term debt approximates their carrying value at December 31, 2006.

A substantial portion of the Company's financial assets and liabilities are denominated in United States dollars giving rise to risks from changes in exchange rates. The Company does not use derivative financial instruments to reduce its foreign exchange exposure; however, the Company maintains a significant portion of its cash and cash equivalents in U.S. dollars.

CAPITAL STOCK

As at the date of this report, the Company had unlimited common shares authorized, of which 36,549,845 were issued and outstanding. The Company also had 2,107,102 options outstanding, exercisable into 2,107,102 common shares of which 1,806,042 are currently vested.

RISKS AND UNCERTAINTIES

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

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

Quarrying involves a high degree of risk and the Company has no history of construction aggregates project development or operations. Additionally, certain groups are opposed to quarrying and could attempt to interfere with the Company's operations, whether by legal process, regulatory process or otherwise. The Company's title to its properties may be subject to disputes or other claims, including land title claims of First Nations. Construction aggregates quarrying, processing and development activities are highly regulated and changes to government regulations or interpretation of those regulations may also adversely affect the Company. The Company currently depends on a single property with a construction aggregate resource that has an estimated life of 25 years. In order to maintain its annual production the Company will be required to obtain other construction aggregates resources in the future to bring into production. The Company's operations are subject to environmental risks and the actual costs of reclamation for the property are uncertain. Further, the Company's insurance will not cover all the potential risks associated with a quarrying operation.

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

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

CORPORATE GOVERNANCE

The Company's Board of Directors endeavors to follow recommended corporate governance guidelines for public companies to ensure transparency and accountability to shareholders.

The Audit Committee of the Company fulfills its role of ensuring the integrity of the reported information through its review of the interim and audited annual financial statements prior to their submission to the Board of Directors for approval. The Audit Committee, comprised of three independent directors, meets with management and the external auditors of the Company on a quarterly basis to review the financial statements, including the MD&A, and to discuss other financial, operating and internal control matters. The Company also has the practice of engaging its external auditors to perform quarterly reviews of its interim financial statements.

CONTROLS AND PROCEDURES

Disclosure Controls

In accordance with Regulation 52-109 respecting certification of disclosure in issuers' annual and interim filings, a system of internal control is maintained by management to provide reasonable assurance that assets are safeguarded and financial information is accurate and reliable. The Company's Chief Executive Officer (CEO) and Chief Financial Officer (CFO) have evaluated the effectiveness of the Company's disclosure controls and procedures as of the year ended December 31, 2006 and has concluded, based on their evaluation, that these controls and procedures provide reasonable assurance that (i) information required to be disclosed by the Company in its annual filings, interim filings or other reports filed or submitted by it under applicable securities legislation is recorded, processed, summarized and reported within the prescribed time periods, and (ii) material information regarding the Company is accumulated and communicated to the Company's management, including its CEO, CFO and Chief Operating Officer in a timely manner. The Company has a Corporate Disclosure Policy and a Disclosure Committee in place to mitigate risks associated with the disclosure of inaccurate or incomplete information.

Internal Control over Financial Reporting

Management has designed, established and is maintaining a system of internal controls over financial reporting to provide reasonable assurance that the financial information prepared by the Company for external purposes is reliable and has been recorded, processed and reported in an accurate and timely manner in accordance with generally accepted accounting principles.

Management has engaged external consultants to evaluate the design of the Company's internal controls and procedures over financial reporting as at December 31, 2006 and believes the design to be sufficient and appropriate to provide such reasonable assurance.

The consultants have made recommendations for improvement in certain aspects of the Company's system of internal controls, and management intends to formalize approval and review processes by using checklists and initialing source documents, reconciliations and other accounting worksheets on a more consistent basis. The Company has a relatively small accounting and administrative department as as such, adequate segregation of duties can become a control issue. Management believes, however, that any control deficiencies in this regard are compensated for by the provision of an adequate level of supervision by senior executives.

It should be noted that while the Officers of the Company, as certified in the Company's Annual Filings and as required under Multilateral Instrument 52-109 issued by the Canadian Securities Administrators, have evaluated the effectiveness of these disclosure controls and procedures for the year ended December 31, 2006 and have concluded that they are being maintained as designed, they do not expect that the disclosure controls and procedures or internal controls over financial reporting will prevent all errors and fraud. A control system, no matter how well conceived or operated, can only provide reasonable, not absolute, assurance that the objective of the control system are met.

OUTLOOK

The Company expects to meet its long-term business objective of becoming a leading exporter of construction aggregates from British Columbia to Pacific coastal destinations. Its principal goals for the remainder of 2007 are to:

- increase sales from the Orca Quarry;
- complete construction of the Richmond Terminal;
- secure additional construction aggregates sales contracts and terminal access;
- obtain permitting on on a second Bay area aggregate receiving terminal located in the port of Redwood City for commencement of construction in 2008;
- conduct exploration programs to secure additional sand and gravel resources;
- evaluate development options for the Eagle Rock Quarry.

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, 2006, both of which are filed with Canadian regulators on SEDAR (www.sedar.com). The Company expressly disclaims any intention or obligation to update or revise any forward-looking statements and information whether as a result of new information, future events or otherwise. All written and oral forward-looking statements and information attributable to us or persons acting on our behalf are expressly qualified in their entirety by the foregoing cautionary statements.

OTHER INFORMATION

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

CONSOLIDATED FINANCIAL STATEMENTS

As at December 31, 2006 and 2005 (expressed in Canadian dollars)

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

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

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

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

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

Marco Romero
President and Chief Executive Officer

Lisa Dea
Vice President, Finance and Chief Financial Officer

March 29, 2007

AUDITORS' REPORT

To the Shareholders of Polaris Minerals Corporation

We have audited the consolidated balance sheets of **Polaris Minerals Corporation** as at December 31, 2006 and 2005 and the consolidated statements of operations and deficit and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2006 and 2005 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP

Chartered Accountants

Vancouver, British Columbia

March 29, 2007

CONSOLIDATED BALANCE SHEETS

As at December 31, 2006 and 2005 (expressed in Canadian dollars)

	2006 $	2005 $
Assets		
Current assets		
Cash and cash equivalents	49,404,772	1,159,778
Accounts receivable	3,124,013	138,458
Prepaid expenses and deposits	169,834	335,933
Inventories (note 3)	55,113	–
	52,753,732	1,634,169
Quarrying and terminal interests (note 4)	1,846,676	1,798,965
Property, plant and equipment (note 5)	81,419,814	6,814,532
Security deposits (note 6)	700,000	–
Deferred financing costs (note 7)	915,300	807,397
	137,635,522	11,055,063
Liabilities		
Current liabilities		
Accounts payable	5,357,830	695,058
Accruals and provisions	8,970,336	750,388
Current portion of capital lease (note 8)	484,209	–
	14,812,375	1,445,446
Asset retirement obligation (note 13)	1,759,840	–
Capital leases (note 8)	3,229,069	–
Long term debt (note 9)	36,124,300	–
Non-controlling interest (note 12)	2,068,463	1,314,141
	57,994,047	2,759,587
Shareholders' Equity		
Share capital (note 10)	92,761,614	18,629,705
Contributed surplus (note 11)	2,507,692	1,516,912
Deficit	(15,627,831)	(11,851,141)
	79,641,475	8,295,476
	137,635,522	11,055,063

Commitments (note 14)
Contingency (note 18)
Subsequent events (notes 4 (c), 5(b) and 21)

Approved by the Board of Directors

Roman Shklanka, Director

Paul Sweeney, Director

CONSOLIDATED STATEMENTS OF OPERATIONS AND DEFICIT

As at December 31, 2006 and 2005 (expressed in Canadian dollars)

	2006 $	2005 $
Income		
Interest	1,992,934	83,438
Expenses		
Amortization	249,098	38,874
Community relations	179,026	641,170
General and administrative	2,132,017	981,975
Marketing	405,059	384,533
Regulatory compliance	71,411	–
Salaries and benefits	2,027,653	803,762
Stock-based compensation	945,247	817,534
	6,009,511	3,667,848
Loss before undernoted items	(4,016,577)	(3,584,410)
Non-controlling interest	235,678	137,271
Gain on disposal of asset	4,209	–
Loss for the year	(3,776,690)	(3,447,139)
Deficit – beginning of year	(11,851,141)	(8,404,002)
Deficit – end of year	(15,627,831)	(11,851,141)
Basic and diluted loss per common share	(0.13)	(0.27)
Weighted average number of common shares outstanding	29,180,026	12,980,639

CONSOLIDATED STATEMENTS OF CASH FLOWS

As at December 31, 2006 and 2005 (expressed in Canadian dollars)

	2006 $	2005 $
Cash flows from operating activities		
Loss for the year	(3,776,690)	(3,447,139)
Items not affecting cash		
Amortization	249,098	38,874
Gain on disposal of asset	(4,209)	–
Non-controlling interest	(235,678)	(137,271)
Stock-based compensation	945,247	817,534
	(2,822,232)	(2,728,002)
Changes in non-cash working capital items		
Accounts receivable	(2,985,554)	(15,164)
Prepaid expenses and deposits	166,099	(148,901)
Inventories	(55,113)	–
Accounts payable	(219,535)	157,552
Accruals and provisions	24,335	639,403
	(3,069,768)	632,890
	(5,892,000)	(2,095,112)
Cash flows from financing activities		
Net proceeds from issue of common shares	74,469,053	36,000
Long term debt	36,124,300	–
Non-controlling cash contributions	990,000	–
Deferred financing costs	(582,823)	(807,397)
Capital lease payments	(183,792)	–
	110,816,738	(771,397)
Cash flows from investing activities		
Quarrying and terminal interests	(47,711)	–
Property, plant and equipment costs	(55,932,033)	(2,133,660)
Security deposits	(700,000)	–
	(56,679,744)	(2,133,660)
Increase (decrease) in cash and cash equivalents	48,244,994	(5,000,169)
Cash and cash equivalents – beginning of year	1,159,778	6,159,947
Cash and cash equivalents – end of year	49,404,772	1,159,778
Cash and cash equivalents consist of		
Cash	4,861,670	409,188
Short-term investments	44,543,102	750,590
	49,404,772	1,159,778

Supplemental cash flow information (note 19)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As at December 31, 2006 and 2005 (expressed in Canadian dollars)

1. NATURE OF OPERATIONS

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

2. SIGNIFICANT ACCOUNTING POLICIES

Accounting principles

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

Principles of consolidation

The consolidated financial statements include the accounts of the Company and it subsidiaries. The subsidiaries and the Company's ownership interests therein, are as follows: Eagle Rock Materials Ltd.(ERM) (70%), Eagle Rock Aggregates, Inc. (70%), Quality Rock Holdings Ltd. (100%), and Polaris Aggregates Inc. (100%), Orca Sand & Gravel Limited Partnership (OS&G LP) (88%), Orca Sand & Gravel Ltd. (88%), Quality Sand & Gravel Ltd. (100%), 5329 Investments Ltd. (100%), Orca Finance Ltd. (100%), North Island Sand & Gravel Ltd. (100%) and subsequent to December 31, 2006 Polaris Materials Inc. (100%). The Orca Sand & Gravel Limited Partnership's year end is January 31st.

Cash and cash equivalents

Cash and cash equivalents consist of cash and short-term investments with original maturities of three months or less from the date of acquisition.

Translation of foreign currency

Monetary assets and liabilities denominated in foreign currencies are translated at the exchange rate in effect at the balance sheet date and non-monetary assets and liabilities at the exchange rates in effect at the time of acquisition or issue. Revenues and expenses, other than amortization which is translated at historical rates, are translated at the average exchange rate in effect during the applicable accounting periods. Realized and unrealized foreign exchange gains and losses are reflected in the consolidated statements of operations.

Use of estimates

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

Inventories

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

Quarrying and terminal interests

Expenditures incurred to develop new construction aggregate properties or marine receiving terminals in advance of construction are capitalized. Costs are transferred to property, plant and equipment once a construction decision is made, written down to net recoverable amount if impaired, or written off if the property or interest is sold, allowed to lapse or abandoned. Costs incurred on properties prior to the acquisition or the determination of potentially viable deposits are charged to operations.

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

Property, plant and equipment

Property, plant and equipment are carried at cost less accumulated amortization and depletion. Once a construction decision is made for a quarry or a marine receiving terminal, capitalized costs related to the acquisition, exploration, evaluation and

development of those projects are transferred from quarrying and terminal interests to property, plant and equipment. Capitalized costs for quarries are depleted using a unit of production method over the estimated economic life of the quarry to which they relate following the commencement of operations. Capitalized costs for marine receiving terminals are amortized over the useful lives of the underlying interests following the commencement of operations.

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

Office furniture, equipment and fixtures	3.3 years
Motor vehicles	3 years
Leasehold improvements	life of lease

The cost of heavy equipment held under capital leases is equal to the lower of the net present value of the minimum lease payments or the fair value of the leased property at the inception of the lease and is amortized over the term of the lease.

Impairment of long-lived assets

The Company reviews and evaluates its long-lived assets for impairment when events or changes in circumstances indicate that the related carrying amounts may not be recoverable. An impairment loss is recognized when the asset-carrying value exceeds the net recoverable amount. The net recoverable amount is generally determined using estimated undiscounted future cash flows. Impairment is considered to exist if total estimated future cash flows on an undiscounted basis are less than the carrying amount of the asset. An impairment loss is measured and recorded based on the estimated fair value of the assets. Assumptions underlying future cash flow estimates are subject to risks and uncertainties. Any differences between significant assumptions used and actual market conditions and/or the Company's performance could have a material effect on the Company's financial position and results of operations.

Deferred financing costs

The finance costs associated with the issue of the long term debt are held as deferred financing costs and are being amortized over the period of the liability.

Asset retirement obligation

The Company recognizes liabilities for statutory, contractual or legal obligations associated with the retirement of property, plant and equipment. The Company records the fair value of any asset retirement obligations as a long term liability in the period in which the related environmental disturbance occurs, based on the net present value of the estimated future costs. The liability is accreted over time through periodic charges to operations and it is reduced by actual costs of decommissioning and reclamation. The fair value of the liability is added to the carrying amount of the capitalized mineral property. This additional capitalized amount will begin to be amortized once commercial production commences and will continue to be amortized over the estimated useful life of the asset. The obligation is adjusted at the end of each fiscal period to reflect the passage of time and changes in the estimated future costs underlying the obligation.

Stock options

The Company applies the fair value method of accounting for all stock option awards. Under this method the Company recognizes a compensation expense for all stock options awarded based on the fair value of the options on the date of grant which is determined by using a Black-Scholes option pricing model. Accordingly, the fair value of all stock options granted is recorded, over the vesting period, as a charge to operations and a credit to contributed surplus. Consideration paid on exercise of stock options in addition to the fair value attributed to stock options granted is credited to share capital.

Community relations

Community relations costs are incurred in communicating the environmental, technical, socio-economic and legal aspects of the proposed project developments to local communities, and providing assistance to enable them to understand and assess the implications of the proposed project developments. Costs are expensed when incurred.

Income taxes

Income taxes are calculated using the liability method of accounting. Temporary differences arising from the difference between the tax basis of an asset or liability and its carrying amount on the balance sheet are used to calculate future income tax liabilities or assets. Future income tax assets and liabilities are measured using tax rates and laws that are expected to apply when the temporary differences are expected to reverse. Future income tax assets are recognized only to the extent that, in the opinion of management, it is more likely than not that the assets will be realized.

Loss per common share

Loss per common share is calculated using the weighted average number of common

shares outstanding and special warrants issued and outstanding during the year. All outstanding stock options would be anti-dilutive and therefore have no effect on the determination of loss per share.

Comparative figures

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

3. INVENTORIES

Inventories at December 31, 2006 are as follows:

	2006 $	2005 $
Consumable supplies	55,113	–

4. QUARRYING AND TERMINAL INTERESTS

	Eagle Rock Quarry Project $	Cougar Deposit $	Other Marine Receiving Terminals $	Total $
Balance – December 31, 2004	1,498,505	–	210,359	1,708,864
Expenditures	–	–	90,101	90,101
Balance – December 31, 2005	1,498,505	–	300,460	1,798,965
Expenditures	17,042	3,335	27,334	47,711
Balance – December 31, 2006	1,515,547	3,335	327,794	1,846,676

a) Eagle Rock Quarry Project

The Eagle Rock Quarry Project is located on deep tidewater in the Alberni Inlet, southwest of the city of Port Alberni, British Columbia. The Company expects to quarry, crush and screen the granite resource to produce construction aggregates products on site. Products are expected to be shipped in bulk carriers or barges to coastal urban markets in California, Hawaii and British Columbia.

The Company has an environmental assessment certificate, mine permit and 50-year lease with the Province of British Columbia for the Eagle Rock Quarry Project. A foreshore lease application for the ship loader has been approved in principle, and the terms are currently being negotiated.

The Eagle Rock Quarry Project is held by ERM. The Company owns 70% of ERM, with the remaining 30% being owned 10% each by the Hupacasath First Nation (Hupacasath) and the Ucluelet First Nation (Ucluelet) and 10% is held in trust by the Company for the Tseshaht First Nation (Tseshaht).

The Company, the Hupacasath and the Ucluelet have a shareholders' agreement and an impact and benefits agreement. The principal terms of those agreements are as follows:

- Prior to a construction decision, the Company will fund ERM by making capital contributions to ERM, on behalf of all the shareholders.
- In the event that the Tseshaht do not choose to participate in ERM within a specific time after the approval of a feasibility study, the other First Nations will have the right to equally acquire the 10% interest held in trust for the Tseshaht.
- If First Nation shareholders elect not to make their equity contributions to the development financing, the Company will acquire 30% of their interest in ERM in return for funding the 70% balance of their equity contributions. If all three First Nations fail to make their equity contributions, the Company will own 79% and the First Nations will own 21% of ERM.
- Any loans to the First Nations will bear interest at a rate closely tied to the internal rate of return of the Eagle Rock Quarry development. The Company's sole recourse for repayment will be to dividends receivable by the First Nations from ERM as the loans are repayable solely from dividends.
- Certain preferential opportunities have been granted to the First Nations for business development, employment, and training within their communities.
- In the event that treaties are settled over the Eagle Rock Quarry area, the First Nations have agreed not to impose a tenure or tax regime on ERM, for a term of at least 25 years from the date of such treaties, which is less favourable than the tenure and tax regime that would have governed had the treaties not been settled.
- On the 25th anniversary of the development financing of the Eagle Rock Quarry, each First Nation will have the one-time right to increase their ownership in ERM by 50%, by purchasing ERM shares from the Company for cash at fair market value.

b) Cougar deposit

In February 2007, the Company applied for a license of occupation covering a sand and gravel deposit on northern Vancouver Island, B.C. The Cougar deposit is located on the shores of Rupert Inlet, approximately 19 kilometres west of the Orca Quarry and 19 kilometres south of the town of Port Hardy.

c) Other marine receiving terminals

The Company is evaluating, negotiating and permitting access to several sites at ports in California for the construction aggregates discharge, storage and distribution.

Subsequent to December 31, 2006, the Company has submitted its permit application with the Port of Redwood City for the development of a construction aggregates marine receiving terminal.

5. PROPERTY, PLANT AND EQUIPMENT

	2006			2005		
	Cost $	Accumulated Depletion or Amortization $	Net Book Value $	Cost $	Accumulated Depletion or Amortization $	Net Book Value $
Orca Quarry						
Property costs	12,305,901	–	12,305,901	4,961,164	–	4,961,164
Construction in progress	47,594,563	–	47,594,563	–	–	–
Richmond Terminal						
Property costs	5,651,856	–	5,651,856	1,797,400	–	1,797,400
Construction in progress	11,419,138	–	11,419,138	–	–	–
Motor vehicles	213,786	35,631	178,155	8,000	6,000	2,000
Heavy equipment (held under capital lease)	3,852,789	93,196	3,759,593	–	–	–
Office furniture, equipment and fixtures	700,327	197,211	503,116	140,271	86,303	53,968
Leasehold improvements	16,857	9,365	7,492	–	–	–
	81,755,217	335,403	81,419,814	6,906,835	92,303	6,814,532

a) Orca Quarry

The Orca Quarry is a sand and gravel quarry with a plant capable of producing six million tonnes of sand and gravel per year. It is on tidewater, west of the town of Port McNeill, British Columbia. The Company began development of the Orca Quarry which is comprised of the East Cluxewe deposit, the associated process plant and ship loader in early March of 2006 with land clearing and site preparation for the construction of the ship load-out conveyors and the sand and gravel processing plant. Subsequent to December 31, 2006, the Orca Quarry began production of sand and gravel. The Orca Quarry products will be shipped in self-unloading bulk carriers to coastal urban markets in the USA under a long-term shipping contract. Sand and gravel from the Orca Quarry is being barged to coastal British Columbia markets.

The Company has an environmental assessment certificate, federal environmental approvals and the mine permit for the Orca Quarry. On May 1, 2006, the Company entered into a foreshore lease with the Province of British Columbia (the “Crown”) in respect of the ship loading facility.

The Company completed an independent technical report in compliance with National Instrument 43-101 that confirmed the feasibility of the development of the East Cluxewe deposit, including the associated ship loader and the terminal and discharge facility in the Port of Richmond, San Francisco Bay (the Richmond Terminal). The report confirmed the quantity of the Orca Quarry resources which could be classified as reserves.

The Orca Quarry is part of the larger Orca Project which hosts three large coarse aggregate and fine aggregate sand and gravel deposits, namely the East Cluxewe, the Bear Creek and the West Cluxewe deposits.

The East Cluxewe and West Cluxewe deposits are situated on fee simple, private lands owned by Western Forest Products Inc. ("WFP") over which the Partnership (as defined below) has entered into a profit a prendre to gain access to, and obtain rights to, the rock, stone and sand located thereon. The principal terms are as follows:

- The agreement has a term of 10 years, with four 10-year extensions at the option of the Company.
- The Company will make royalty payments at an agreed rate per tonne of construction aggregates sold by the Company, subject to periodic inflationary adjustments and a minimum royalty in the fifth year of the term.

The East Cluxewe deposit is subject to royalties payable by the Orca Quarry to WFP, Kwakiutl First Nation and certain other local communities aggregating $1.06 per tonne of construction aggregates sold.

The Bear Creek deposit is also fee simple private land owned by Island Timberlands LP ("Island Timberlands"). The Company has exclusive right to negotiate a lease with Island Timberlands prior to December 31, 2007 to gain access to, and obtain rights to, the rock, stone and sand located thereon. The Orca Project lands also lie within the asserted traditional territories of the Kwakiutl Band (the "Kwakiutl") and the Namgis First Nation (the "Namgis"). The East Cluxewe deposit and Bear Creek deposit lie within the reserved traditional territories claimed by the Kwakiutl and the Namgis, whereas the West Cluxewe deposit is located in traditional territory asserted exclusively by the Kwakiutl.

The Kwakiutl and the Company have an Impact and Benefits Agreement which includes the following principal terms:

- The agreement applies solely to the Orca Quarry site, which is governed by the environmental assessment certificate.
- Staged cash amounts will be paid to the Kwakiutl.
- A royalty based on construction aggregates sold will be paid to the Kwakiutl.
- Certain preferential opportunities will be granted to the Kwakiutl for business development, employment and training within their community.
- In the event that treaties are settled over the Orca Quarry site, the Kwakiutl will not impose a tenure or tax regime, for a period of 20 years from the date of such treaties, which is less favourable than the tenure and tax regime that would have governed had the treaties not been settled.

The Company and the Namgis are partners in the OS&G LP (the Partnership) and have an Impact and Benefits Agreement over their asserted traditional territory. The principal terms are as follows:

- The Partnership and impact and benefits agreements apply to the project area within the territories claimed by both the Namgis and Kwakiutl First Nations.
- The Company owns 88% and the Namgis owns 12% of the Partnership.
- Certain preferential opportunities will be granted to the Namgis for business development, employment and training within their community.
- Contributions based on construction aggregates sold will be made by the Partnership to foundations for communities located within the asserted traditional territories of the Namgis and Kwakiutl.
- In the event that treaties are settled over the project area, the Namgis will not impose a tenure or tax regime, for a period of 20 years from the date of such treaties, which is less favourable than the tenure and tax regime that would have governed had the treaties not been settled.
- In December 2031, the Namgis will have the one-time right to increase their then ownership in the Partnership by up to 50%, by purchasing Partnership units from the Company for cash at fair market value.

In April 2005, the Company and the Namgis entered into an amended loan agreement, the principal terms of which are as follows:

- At the request of the Namgis, the Company will make additional advances to the Namgis to enable them to make their required equity contributions to the Partnership.
- Advances made prior to a construction decision will bear interest at prime plus a small margin. Advances made after a construction decision will bear substantially higher interest rates, reflective of the equity nature of the funding.

- The Company's sole recourse for repayment is to the distributions receivable by the Namgis from the Partnership. Advances made after a construction decision are repayable solely from those distributions and cannot be prepaid.

b) Richmond Terminal

The Company has a 20 year lease, with two 10 year extensions, with Levin Enterprises, Inc. for a construction aggregates storage and distribution site in the Port of Richmond in San Francisco Bay. In May 2004, the Company received the planning permit for the Richmond Terminal from the City of Richmond, and in February 2005 it received the environmental permit from the Bay Conservation and Development Commission. In February 2006, the Company executed the corresponding vessel berthing agreement for the Richmond Terminal. Construction on the terminal began subsequent to December 31, 2006.

The Company executed a long-term freight agreement in July 2005 for the delivery of products from the ship loader at the Orca Quarry to third party barges at anchorage in San Francisco Bay, and the Richmond Terminal and a third party terminal.

6. SECURITY DEPOSITS

The Company has issued $700,000 in irrevocable standby letters of credit as performance bonds on the Orca Quarry. The letters of credit are automatically renewed each year until returned to the Company upon completion of the performance bond and are secured by interest-bearing deposits of $700,000.

7. DEFERRED FINANCING COSTS

As at December 31, 2006, deferred financing cost amounted to $915,300.

Deferred financing costs of $807,397 incurred to December 31, 2005 were comprised of legal, accounting and other costs directly related to the completion of the Company's prospectus for its initial public offering (note 10(a)) and long term debt facility (note 9). On January 10, 2006, the Company closed its initial public offering and, as a result, deferred costs of $411,148 were included in share issue costs and netted against the proceeds. The remaining deferred costs of $396,249 were attributable to the long term debt facility.

8. CAPITAL LEASES

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

	2006 $	2005 $
2007	735,167	–
2008	735,167	–
2009	735,167	–
2010	735,167	–
2011	1,608,287	–
Total minimum lease payments	4,548,955	–
Less: Interest portion	835,677	–
Present value of capital lease obligation	3,713,278	–
Less: Current portion	484,209	–
Non-current portion	3,229,069	–

9. LONG TERM DEBT

	2006 $	2005 $
Tranche A	24,471,300	–
Tranche B	11,653,000	–
	36,124,300	–

The Company has a US$31 million debt facility comprised of two Tranches, A and B, for US$21 million and US$10 million, respectively. As at December 31, 2006, the Company has drawn down the entire US$31 million debt facility. The loans are repayable in January 2012, but may be repaid at any time without penalty (see note 21(b)). The loans bear interest that increases annually, commencing at 10% and 15% for Tranche A and Tranche B, respectively, in 2006 and increasing to a maximum of 20% and 25% per annum, respectively, in 2011. The debt is secured by a first priority lien on the assets of the Company.

Immediately following the first sale of a shipment of construction aggregates to California, the Company must elect either to grant 1,000,000 warrants or grant a royalty of US$0.21 per short ton on 88% of construction aggregates shipments for the life of the quarry to the lenders as the Tranche A fee. Similarly, with respect to the Tranche B fee, the Company can elect either to grant 1,153,846 warrants or grant a royalty of US$0.03 per short ton on 88% of construction aggregates shipments for each US$1 million of that facility. Each Tranche A and B warrant will be exercisable into one common share at $4.80 per share until November 30, 2010. The Tranche A and B warrants and royalty certificates have been issued and are being held in trust. Upon the draw down of the facility, the Company is required to pay a 1.5% debt advisory fee on the drawn amount and as at December 31, 2006, the Company has accrued $574,376.

Interest expense on the debt facility of $238,487 (2005 – $nil) has been capitalized to property, plant and equipment for the year ended December 31, 2006.

10. SHARE CAPITAL

Authorized

Unlimited common shares without par value

Issued

	2006		2005	
	Number of common shares	Amount $	Number of common shares	Amount $
Balance – beginning of year	12,996,660	18,629,705	10,206,660	9,332,014
For cash	16,628,185	79,815,288	–	–
Share issue costs	–	(5,877,383)	–	–
On exercise of stock options	25,000	194,004	40,000	36,000
On exercise of special warrants	–	–	2,750,000	9,261,691
Balance – end of year	29,649,845	92,761,614	12,996,660	18,629,705

a) Common shares

In January 2006, the Company completed an initial public offering of 16,628,185 common shares at $4.80 per share for net proceeds of $73,937,905. A cash commission equal to 6.0% of the gross proceeds was paid to the agent.

b) Broker warrants

At December 31, 2005, the Company had 250,000 broker warrants outstanding. Each broker warrant was exercisable into one common share at an exercise price of $5.00 per common share and expired unexercised on February 27, 2006.

c) Stock options

The Company established an incentive stock option plan (the Plan) on April 23, 2002. In September 2005, the Company amended the Plan to increase the exercise period of options granted and to be granted from five years to a maximum of 10 years. The Board of Directors (the Board) determines the exercise price of an option, but the price shall not be less than the fair market value of a common share on the date it is granted. Vesting and other terms are at the discretion of the Board. On May 16, 2006 the Company amended the Plan to allow the number of options outstanding under to the Plan to be equal to 10% of the outstanding common shares of the Company and permits options that have been exercised to be available for subsequent grants under the Plan. The amended Plan also prohibits the reduction of the exercise price of any outstanding options without prior shareholder approval. The Board administers the Plan, whereby it may from time to time grant options to directors, senior officers, employees, consultants, personal holding companies and certain registered plans. As at December 31, 2006, the maximum options allowed outstanding under the plan are 2,964,985 (2005 – 1,900,000).

	Number Outstanding	Weighted Average Exercise Price $	Expiry Date
At December 31, 2004	1,427,500	1.47	2011 – 2014
Granted	192,500	4.10	2015
Exercised	(40,000)	0.90	2012
Cancelled	(17,500)	3.82	2014
At December 31, 2005	1,562,500	1.79	2011 – 2015
Granted	594,602	5.04	2013 – 2016
Exercised	(25,000)	4.80	2016
Cancelled	(25,000)	4.80	2016
At December 31, 2006	2,107,102	2.63	2011 – 2016

As at December 31, 2006, 1,806,042 (2005 – 1,537,500) options were exercisable at a weighted average exercise price of $2.20 (2005 – $1.74).

The following table summarizes outstanding and exercisable share options at December 31, 2006:

Options Outstanding	Options Exercisable	Expiry Date	Exercise Price $	Weighted Average Remaining Contractual Life (years)
300,000	300,000	April 23, 2011	0.75	4.31
100,000	100,000	October 5, 2011	0.80	4.76
375,000	375,000	March 1, 2012	0.80	5.16
50,000	50,000	July 12, 2012	1.00	5.53
10,000	10,000	September 3, 2012	1.00	5.67
107,500	107,500	October 21, 2012	1.00	5.81
105,000	105,000	January 16, 2013	2.00	6.04
90,000	–	June 30, 2013	4.80	6.50
50,000	50,000	October 1, 2013	2.50	6.75
147,500	147,500	January 15, 2014	2.75	7.04
105,000	105,000	May 1, 2014	4.00	7.33
10,000	10,000	August 16, 2014	2.75	7.62
10,000	10,000	September 28, 2014	4.00	7.74
167,500	167,500	January 20, 2015	4.00	8.05
25,000	25,000	October 17, 2015	4.80	8.79
237,500	237,500	January 23, 2016	4.80	9.06
167,102	6,042	May 16, 2016	5.60	9.37
50,000	–	September 18, 2016	5.00	9.72
2,107,102	1,806,042		2.63	6.62

The options have been valued using the following option pricing model assumptions:

	2006 $	2005 $
Average risk free rate	4.06% – 4.38%	3.11% – 4.12%
Expected life	3.5 – 10 years	7 months – 10 years
Expected volatility	36.65% – 45%	45%
Expected dividends	–	–

As a consequence of amending the Plan in 2005, the Company recorded a further stock-based compensation expense of $516,205 in recognition of the incremental fair value of the options outstanding as of that date.

The total stock-based compensation recorded in the year ended December 31, 2006 was $1,064,784 (2005 – $817,534) which includes $119,537 (2005 – $nil) capitalized to property, plant and equipment.

The Black-Scholes option pricing model was developed for use in estimating the fair value of traded options. Option pricing models require the input of highly subjective assumptions including expected life and expected volatility. Changes in the subjective input assumptions can materially affect the fair value estimate.

11. CONTRIBUTED SURPLUS

	2006 $	2005 $
Balance – beginning of year	1,516,912	699,378
Stock based compensation	1,064,784	817,534
Exercise of stock options	(74,004)	–
Balance – end of year	2,507,692	1,516,912

12. NON-CONTROLLING INTEREST

	Non-controlling interest in subsidiary $	Namgis loan receivable $	Total $
Balance – December 31, 2004	–	–	–
Equity contributions	2,040,329	(588,917)	1,451,412
Non-controlling interest share of losses	(137,271)	–	(137,271)
Balance – December 31, 2005	1,903,058	(588,917)	1,314,141
Equity contributions	6,708,000	(5,718,000)	990,000
Non-controlling interest share of losses	(235,678)	–	(235,678)
Balance – December 31, 2006	8,375,380	(6,306,917)	2,068,463

The Company holds an 88% interest in the Partnership formed to develop the Orca Quarry, with the remaining 12% interest held by the Namgis. Non-controlling interest consists of the minority interest's share of the equity in the Partnership offset by the capital contributions loaned to the minority interest by the Company. The principal terms of the loan agreement between the Company and the Namgis are as follows:

- At the request of the Namgis, the Company will make advances to the Namgis to enable them to make their required equity contributions to the Partnership.
- Advances made prior to a construction decision will bear interest at prime plus a small margin. Advances made after a construction decision will bear substantially higher interest rates, reflective of the equity nature of the funding.
- The Company's sole recourse for repayment is to the distributions receivable by the Namgis from the Partnership, after repayment of any approved third party who has loaned the Namgis funds for equity contributions. Advances made after a construction decision are repayable solely from those distributions and cannot be prepaid.

Due to the uncertainty regarding recoverability, the Company has not recognized interest receivable on the Namgis loan. The fair value of this amount receivable cannot be determined by the Company as it is dependent on the future success of the Orca Quarry.

13. ASSET RETIREMENT OBLIGATIONS

During the year ended December 31, 2006, the Company recognized asset retirement obligations in connection with the construction and development of the Orca Quarry. As a result, the Company recorded liabilities totalling $1,759,840 in the year ended December 31, 2006 (2005 – $nil) and increased capitalized property, plant and equipment associated with the Orca Quarry by the same amount.

	2006 $	2005 $
Obligation – beginning of year	–	–
Liabilities incurred	1,717,724	–
Accretion expense	42,116	–
Obligation – end of year	1,759,840	–

A determination of the fair value of the liability assumes undiscounted estimated future cash flows needed to settle the liability incurred to December 31, 2006 of approximately $10,572,696, which are expected to be expended throughout the mine life to 2030. These estimated future cash flows have been discounted at credit-adjusted risk-free rate of 10.2% and assumes an inflation rate of 2.75%. Included in security deposits (note 6) is a $500,000 term deposit required by the British Columbia Ministry of Energy and Mines for reclamation at the end of the life of the Orca Quarry.

14. COMMITMENTS

a) The following minimum payments are required under operating leases as at December 31, 2006:

	$
2007	789,579
2008	959,382
2009	1,030,999
2010	1,101,473
2011	1,098,332
Thereafter	17,817,478
	22,797,243

b) As at December 31, 2006, the Company has remaining construction contract commitments totalling approximately $685,000 related to the Orca Quarry and has construction contracts totalling approximately $13.8 million related to the Richmond Terminal.

15. INCOME TAXES

a) The recovery of income taxes shown in the statements of operations and deficit differs from the amounts obtained by applying statutory rates to the loss before provision for income taxes due to the following:

	2006	2005
Statutory tax rate	34.12%	34.86%
	$	$
Loss for the year	(3,776,690)	(3,447,139)
Provision for income taxes based on statutory Canadian combined federal and provincial income tax rates	(1,288,607)	(1,201,673)
Difference in foreign tax rates	(18,067)	488
Decrease in Canadian tax rates	233,385	145,811
Share issuance costs	(1,904,566)	–
Future tax benefit to the minority interest and other	400,909	129,515
Accounting charges having no tax basis	343,663	292,606
Tax assets for which an income tax benefit has not been recognized	2,233,283	633,253
	–	–

b) The significant components of the Company's future tax asset, assuming a future tax rate of 32.41% (2005 – 34.12%), are as follows:

	2006 $	2005 $
Future income tax assets		
Excess of tax basis over carrying value of assets	348,534	1,786,527
Operating loss carry-forward	6,393,952	2,722,676
	6,742,486	4,509,203
Valuation allowance for future tax assets	(6,742,486)	(4,509,203)
	–	–

c) The Company has Canadian non-capital loss carry-forwards of $16,105,000 (2005 – $5,624,000), and U.S. tax losses of $3,629,000 (2005 – $2,096,000) that may be available for tax purposes. The non-capital losses expire as follows:

	Canada $	United States $
2009	287,000	–
2010	1,033,000	–
2014	2,237,000	–
2015	131,000	–
2022	–	9,000
2023	–	781,000
2024	–	506,000
2025	–	814,000
2026	12,417,000	1,519,000
	16,105,000	3,629,000

16. SEGMENTED FINANCIAL INFORMATION

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

17. RELATED PARTY TRANSACTIONS

Transactions with related parties are recorded at the exchange amount, being the price agreed between the parties. During the years ended December 31, 2006, a certain director, through a company controlled by him, provided services to the Company, as follows:

a) Marketing services at a cost of $308,357 (2005 – $246,646).

b) Community services at a cost of $nil (2005 – $16,910).

c) Clerical services at a cost of $nil (2005 – $4,549).

At December 31, 2006, accounts payable of $37,581 (2005 – $21,765) was due to a company controlled by a common director.

18. CONTINGENCY

During the year ended December 31, 2005, the Company was served a petition made to the Supreme Court of British Columbia by the Komoyue Heritage Society and others disputing the issuance to the Company of its Environmental Assessment Certificate M05-01. In the fourth quarter of 2006, the petition was dismissed by the Supreme Court of British Columbia.

19. SUPPLEMENTAL CASH FLOW INFORMATION

Non cash investing and financing activities

As a result of the Company receiving a receipt for its final prospectus for an initial public offering on December 22, 2005, the Company's 2,500,000 special warrants were deemed to be exercised on behalf of the holders for 2,750,000 common shares for no further consideration.

Non cash additions of $18,798,601 are included in property, plant and equipment.

20. FINANCIAL INSTRUMENTS

Fair value of financial instruments

The fair values of cash and cash equivalents, accounts receivable, security deposits, accounts payable and accruals and provisions, approximate their book value due to their short-term nature. The Company estimates that the fair value of the capital leases and long term debt approximates their carrying value at December 31, 2006.

Financial risk

Financial risk is the risk arising from changes in foreign currency exchange rates. The Company does not use any derivative instruments to reduce its exposure to fluctuations in foreign currency exchange rates.

21. SUBSEQUENT EVENTS

Other than disclosed elsewhere, subsequent to December 31, 2006, the Company:

a) issued 6 million common shares at $9.00 per common share for gross proceeds of $54 million. The Company has also granted the underwriters an option to purchase up to an additional 900,000 common shares at $9.00 per common share which were exercised on March 22, 2007 for gross proceeds of $8.1 million. A cash commission equal to 5.0% of the gross proceeds was paid to the underwriters.

b) issued its 30 day notice to the holders of the long term debt (note 9), for repayment of the debt facility on April 15, 2007.

BOARD OF DIRECTORS

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Independent Director [1, 2, 5]

Marco A. Romero
President & CEO, Director [2]

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

Gary D. Nordin
Independent Director [3]

R. Stuart (Tookie) Angus
Independent Director [4, 5]

Roman Shklanka
Chairman of the Board, Independent Director [3]

Terrence A. Lyons
Independent Director [1, 2, 5]

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Independent Director [1, 4]

Robert M. Edsel
Independent Director [3, 4]

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2. Finance Committee
3. Compensation Committee
4. Corporate Governance and Nominating Committee
5. Special Independent Committee

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President & CEO, Director

Herb Wilson
Senior Vice President & COO

Lisa Dea
VP Finance & CFO

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

CORPORATE DATA

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George Speck (Chair)
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Herb Wilson

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Darlene Lynch, Corporate Secretary

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Marco Romero
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