2009 Third Quarter Report

November 26, 2009

Third Quarter Letter to Shareholders

The third quarter financial results reflected the continuing recessionary conditions in North American markets, where demand reduced by 40% during the first nine months of 2009 compared with last year. Government statistics, together with the reports of the major US aggregate producers, show that this reduction in sales was in line with the general market. The expected boost in infrastructure activity through stimulus spending programs in California was neutralized by the State's budget deficits and largely delayed until 2010 to accommodate permitting and engineering requirements.

In recent speeches Governor Schwarzenegger has stated that over $2 billion in Recovery Act funding has been federally obligated to 620 highway transportation infrastructure projects, $13.1 billion of bond money from Proposition 1B (2006) is committed to 1,492 projects for high-priority transportation improvements and an anticipated $4.7 billion of Recovery Act funding is expected to be spent on high-speed rail projects. As a consequence of these firm indications by the State of California that it intends to create jobs by infrastructure construction, coupled with the Company's progress in terminal development, we remain cautiously optimistic for the short-term future and strongly committed to our long-term objectives.

We are pleased to report that prices for our products continue to remain stable, net of shipping fuel surcharges, which are passed through to customers on a quarterly basis.

We have reacted to the continuing recession by cutting the number of employees at Orca Quarry by one third and reducing selling, general and administrative by 42%, and 30% for the three and nine month periods respectively, compared with the previous year. Capital spending on operating assets has reduced to minimal levels upon completion of the second truck load-out at the Richmond Terminal, which was commissioned in November, 2009.

Operating costs in the third quarter included dead-freight charges of $366,000 arising as a consequence of the Panamax vessels being scheduled in advance based on customer demand projections, which failed to reflect the full decline in construction activity. As a result, inventories at Bay Area locations remained high and could not consistently accommodate fully loaded freighters. Revised schedules were more recently introduced as the extent of the downturn became evident and fourth quarter shipments have been maximized.

The Company is currently discussing with its shipping partner, CSL International Inc., the issue of potential penalties which could arise in the third quarter of 2010 through a failure to meet annual minimum volumes. We have enjoyed a supportive relationship with CSL since the commencement of operations in 2007 and believe that a mutually acceptable solution to this situation will be reached. However, as this issue remained unresolved at the end of the third quarter of 2009, operating results were negatively impacted by the inclusion of a provision against future potential shipping penalties of $1.0 million and an associated write down of the

value of inventory at the Orca quarry by $0.6 million. These provisions could be reversed in the future upon the successful conclusion of the shipping discussions.

We are pleased to note two recent milestones in pursuit of southern California marine terminals, which are important elements in the ultimate achievement of the Company's business plan. In the Port of Long Beach we have secured a nine month option to negotiate a long-term lease of an existing marine aggregates terminal. This site is permitted for 3 million tons throughput per year and offers potential for an early and low cost entry into the greater Los Angeles market. At the successful conclusion of due diligence, the Company expects to sell the Pier B land purchased in 2008, which will be replaced by the new site. In San Diego, an Exclusive Negotiating Agreement was entered into with the Port, providing exclusivity while negotiations proceed for a long-term lease of a terminal site.

Polaris Minerals is both an operating and development company and is still at an early stage of growth. Although original plans have been significantly delayed by this pronounced recession, they have not been derailed. The Company, which is debt free, has developed high quality assets and continues to pursue the long term business plan through the development of marine terminals in southern California. In this way, growth will be accelerated when construction activity increases in the markets we serve. The consensus within the industry is that an infrastructure driven recovery is expected to start modestly in the second quarter of next year. Thereafter a gradual increase is anticipated as the full benefit of the various stimulus measures is felt and general economic conditions support a return to growth in the private housing and commercial sectors.

Sincerely,

Herb Wilson
President and CEO
Polaris Minerals Corporation

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

Management's Discussion and Analysis
Third Quarter, 2009

The following discussion and analysis of the financial condition and operations of Polaris Minerals Corporation (the "Company") has been prepared by management as of November 5, 2009, and should be read in conjunction with the Company's unaudited consolidated interim financial statements for the three and nine months ended September 30, 2009, as well as the audited consolidated financial statements for the year ended December 31, 2008, which have been prepared in accordance with Canadian generally accepted accounting principles, and the related management's discussion and analysis contained in the 2008 Annual Report.

Highlights

- **Demand for Orca products remained at comparatively low levels as stimulus spending in California, the Company's major market, has been offset by reduced state spending due to budget deficits. A gradual recovery is expected during 2010.**
- **In August the Company sold its investment in Asset Backed Commercial Paper realizing $2.681 million.**
- **An accrual of $1.0 million and a write down of inventory of $592,000 have been included in the current quarter to allow for annual shipping minimum volume penalties that potentially come due in August of 2010. The matter is currently under review between the parties.**
- **The Company secured an option to lease an existing marine aggregate importing terminal in the Port of Long Beach, California, and immediately commenced due diligence. The site offers potential for a more cost-effective and quicker entry into the Los Angeles market and the eventual sale of the Pier B land.**
- **On August 4, 2009, Cemera San Diego, LLC the Company's jointly owned subsidiary, entered into an Exclusive Negotiating Agreement with the Port of San Diego to negotiate a lease for a marine aggregate terminal.**

Results of Operations

During the three months ended September 30, 2009, the Company incurred a net loss of $5.2 million ($0.10 per share) compared to a loss of $3.2 million ($0.09 per share) in the comparative quarter in 2008. During the nine months ended September 30, 2009 the Company incurred a loss of $10.0 million ($0.19 per share) compared to a loss of $7.6 million ($0.20 per share) in the comparative period in 2008. Losses for the three and nine months ended September 30, 2009 were negatively impacted by approximately $1.0 million under the Company's shipping contract, $0.6 million of inventory write downs as a result of the impact of these volume annual minimum volume penalties on the net realizable value, lower sales and correspondingly lower production tonnages, and foreign exchange losses of $0.6 million and $1.2 million, for the three and nine months respectively, resulting from the strengthening of the Canadian dollar.

The loss from operations for the three and nine month periods ending September 30, 2009, excluding stock-based compensation, were $4.2 million and $7.7 million, respectively, compared with losses of $2.2 million and $5.1 million in the comparative 2008 periods. Revenue for the three months ended September 30, 2009 was $4.5 million from sales of 336,000 tons which compared to $9.0 million from sales of 694,000 tons for the three months ended September 30, 2008. Revenue for the nine months ended September 30, 2009 was $13.7 million from sales of 1,029,000 tons which compared to $22.1 million from sales of 1,714,000 tons for the nine months ended September 30, 2008. The prime reason for these lower volumes was a further reduction of demand as a consequence of the economic recession, delayed stimulus spending impacts and state budget deficits in California. Poor weather conditions along the west coast also impacted the first 5 months of the year by inhibiting construction activity. Gross margins have been adversely impacted by the payment of deadfreight charges of $366,000 and $607,000 in the three and nine months ended September 30, 2009 respectively due to the partial loading of several vessels necessary to meet customer requirements at each terminal during these periods of slower sales. Through improved inventory planning and revised shipping scheduling this inefficiency has now been addressed. Further, impacting the gross margin is an accrual of $1 million for potential annual minimum volume penalties under the Company's shipping contract. The Company also wrote down the value of its inventory on hand by $592,000 through cost of goods sold as a result of the estimated future annual minimum volume penalties (see Contractual Obligations, Commitments, and Contingencies).

('000 except per ton amounts)								
	For the three month period ended September 30, 2009		For the three month period ended June 30, 2009		For the three month period ended March 31, 2009		For the year ended December 31, 2008	
	Tons	**$**	Tons	$	Tons	$	Tons	$
Sales	336	4,522	487	6,217	206	2,925	2,323	29,582
Gross margin		[1](2,920)		(342)		(404)		(83)
Gross margin per ton		*(8.69)*		*(0.70)*		*(1.96)*		*(0.04)*

[1] Includes a $1 million provision in the event annual minimum volume penalties are realized under the Company's shipping contract (see Contractual Obligations, Commitments and Contingencies)

The decline in gross margin per ton for the three months ended September 30, 2009, compared to the three months ended June 30, 2009, is the result of decreased sales volume in the period which increase the fixed costs per ton incurred. The gross margin per ton for the nine months ended September 30, 2009 has declined from the corresponding period in 2008 due to a 40% reduction in tons sold as a result of the worldwide economic recession, which is particularly deep in the state of California. The cost increase per ton resulting from the volume decline was greater than the benefit to the Company's margins from the lower shipping fuel costs over the prior year period, resulting in a reduction in operating margins. During the first quarter of 2009, the Company incurred additional repair and maintenance costs, having taken advantage of the opportunity of the slower winter quarter to prepare equipment for the summer periods. Repairs and maintenance of this nature were not incurred in the nine months ended September 30, 2008.

Average revenue per ton is influenced by the currency exchange rate, shipping fuel surcharges and the varying percentage between delivered and ex-quarry sales.

Shipping Fuel Surcharges

The Company's two major supply agreements in northern California contained conditions whereby the Company absorbed changes in the cost of shipping fuel during a twelve month period and passed the cost or benefit to the customer during the following year. The commencement selling prices to both customers reflected actual fuel costs at the time of entering into the contract. Accordingly, the Company passed 2007 increased fuel costs as a selling price surcharge on 2008 sales volumes. During 2008, unprecedented increases in the cost of shipping fuel were incurred by the Company, particularly during the second half of the year. In accordance with the supply agreements, 2008 costs absorbed by the Company are being passed as a selling price surcharge on 2009 sales volumes.

On January 1, 2009, in agreement with the two major California customers, the fuel surcharge adjustment mechanism was changed from an annual to a quarterly basis thereby reducing the impact of changing fuel prices on the Company. As a consequence, fuel price variations experienced in any quarter are passed on in the following quarter rather than waiting until the end of the calendar year. Very importantly, this change allowed the benefit of the current lower shipping fuel surcharges to be passed to customers in California more quickly, thus maintaining their competitiveness against trucking which experiences fuel price changes on a daily basis. This timing change will not affect the agreed recovery of the 2008 surcharges.

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

Other Charges

During the quarter ended September 30, 2009 selling, general and administrative expenses reduced by 42.2% to $1.3 million compared with $2.3 million in 2008. For the nine month period ending September 30, 2009 these expenses reduced by 30.3% to $4.0 million compared with $5.7 million in the 2008 period. The reductions were principally due to decreases in salaries, travel, and investor relations costs, as well as the appreciation of the US dollar in comparison to the same periods in 2008. For the three month period ending September 30, 2009 the non-cash expense for stock based compensation was relatively unchanged at $0.5 million compared with the same period for 2008; however, for the nine month period ending September 30, 2009 this expense was $0.8 million compared with $2.7 million in the comparative 2008 period.

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

Segmented Analysis

The Company operates in one segment: the development and operation of construction aggregate properties and projects located in North America. See "Segmented Financial Information" (note 16) in the Company's September 30, 2009 financial statements for analysis of its customers and geographic segments.

Summary of Quarterly Results

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

	2009			2008				2007
($000's)	**Sept 30**	June 30	Mar 31	Dec 31	Sept 30	June 30	Mar 31	Dec 31
Revenue	4,522	6,217	2,925	7,459	9,002	6,573	6,548	5,553
Loss from operations	[1] (4,707)	(1,784)	(1,923)	(2,742)	(2,789)	(1,923)	(3,065)	(9,743)
Net Loss for the quarter	[1] (5,230)	(3,337)	(1,397)	(2,159)	(3,241)	(1,929)	(2,464)	(10,931)
Basic and diluted net loss per share	(0.10)	(0.06)	(0.03)	(0.04)	(0.09)	(0.05)	(0.07)	(0.30)
(000 Tons)								
Sales	336	487	206	608	694	500	521	393
Aggregate production	259	[3]432	444	[2]338	706	581	793	340

(1) Includes a $1 million provision in the event annual minimum volume penalties are realized under the Company's shipping contract (see Contractual Obligations, Commitments and Contingencies)
(2) Net of 325,000 tons adjustment to year end inventory.
(3) An independent measurement of inventories at June 30, 2009 verified that the procedure for accounting for moisture losses implemented in 2009 was effective and no adjustments to recorded inventory were required.

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

Overview of the Company, Operations and Outlook

Recent Developments

Sales of the Company's construction aggregates in the first nine months of 2009 decreased by 40% from 2008 as demand in each of the Company's markets, California, Hawaii and British Columbia, continued to decline due to the economic recession and credit restrictions, which have hindered private and public construction projects alike. Wet weather conditions in the first five months of the year also impacted construction activity levels. In an effort to minimize variable costs, while maintaining the flexibility to respond immediately to any upturn in demand as the year progresses, the Company temporarily reduced the Orca Quarry operating hours in March 2009 by approximately one third and also reduced operating hours at its Richmond Terminal in San Francisco Bay. Full operating hours were restored in May at both operations in anticipation of the traditionally busy second and third quarters. However in July 2009 the Company again reduced hours at the Orca Quarry as a consequence of receiving reduced quarterly demand requirements from its major customers following a disappointing level of construction activity in June. In October 2009, in anticipation of the traditionally slower winter season the Company further reduced its operating costs by terminating one third of the Orca Quarry workforce.

On February 17, 2009, President Obama signed a $787 billion economic stimulus package designed to provide immediate relief to the beleaguered US economy. Specifically included in the package was $48 billion in new transportation investments, of which California was to receive $3.9 billion for investment in highways and bridges, transit capital, fixed guideway modernization and clean water. The perilous state of California's budget financing, however, diminished the immediate benefits of the stimulus spending. At the federal level, the failure of Congress to reauthorize the multi-year highway funding bill, known as SAFETEA-LU, has created further uncertainty amongst state transportation departments regarding spending authorities as they move into 2010; a situation that will hopefully be resolved before the end of the year.

The demand for construction aggregates is significantly higher per dollar of expenditure through infrastructure projects than in residential construction. Action taken at both federal and state levels in early 2009 is intended to be the financial catalyst to reverse the unprecedented decline in the present economic cycle and signs of resurgence may be emerging in the construction aggregates market in California as government stimulus funds begin to be released. Relatively simple projects, such as road resurfacing, were the first "shovel ready" projects to get underway. In many cases, the larger, more complex infrastructure projects have been approved to proceed, but the time required to build momentum in major infrastructure projects is such that significant benefits in aggregate demand will not occur until 2010 and thereafter.

Quarry Properties

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

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

decision the Company has allowed its agreement with Island Timberlands, in respect of Bear Creek to lapse and costs of $0.1 million for exploration on this property were written off in the nine month period ended September 30, 2009.

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

Marine Terminals

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

The Company's strategic objectives include the development of marine terminals in southern California. In 2008 a joint venture company, named Cemera Long Beach, LLC, was formed with Cemex, to develop a marine aggregates terminal in the Los Angeles areas. In 2008 Cemera Long Beach, LLC, purchased a 12.4 acre parcel of freehold land in the Port of Long Beach, California. Known as Pier B, this land was acquired with the intention of developing a major receiving and distribution terminal for aggregates from the Company's quarry properties and is currently in the permitting process.

However, in this third quarter, the Company secured an option to lease an existing marine aggregate importing terminal in the Port of Long Beach, California. The 8.3 acre site is privately owned and has operated for many years receiving construction aggregates from barges with storage in open stockpiles. The site, which is permitted to receive and distribute up to 3 million tons of construction aggregates per year, is located on a deepwater channel and is close to Interstate 710, which services the greater Los Angeles area. The option period is extendable to June 30, 2010, during which time the Company will carry out customary due diligence with a focus on permitting and physical changes related to the use of self-discharging Panamax vessels for marine delivery of sand and gravel from the Company's Orca Quarry. The Company believes that this site could be developed sooner and with significant capital savings over Pier B. Upon satisfactory conclusion of due diligence and lease negotiation, the Company expects that it will commence the development of this new site and proceed with the sale of the Pier B land with a net benefit to cash resources.

The Company, through its jointly owned Subsidiary Company, Cemera Long Beach, LLC, is also pursuing an opportunity in the Port of San Diego for the development of a marine aggregate terminal to service the San Diego market, which has significant aggregate supply deficiencies. On August 4, 2009, The Port of San Diego granted Cemera San Diego, LLC, an Exclusive Negotiating Agreement for an Option to Lease and develop an approximate 100,000 square foot building located at the Tenth Avenue Marine Terminal in San Diego for the purpose of receiving and distributing its aggregates. The Company expects to advance this opportunity over the next two years.

Markets

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

The California market has experienced an unprecedented reduction in demand, from a peak of 246 million tons in 2006 down to 162 million tons in 2008, a drop of 34% (Source: *US Geological Survey*). This rate of decline has continued such that demand in 2009 is projected by the Company to be approximately 123 million tons, a staggering reduction of 50% from the peak demand level in 2006.

Historically, public spending and private investment have been counter-cyclical. However, the significant decline in private spending, exacerbated by the current credit squeeze, out-paced the effect of any ramp-up of large infrastructure projects, thus creating the significant reduction in the overall demand. The

recently announced federal and state stimulus packages are now expected to increase the demand for construction aggregates in 2010. In view of the dramatic reductions experienced over the past three years, it is likely that the recovery will commence in 2010, although a return to 2006 levels of demand is not expected until 2015. (Source: *Portland Cement Association 2009 Conference on the State of the US Cement Industry*).

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

Several large infrastructure projects that were under construction in Vancouver, associated with the 2010 Winter Olympic Games, have now been completed. This factor, coupled with a slowdown in high-rise residential and private commercial construction, contributed to a significant slowdown of Orca quarry sales into this market in the first half of 2009. The Company expects that this trend will gradually reverse as the federal and provincial governments embark upon an infrastructure stimulus spending plan which includes several major projects in the lower mainland of British Columbia.

Shipping

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

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

However, a serious consequence of this unprecedented decline in the California construction market is that the Company is unlikely to meet its contractual shipping commitments for the third contract year ending July 17, 2010. (See: *"Contractual Obligations, Commitments and Contingencies")*

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

Customers

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

Cemex is a Mexican public company and one of a small number of major international cement producers, as well as a major producer of construction aggregate and ready mixed concrete. Cemex recently renegotiated long-term debt contracts and is poised to benefit from anticipated increases in worldwide construction markets. The Company maintains a close working relationship with Cemex management.

Shamrock Materials is a well established private company and close relations are maintained with the principals. The Company also has supply contracts with customers in Hawaii and Vancouver, BC both of which are substantial private companies with whom management maintains a close relationship.

As a consequence of the four long term purchase and supply contracts the Company's selling prices, net of recovered shipping fuel surcharges, have remained stable during 2009.

Sales and Seasonality

Although the Company's sand and gravel quarry operates year-round, seasonal changes and other weather related conditions can have an impact on production volumes and demand for the Company's products. As a consequence, the Company's financial results for any individual quarter are not necessarily indicative of results to be expected for that year. Sales and earnings are sensitive to weather and market conditions and particularly to cyclical swings in construction spending. This was no more evident than in the first half of 2009 when poor weather in all west coast markets, coupled with the general construction activity downturn, resulted in substantially lower volumes shipped compared with the previous year. Sales related to construction projects delayed by poor weather tend to be recovered as projects accelerate to meet deadlines in the following periods. Historically, the highest sales are achieved in the summer (second and third quarters) of any year and the lowest realized in the winter (first and fourth quarters) when construction activity may be impacted by adverse weather.

Liquidity and Capital Resources

Working Capital

At September 30, 2009, the Company had working capital of $11.2 million, including cash of $5.9 million, compared to working capital of $11.1 million and cash of $7.0 million at December 31, 2008. In order to strengthen its cash position, the Company, in conjunction with its joint venture partners, intends to refinance the $2.5 million short term loan receivable it incurred to build the berthing tug, now operational at the Orca Quarry ship loading berth.

Operating, Financing and Investing Activities

For the three and nine months ended September 30, 2009, cash generated was $1.3 million and cash used was $1.1 million respectively, compared with cash generated of $1.1 million and cash used of $5.9 million in the three and nine months ended September 30, 2008. Operating activities, taking into account non-cash items and non-cash working capital, used cash of $1.6 million and $4.6 million for the three and nine month periods ended September 30, 2009, respectively, compared to cash provided of $0.3 million and cash used of $1.7 million in the comparative 2008 periods. Inventories increased from 343,000 tons at December 31, 2008 to 443,000 tons at September 30, 2009. Quarry production is adjusted as necessary to maintain inventory levels.

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

To facilitate the purchase of the Pier B land, the Company entered into a one-year bridge loan facility in August 2008 for CAD$20 million, which was repaid using the net proceeds of the bought deal equity financing outlined above. Upon initial recognition, the Company designated the loan as held for trading and recognized the fair value of the loan at each measurement date. At December 31, 2008, the fair value of the loan was determined to be $16.4 million and at the time of repayment on January 8, 2009 there had been no material change in the fair value.

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

During the nine month period ended September 30, 2009, 20,000 stock options were exercised at an exercise price of CAD$1.00 per option, and the Company granted 725,000 stock options with a weighted average exercise price of CAD $1.97 per share, expiring in 2019.

The Company expended $0.4 million and $2.7 million ($0.4 and $2.3 million after excluding the BC Social Services tax assessment of $0.4 million), respectively on property, plant and equipment in the three and nine months ended September 30, 2009 compared with $18.0 million and $21.2 million in the comparative 2008 quarters. The 2009 expenditures relate mainly to payments for the installation of a second crusher at the Orca Quarry completed in 2008, permitting of the Pier B property, the ongoing feasibility study of the Eagle Rock Quarry and improvements to the load-out facilities and storage at the Richmond Terminal, while the 2008 expenditures related to the final construction costs of the Richmond Terminal, the Company’s 2008 exploration program and the commencement of the Eagle Rock feasibility study. Included in property, plant and equipment for the nine months ended September 30, 2009 is $0.4 million paid by the Company in order to minimize accrued interest, in relation to a BC Social Services tax assessment relating to construction of Orca Quarry in 2006. The Company is appealing this assessment (See *BC Social Services Tax* under the section *Contractual Obligations, Commitments and Contingencies*).

Investment in Long-term Notes/Asset Backed Commercial Paper

On January 12, 2009, the Ontario Superior Court issued the final implementation order in the asset backed commercial paper (“ABCP”) restructuring process. The restructuring closed on January 21, 2009 and the Company received:

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

In August 2009, the Company sold all of the new notes received from the ABCP restructuring process and removed their carrying value from its balance sheet. The Company received proceeds of $2,681,129 (CAD$2,943,791) from the sale. Changes in the fair value of the investment until the date of sale have been included in loss on fair value of investments. The change in the estimated fair value of the Company’s long-term notes/ABCP is as follows:

(in thousands)		Estimated fair value
Balance – January 1, 2009	$	2,675
Change due to restructuring, January 2009		(276)
Change in market assumptions and cash flows		233
Foreign exchange		49
Proceeds on sale of notes, August 2009		(2,681)
September 30, 2009	$	-

Contractual Obligations, Commitments and Contingencies

Shipping Tonnage

The Company is committed to ship the following tons under its first 10-year marine Contract of Affreightment ("CoA-1") which commenced on July 18, 2007. Failure by the Company to ship its annual cargo commitment will result in a deadfreight charge equal to 75% of the freight rate of the unshipped tons. The Company has the option in any given year to increase or decrease the required tons by 10% and to carry forward up to 25% of the yearly contracted tons into the following year. The Company met its first contract year commitment and shipped in excess of 1.5 million tons. The Company gave formal notice under CoA-1 that it is rolling forward 25% of the contract tonnage from the second year ending July 17, 2009. The Company met this reduced shipping requirement.

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

During the year ended December 31, 2008, the Company entered into a second 15-year Contract of Affreightment ("CoA-2"), scheduled to commence in the third quarter of 2010 under which the Company committed to ship a minimum of 2,480 tons annually. Failure by the Company to ship its annual cargo commitment will result in a deadfreight charge equal to 75% of the freight rate of the unshipped tons. The Company has the option in any given year, to carry forward up to 25% of the yearly contracted tons into the following year.

In March 2009, the Company reached agreement with its shipping contractor to amend both contracts as follows: CoA-1 was extended by 5 years and will now terminate on July 17, 2022; the start date of CoA-2 was deferred until January 1, 2014 and the contract now terminates on December 31, 2019.

The Company is currently in negotiations with its exclusive shipper, CSL International, with whom it has enjoyed a close relationship, to revise the terms of its contracts to reflect the substantial decline in current market conditions. A number of potential solutions are being considered and management believes that a mutually acceptable solution will be developed, However, the Company is unlikely to ship the minimum tons required in the third contract year ending July 17, 2010, and could have a potential liability in 2010 estimated at approximately $4.5 million. The Company made a provision of $1.0 million against this contract in the third quarter ended September 30, 2009. As a further consequence of the annual minimum volume penalty liability, the Company wrote down its inventory by $592,000 through cost of goods sold. This matter is the subject of continuing negotiations.

British Columbia Social Service Tax

The Company is disputing a BC social services tax assessment for the period May 2004 to December 2008. The basis for the dispute is the eligibility of the shiploading installation for the production machinery and equipment exemption available to mining companies, such as the Company. The Company believes it qualifies for this exemption and that amounts related to the shiploading installation are not due. After receiving an assessment for $567,167 (CAD$659,616) the Company received a refund of $72,513 (CAD$84,333) for the production and equipment exemption relating to amounts for the Orca Quarry. In order to avoid additional interest, the Company has paid the net amount due of $494,654 (CAD$575,283), of which $407,037 was capitalized to property, plant and equipment, and $87,617 (CAD$102,232) related to interest, has been expensed. The Company continues to engage legal counsel to defend its position and further its appeal.

Non-GAAP Measures

Adjusted Loss

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

('000 except per share amounts)	Three months ended September 30,		Nine months ended September 30,	
	2009	2008	**2009**	2008
	$	$	**$**	$
Loss for the period	(5,230)	(3,241)	(9,964)	(7,634)
Adjustments				
Stock based compensation	482	576	757	2,718
Loss on fair value of loan payable	-	951	7	951
Loss on investment	210	-	43	-
Adjusted loss for the period	(4,538)	(1,714)	(9,157)	(3,965)
per share	*(0.09)*	*(0.05)*	*(0.17)*	*(0.11)*

EBITDA and Adjusted EBITDA

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

('000 except per share amounts)	Three months ended September 30,		Nine months ended September 30,	
	2009	2008	**2009**	2008
	$	**$**	**$**	**$**
Loss for the period	(5,230)	(3,241)	(9,964)	(7,634)
Income taxes	(46)	-	22	-
Interest expense	53	345	327	480
Amortization, depletion and accretion	1,281	1,061	3,408	3,957
EBITDA	(3,942)	(1,835)	(6,207)	(3,197)
per share	*(0.07)*	*(0.05)*	*(0.12)*	*(0.09)*
Adjustments				
Stock based compensation	482	576	757	2,718
Change in fair value of loan payable	-	951	7	951
Change in fair value of investment	210	-	43	-
Adjusted EBITDA	(3,250)	(308)	(5,400)	472
per share	*(0.06)*	*(0.01)*	*(0.10)*	*0.01*

Related Party Transactions

During the three month period ended September 30, 2009, directors and/or an officer of a subsidiary company, either directly or through a company controlled by them, provided services to the Company at a cost of $77,844 (September 30, 2008 - $74,533). During the nine month period ended September 30, 2009, directors and/or an officer of a subsidiary company, either directly or through a company controlled by them, provided services to the Company at a cost of $230,409 (September 30, 2008 - $221,426).

At September 30, 2009, accounts payable of $25,948 (December 31, 2008 - $24,844) was due to a company controlled by an officer of a subsidiary company.

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

Critical Accounting Policies and Estimates

The Company's financial statements have been prepared in accordance with Canadian generally accepted accounting principles, which contemplate the realization of assets and settlement of liabilities in the normal course of operations.

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

Changes in Accounting Policies including Initial Adoption

Accounting policies implemented effective January 1, 2009

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

In January 2009, the CICA issued EIC-173, "Credit risk and the fair value of financial assets and financial liabilities". This abstract concludes that an entity's own credit risk and the credit risk of the counterparty should be taken into account when determining the fair value of financial assets and financial liabilities, including derivative instruments. This abstract is to apply to all financial assets and liabilities measured at fair value in interim and annual statements for periods ending on or after January 20, 2009. The adoption of this abstract did not impact the Company's valuation of financial assets or liabilities.

In March 2009, the CICA issued EIC-174, "Mining exploration costs" which provides guidance related to the measurement of exploration costs and the conditions that an enterprise should consider when determining the need to perform an impairment review of such costs. This abstract is to apply to all interim and annual statements for periods ending on or after March 27, 2009. The accounting treatments provided in EIC-174 have been applied in the preparation of these financial statements and did not have an impact on the valuation of exploration assets.

Convergence with International Financial Reporting Standards

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

The Company's IFRS conversion project consists of three phases: assessment, design and implementation. The Company, with the assistance of its qualified third party advisor, has completed the diagnostic assessment phase by performing comparisons of the differences between Canadian GAAP and IFRS as they affect the Company's systems and processes and other areas of the business. This assessment has provided insight on the high risk and complex areas relating to the conversion. These areas include: First time adoption of IFRS; The Effects of Changes in Foreign Exchange Rates, Property, Plant & Equipment; Impairment of Assets; Provisions, Contingent Liabilities and Contingent Assets (including Asset Retirement Obligations (AROs)); Interest in Joint Ventures; Share-based Payments; Presentation of Financial Statements; and Related Party Disclosure. The Company is currently assessing the effects of adoption and finalizing its conversion plan. The Company continues to focus on analyzing and developing implementation strategies and processes for the key IFRS transition issues identified. Where applicable, key IFRS transition alternatives are being considered and evaluated. The Company continues to perform preliminary accounting assessments on less critical IFRS transition issues and has commenced analysis of IFRS financial statement presentation and disclosure requirements. These assessments will need to be further analyzed and evaluated throughout the implementation phase of the Company's project. At this time, the impact on the Company's financial position and results of operations is not determinable or estimable.

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

Financial Instruments and Related Risk

Financial instruments

Cash has been designated as a financial asset held-for-trading and measured at fair value. Security deposits, included in Other Assets, have been designated as financial assets available-for-sale. Accounts receivable, loan receivable, and long-term loans are designated as loans and receivables. Accounts payable and accrued liabilities are designated as other financial liabilities.

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

Financial Instrument Risks

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

Credit risk

Credit risk is the risk that the Company will incur a loss due to a customer or other third party failing to discharge their obligation due to the Company. The Company has four customers and is, therefore, exposed to credit risk related to accounts receivable from these customers. The Company's largest customer is one of the world's largest international construction materials companies and the remaining customers are well established significant construction materials companies within their markets of San Francisco, Vancouver and Hawaii. At the time the Company entered into the loan receivable and the long-term loan, the Company assessed to its satisfaction the credit worthiness of the counter parties and continues to maintain close contact with those parties. The Company and partners in the joint venture that owns the berthing tug intend to obtain a marine mortgage for the loan receivable.

Except for the long-term loan, no collateral is held as security in respect of the amounts that comprise the Company's exposure to credit risk. The Company is in the process of renegotiating the long term-loan and its payment terms.

Liquidity Risk

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

Market Risk

The Company is exposed to the following market risks:

Currency risk – The Company reports in US dollars and the Canadian dollar is its functional currency. Operations in the USA are integrated with the Company's Canadian operations. As a result, the Company is exposed to foreign currency gains and or losses affecting net income and cumulative translation adjustments which affect other comprehensive income. The Company does not use any derivative instruments to reduce its exposure to fluctuations in foreign currency exchange rates.

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

Fair value of financial instruments

The fair values of cash, accounts receivable, loan receivable, security deposits included in other assets, accounts payable and accrued liabilities approximate their carrying values due to their short-term maturities.

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

Capital Stock

As at the date of this report, the Company had unlimited common shares authorized, of which 53,224,602 were issued and outstanding. The Company also had 3,717,595 options outstanding, exercisable into 3,717,595 common shares of which 2,987,760 are currently vested and 10,916,346 warrants outstanding, all of which are vested.

Risks and Uncertainties

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

Current global financial conditions have been subjected to increased volatility and access to financial markets has been severely restricted, which may impact the ability of the Company to obtain equity or debt financing in the future and, if obtained, on terms favourable to the Company. Failure to obtain financing in the future may result in the delay or indefinite postponement of the future development of the Company's properties and terminals and could potentially result in the loss of those property interests.

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

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

Management of the Company anticipates that current negotiations with its shipping partner, CSL International, will result in a mutually agreeable solution to potential contract penalties. However, failure to agree could have a material adverse affect on the Company and require the Company to seek additional sources of finance.

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

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

Controls and Procedures

The Company's management is responsible for establishing and maintaining adequate internal control over financial reporting. Any system of internal control over financial reporting, no matter how well designed, has inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation. There have been no changes in the Company's internal control over financial reporting during the nine months ended September 30, 2009 that have materially affected, or are reasonably likely to materially affect, internal control over financial reporting.

Cautionary Note Regarding Forward Looking Statements

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

“Risk Factors” in the Company’s Annual Information Form (AIF) in respect of its financial year-ended December 31, 2008, both of which are filed with Canadian regulators on SEDAR (www.sedar.com). The Company expressly disclaims any intention or obligation to update or revise any forward-looking statements and information whether as a result of new information, future events or otherwise. All written and oral forward-looking statements and information attributable to us or persons acting on our behalf are expressly qualified in their entirety by the foregoing cautionary statements.

Other Information

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

Glossary of Terms

Ton – the unit of weight used in the US consisting of 2,000 imperial pounds.

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

Polaris Minerals Corporation

CONSOLIDATED BALANCE SHEETS

(unaudited)

(thousands of U.S. dollars)

	September 30, 2009	December 31, 2008
Assets		
Current assets		
Cash	$ 5,947	$ 7,036
Accounts receivable	3,343	3,612
Income taxes receivable	256	36
Loan receivable (note 3)	2,593	2,069
Inventories (note 4)	3,522	2,250
Prepaid expenses and other	273	675
	15,934	15,678
Investments (note 5)	-	2,675
Long-term loan (note 6)	4,862	5,193
Property, plant and equipment (note 7)	118,209	105,361
Other long-term assets	1,232	1,008
	$ 140,237	$ 129,915
Liabilities		
Current liabilities		
Accounts payable (note 14)	$ 1,663	$ 2,438
Accrued liabilities	2,299	1,515
Income taxes payable	16	-
Current portion of capital lease obligations	708	592
	4,686	4,545
Loan payable (note 8)	-	16,413
Capital lease obligations	2,383	2,566
Asset retirement obligation (note 9)	2,096	1,740
Other long-term liabilities	120	45
	9,285	25,309
Non-controlling interest (note 10)	1,386	1,058
Shareholders' equity (note 11)		
Share capital	149,574	132,405
Warrants	6,837	4,503
Contributed surplus	13,487	12,733
Accumulated other comprehensive income	12,122	(3,603)
Deficit	(52,454)	(42,490)
	129,566	103,548
	$ 140,237	$ 129,915

Commitments and contingencies (note 15)

Approved by the Board of Directors

" Terrence A. Lyons "
Terrence A. Lyons, Director

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

Polaris Minerals Corporation

CONSOLIDATED STATEMENTS OF LOSS

(unaudited)

(thousands of U.S. dollars, expect per share amount)

	Three months ended September 30, 2009	Three months ended September 30, 2008	Nine months ended September 30, 2009	Nine months ended September 30, 2008
Sales	$ 4,522	$ 9,002	$ 13,664	$ 22,123
Cost of goods sold	(5,161)	(7,967)	(12,922)	(17,712)
Provision for annual minimum volume penalties (note 15)	(1,000)	-	(1,000)	-
Amortization, depletion and accretion	(1,281)	(991)	(3,408)	(3,747)
Gross margin	(2,920)	44	(3,666)	664
Selling, general and administrative	(1,305)	(2,257)	(3,991)	(5,722)
Stock-based compensation	(482)	(576)	(757)	(2,718)
Loss from operations	(4,707)	(2,789)	(8,414)	(7,776)
Interest on loan payable and capital lease obligations	(53)	(345)	(203)	(480)
Interest expense	-	-	(124)	-
Interest income	111	147	291	545
Foreign exchange (loss) gain	(647)	400	(1,162)	691
Loss on investments (note 5)	(210)	-	(43)	-
Loss on fair value of loan payable	-	(951)	(7)	(951)
Exploration property costs written off (note 7)	-	-	(116)	-
Loss before non-controlling interest and taxes	(5,506)	(3,538)	(9,778)	(7,971)
Non-controlling interest (note 10)	230	37	(164)	77
Income tax recovery (expense)	46	260	(22)	260
Net loss for the period	$ (5,230)	$ (3,241)	$ (9,964)	$ (7,634)
Basic and diluted loss per common share	$ (0.10)	$ (0.09)	$ (0.19)	$ (0.20)
Weighted average number of common shares outstanding	53,224	37,580	52,753	37,442

Polaris Minerals Corporation

CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited)

(thousands of U.S. dollars)

	Three months ended September 30, 2009	Three months ended September 30, 2008	Nine months ended September 30, 2009	Nine months ended September 30, 2008
Operating activities				
Net loss	$ (5,230)	$ (3,241)	$ (9,964)	$ (7,634)
Amortization and accretion	1,268	1,061	3,537	3,957
Accrued interest	-	-	(33)	-
Exploration property costs written off	-	-	116	-
Inventory NRV adjustment (note 4)	653	-	653	-
Non-controlling interest	(230)	(37)	164	(77)
Loss on fair value of investments	210	-	43	-
Loss on fair value of loan payable	-	951	7	951
Unrealized foreign exchange loss (gain)	258	(324)	445	(304)
Provision for annual minimum volume penalties (note 15)	1,000	-	1,000	-
Stock-based compensation	482	576	757	2,718
	(1,589)	(1,014)	(3,275)	(389)
Changes in non-cash working capital items (note 13)	(11)	1,325	(1,299)	(1,321)
Net cash (used in) provided by operating activities	(1,600)	311	(4,574)	(1,710)
Financing activities				
Issue of common shares and warrants	17	-	21,047	483
Issue costs	-	-	(1,491)	-
Financing fees	-	(22)	-	(22)
Issue (repayment) of loan payable	-	18,793	(16,824)	18,793
Capital lease payments	(164)	(146)	(458)	(465)
Net cash (used in) provided by financing activities	(147)	18,625	2,274	18,789
Investing activities				
Repayments (advances) on loan receivable	66	(375)	(140)	(1,819)
Proceeds and payments received on investments	2,705	-	2,928	-
Long-term loan principal payments received (net)	106	80	331	178
Property, plant and equipment purchases	(415)	(17,991)	(2,672)	(21,205)
Security deposit (withdrawal) deposit	(13)	(1)	(16)	41
Net cash provided by (used in) investing activities	2,449	(18,287)	431	(22,805)
Effect of foreign currency translation on cash	576	456	780	(129)
Increase (decrease) in cash	1,278	1,105	(1,089)	(5,855)
Cash - beginning of period	4,669	8,274	7,036	15,234
Cash - end of period	$ 5,947	$ 9,379	$ 5,947	$ 9,379

Supplemental cash flow information

(note 13)

Polaris Minerals Corporation

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

(unaudited)

(thousands of U.S. dollars)

	Share Capital						
	Number of common shares (000's)	Amount	Warrants	Contributed surplus	Accumulated other comprehensive income (loss)	Deficit	Total
December 31, 2007	37,325	$ 131,773	$ 3,452	$ 9,833	$ 20,478	$ (32,697)	$ 132,839
Warrants issued	-	-	1,051	-	-	-	1,051
Options exercised	255	632	-	(150)	-	-	482
Stock based compensation	-	-	-	3,050	-	-	3,050
Other comprehensive loss	-	-	-	-	(24,081)	-	(24,081)
Net loss	-	-	-	-	-	(9,793)	(9,793)
December 31, 2008	37,580	132,405	4,503	12,733	(3,603)	(42,490)	103,548
Units issued - net (note 11)	15,625	17,148	2,334	-	-	-	19,482
Options exercised	20	21	-	(4)	-	-	17
Stock based compensation	-	-	-	758	-	-	758
Other comprehensive income	-	-	-	-	15,725	-	15,725
Net loss	-	-	-	-	-	(9,964)	(9,964)
September 30, 2009	53,225	$ 149,574	$ 6,837	$ 13,487	$ 12,122	$ (52,454)	$ 129,566

Polaris Minerals Corporation

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(unaudited)

(thousands of U.S. dollars)

	Three months ended September 30, 2009	Three months ended September 30, 2008	Nine months ended September 30, 2009	Nine months ended September 30, 2008
Net loss for the period	$ (5,230)	$ (3,241)	$ (9,964)	$ (7,634)
Other comprehensive income (loss)				
Currency translation adjustment	10,551	(5,290)	15,725	(9,001)
Comprehensive income (loss) for the period	$ 5,321	$ (8,531)	$ 5,761	$ (16,635)

1. Basis of presentation

These unaudited interim financial statements have been prepared by the Company in accordance with Canadian generally accepted accounting principles for interim financial information using the same accounting policies and methods of application as the annual consolidated financial statements of the Company for the year ended December 31, 2008, except as noted below (note 2). These unaudited interim consolidated financial statements do not include all the disclosures required by Canadian generally accepted accounting principles for annual financial statements, and should be read in conjunction with the audited annual financial statements of the Company as at December 31, 2008.

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

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

2. Changes in accounting policies

Accounting policies implemented effective January 1, 2009

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

In January 2009, the CICA issued EIC-173, "Credit risk and the fair value of financial assets and financial liabilities". This abstract concludes that an entity's own credit risk and the credit risk of the counterparty should be taken into account when determining the fair value of financial assets and financial liabilities, including derivative instruments. This abstract is to apply to all financial assets and liabilities measured at fair value in interim and annual statements for periods ending on or after January 20, 2009. The adoption of this abstract did not impact the Company's valuation of financial assets or liabilities.

In March 2009, the CICA issued EIC-174, "Mining exploration costs" which provides guidance related to the measurement of exploration costs and the conditions that an enterprise should consider when determining the need to perform an impairment review of such costs. This abstract is to apply to all interim and annual statements for periods ending on or after March 27, 2009. The accounting treatments provided in EIC-174 have been applied in the preparation of these financial statements and did not have an impact on the valuation of exploration assets.

3. Loan receivable

The Company has a loan receivable at September 30, 2009 of $2,593,213 (December 31, 2008 - $2,068,858) from its joint venture partners in 0791304 B.C. Ltd (note 11). The amount due is comprised of principal of $2,443,962 (December 31, 2008 – $1,921,942) and accrued interest of $149,251 (December 31, 2008 – $146,916). The joint venture is seeking third party financing, from which, upon completion, it will repay the Company; therefore, the loan has been classified as current.

4. Inventories

(in thousands)	September 30, 2009	December 31, 2008
Construction aggregates	$ 2,769	$ 1,623
Components and consumable supplies	753	627
	$ 3,522	$ 2,250

During the nine months ended September 30, 2009, the Company recorded a write-down of $653,101 (September 30, 2008 - $nil) on its construction aggregates inventory in order to record inventories at net realizable value. Of this write-down $591,554 was incurred as a result of the estimated annual minimum volume penalties (note 15).

5. Investments

(in thousands)	September 30, 2009	December 31, 2008
Investment in long-term notes/ ABCP	$ -	$ 2,675

On January 12, 2009, the Ontario Superior Court issued the final implementation order in the asset backed commercial paper ("ABCP") restructuring process. The restructuring closed on January 21, 2009 and the Company received:

Face value (in thousands)		Restructuring categories
$4,058	(CAD$4,943)	Master Asset Vehicle MAV II Class A-1 Notes
$126	(CAD$152)	Master Asset Vehicle MAV II Class C Notes
$637	(CAD$776)	Master Asset Vehicle MAV II Class 13 IA Tracking Notes

The exchange of the ABCP for the new notes on January 21, 2009, was recognized as a transaction of substance. The Company's initial investment in ABCP was classified as available-for-sale on initial recognition and carried at fair value in cash and cash equivalents. To reflect the lack of liquidity in the ABCP market and the uncertainty surrounding the timing of cash flows, the investment was reclassified as long-term. The investment in ABCP was removed from the Company's balance sheet at January 21, 2009 and the new notes initially recognized at a fair value of $2,398,638 (CAD$3,056,105). The Company's investment in the new notes was classified as held-for-trading long-term investments and carried at fair value. Interest payments received and restructuring fees incurred were accounted for in the fair value determination of the notes. Changes in fair value of the new notes have been reported in net income.

In August 2009, the Company sold all of the new notes received from the ABCP restructuring process and removed their carrying value from its balance sheet. The Company received proceeds of $2,681,129 (CAD$2,943,791) from the sale. Changes in the fair value of the investment until the date of sale have been included in loss on fair value of investments. The change in the estimated fair value of the Company's long-term notes/ABCP is as follows:

(in thousands)		**Estimated fair value**
Balance – January 1, 2009	$	2,675
Change due to restructuring, January 2009		(276)
Change in market assumptions and cash flows		233
Foreign exchange		49
Proceeds on sale of notes, August 2009		(2,681)
September 30, 2009	$	-

6. Long-term loan

(in thousands)		**September 30, 2009**		**December 31, 2008**
Loan	$	4,862	$	5,193

At September 30, 2009, principal amounts outstanding totalled $4,861,569. Included in accounts receivable is accrued interest of $20,168 (December 31, 2008 - $59,454). The Company is in the process of renegotiating the loan's security and payment terms. At September 30, 2009, principal and interest payments totalling $999,595 (December 31, 2008 - $461,435) have been received. The loan has been accounted for under the amortized cost method.

7. Property, plant and equipment

(in thousands)	September 30, 2009			December 31, 2008		
	Cost	Accumulated depletion or amortization	Net book value	Cost	Accumulated depletion or amortization	Net book value
Orca Quarry						
Property costs	$ 13,381	$ (1,850)	$ 11,531	$ 11,762	$ (1,379)	$ 10,383
Construction in progress	-	-	-	430	-	430
Richmond Terminal						
Property costs	10,500	(799)	9,701	9,230	(397)	8,833
Pier B Terminal						
Property costs	16,535	-	16,535	14,399	-	14,399
Tug	1,233	(34)	1,199	1,034	-	1,034
Motor vehicles	218	(208)	10	192	(152)	40
Fixed plant and machinery	23,366	(2,827)	20,539	19,922	(1,714)	18,208
Marine facilities	27,415	(2,756)	24,659	23,560	(1,714)	21,846
Building and land improvements	27,832	(2,222)	25,610	23,711	(1,063)	22,648
Mobile plant	672	(242)	430	592	(125)	467
Equipment (held under capital lease)	4,810	(1,238)	3,572	4,228	(770)	3,458
Furniture, equipment, tools and fixtures	1,080	(749)	331	839	(507)	332
Leasehold improvements	235	(80)	155	206	(52)	154
Eagle Rock Quarry project	2,469	-	2,469	1,873	-	1,873
Other exploration properties	1,312	-	1,312	1,136	-	1,136
Other marine receiving terminals	156	-	156	120	-	120
	$ 131,214	$ (13,005)	$ 118,209	$ 113,234	$ (7,873)	$ 105,361

During the nine months ended September 30, 2009, the Company allowed its option to negotiate a lease agreement with Island Timberlands, in respect to the portion of its lands on the Bear Creek deposit, to lapse after due consideration of its resource, environmental, permitting and timing factors relative to the Company's other deposits. As a consequence costs of $115,701 for exploration on this property were written off.

8. Loan payable

(in thousands)	September 30, 2009	December 31, 2008
Bridge loan credit facility	$ -	$ 16,413

In January 2009, the outstanding principal of $16,823,688 and $47,936 in interest on the loan was repaid from the proceeds of the Company's equity financing (note 11).

9. Asset retirement obligation

(in thousands)	September 30, 2009	December 31, 2008
Obligation – beginning of period	$ 1,740	$ 1,945
Liabilities settled	-	(5)
Accretion expense	107	178
Foreign exchange	249	(383)
Revision in estimated cash flows	-	5
Obligation – end of period	$ 2,096	$ 1,740

10. Non-controlling interest

(in thousands)	Non-controlling interest in subsidiary
Balance - December 31, 2007	$ 1,769
Non-controlling interest share of losses	(396)
Foreign exchange	(315)
Balance - December 31, 2008	1,058
Non-controlling interest share of losses	(361)
Change in transfer pricing estimate	525
Foreign exchange	164
September 30, 2009	$ 1,386

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

During the second quarter, the Company processed a series of adjustments to its revenue in accordance with an Advanced Transfer Pricing Arrangement currently under review by the Canadian Revenue Agency. While the adjustments had no impact on the Company's consolidated revenue, it altered the results of the individual entities within the group. As a result, adjustments were made in that quarter affecting non-controlling interest on the balance sheet and in the income statement.

11. Shareholders' equity

Share capital

Authorized: Unlimited common shares without par value

Common shares and warrants issued

In January 2009, the Company issued 15,625,000 units at $1.35 (CAD$1.60) per unit for gross proceeds of $21,029,543 (CAD$25,000,000). Each unit consists of one common share of the Company and one half of a common share purchase warrant with each full warrant entitling the holder thereof to purchase an additional common share of the Company at the exercise price of CAD$2.25 per common share for a period of two years following the closing of the offering. Based on the pro-rata allocation of the fair value of the shares and warrants issued, $1,362,084 of issue costs has been recorded as a charge to share capital. See below for the allocation to the warrants. The Company has used a portion of the net proceeds from the offering to repay its outstanding bridge loan credit facility (note 8).

During the nine months ended September 30, 2009, the Company issued 20,000 shares upon the exercise of stock options, at $0.86 (CAD$1.00) per share for gross proceeds of $17,210 (CAD$20,000).

Stock options

Under the Company's established incentive stock option plan, as at September 30, 2009, the maximum outstanding options allowed are 5,320,460 (December 31, 2008 – 3,757,960). All options are exercisable in Canadian dollars.

The Company's stock options at September 30, 2009 and changes for the period are as follows:

	Number outstanding	Weighted average exercise price (CAD$)
December 31, 2007	2,738,807	$8.54
Granted	930,000	$9.67
Exercised	(254,212)	$1.91
Forfeited	(165,000)	$12.28
December 31, 2008	3,249,595	$9.20
Granted	725,000	$1.97
Exercised	(20,000)	$1.00
Forfeited	(237,000)	$9.13
September 30, 2009	3,717,595	$7.84

At September 30, 2009, the following stock options are outstanding and exercisable:

	Options outstanding			Options exercisable		
Exercise prices (CAD$)	Number of options outstanding	Weighted average exercise price (CAD$)	Weighted average remaining contractual life (years)	Number of options exercisable	Weighted average exercise price (CAD$)	Weighted average remaining contractual life (years)
$0.75 - $2.00	1,050,000	1.72	7.73	558,332	1.51	6.00
$2.50 - $4.00	345,000	3.47	4.65	345,000	3.47	4.65
$4.56 - $5.60	452,345	4.92	5.42	419,012	4.95	5.55
$8.69	85,000	8.69	8.38	42,500	8.69	8.38
$11.41	590,000	11.41	3.26	446,666	11.41	3.26
$13.75	1,195,250	13.75	8.01	1,162,917	13.75	8.01
	3,717,595	7.84	6.56	2,974,427	8.60	6.19

During the nine months ended September 30, 2009, options granted had a total fair value of $730,198 (September 30, 2008 - $3,370,638) and a weighted average grant-date fair value of $1.01 (September 30, 2008 - $3.90) per option. Options granted during the period have been valued using the Black-Scholes option pricing model, with the following weighted average assumptions:

	Nine months ended, September 30, 2009
Average risk free rate	2.45%
Expected life	5.25 years
Expected volatility	68.20%
Expected dividends	-

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

Warrants

The Company's warrants at September 30, 2009 and changes for the period are as follows:

	Number of warrants outstanding	Weighted average exercise price (CAD$)
December 31, 2007	2,153,846	$4.80
Granted	1,900,000	$6.50
December 31, 2008	4,053,846	$5.60
Granted	7,812,500	$2.25
Cancelled	(950,000)	$6.50
September 30, 2009	10,916,346	$3.12

950,000 warrants issued in conjunction with the loan payable expired before vesting due to the repayment of the loan payable (note 9).

At September 30, 2009, the following warrants are outstanding and exercisable:

Number of warrants outstanding and exercisable	Expiry date	Weighted average exercise price (CAD$)	Weighted average remaining contractual life (years)
2,153,846	November 30, 2010	$4.80	1.17
7,812,500	January 8, 2011	$2.25	1.27
950,000	August 17, 2013	$6.50	3.88
10,916,346		$3.12	1.48

All warrants are exercisable in Canadian dollars. For the warrants issued during the nine months ended September 30, 2009, a fair value of $2,683,365 and a weighted average issue date fair value of $0.34 per warrant, was estimated at the date of issue using the Black-Scholes option pricing model. The weighted average assumptions used are:

	Nine months ended September 30, 2009
Average risk free rate	1.14%
Expected life	2.00 years
Expected volatility	71.11%
Expected dividends	-

Based on the pro-rata allocation of the fair value of the shares and warrants issued, $2,333,969, net of issue costs of $185,388, has been recorded as a charge to share capital. 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.

12. Joint venture interests

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

0791304 B.C. Ltd.

The Company has a 33.3% interest in 0791304 B.C. Ltd. The joint venture was formed to construct and operate a berthing tugboat in the waters of northern Vancouver Island to facilitate the berthing of freighters at the Orca Quarry. The following details the Company's share of its investment in its joint venture that has been proportionately consolidated:

(in thousands)	September 30, 2009	December 31, 2008
Current assets	$ 378	$ -
Equipment	1,199	1,034
Total assets	$ 1,577	$ 1,034
Current liabilities	$ 14	$ -
Long-term liabilities	75	
Total liabilities	$ 89	$ -

(in thousands)	Three months ended September 30, 2009	2008	Nine months ended September 30, 2009	2008
Revenue	$ 115	$ -	$ 284	$ -
Expenses	(33)	-	(137)	-
Net income	$ 82	$ -	$ 147	$ -
Operating activities	$ 50	$ -	$ 53	$ -
Investing activities	-	(149)	(53)	(1,064)
Financing activities	-	149	206	1,064
Foreign exchange effect on cash	14	-	17	-
Increase in cash	$ 64	$ -	$ 223	$ -

Cemera Long Beach LLC

Cemera Long Beach LLC is a joint venture between the Company and Cemex, Inc to develop a 12.4 acre site at Pier B in the Port of Long Beach, California. The following details the Company's share of its investment in its joint venture that has been proportionately consolidated:

(in thousands)	September 30, 2009	December 31, 2008
Cash	$ 104	$ 5
Accounts receivable	1	1
Property, plant and equipment	16,535	14,399
Total assets	$ 16,640	$ 14,405
Accounts payable	$ 4	$ 61
Accrued liabilities	-	2
Total liabilities	$ 4	$ 63

(in thousands)	Three months ended September 30, 2009	2008	Nine months ended September 30, 2009	2008
Investing activities	$ (100)	$ (10,867)	$ (218)	$ (10,867)
Financing activities	200	10,932	317	10,932
Increase in cash	$ 100	$ 65	$ 99	$ 65

13. Supplemental cash flow information

(in thousands)	Three months ended September 30, 2009	2008	Nine months ended September 30, 2009	2008
Changes in non-cash working capital items				
Accounts receivable	$ 647	$ (2,023)	$ 700	$ (1,658)
Income taxes receivable	(197)	(36)	(197)	(36)
Inventories	(382)	982	(1,228)	(831)
Prepaid expenses and other	15	1,336	397	6
Accounts payable	(174)	(168)	(481)	798
Accrued liabilities	64	1,234	(506)	400
Income taxes payable	16		16	
	$ (11)	$ 1,325	$ (1,299)	$ (1,321)
Interest and taxes paid				
Interest paid	$ 53	$ 417	$ 291	$ 480
Income taxes paid	$ 43	$ 30	$ 232	$ 268
Significant non-cash investing and financing activities				
Property, plant and equipment included in accounts payable and accrued liabilities	$ 315	$ 74	$ 315	$ 1,382

14. Related party transactions

During the three month period ended September 30, 2009, directors and/or an officer of a subsidiary company, either directly or through a company controlled by them, provided services to the Company at a cost of $77,844 (September 30, 2008 - $74,533). During the nine month period ended September 30, 2009, directors and/or an officer of a subsidiary company, either directly or through a company controlled by them, provided services to the Company at a cost of $230,409 (September 30, 2008 - $221,426).

At September 30, 2009, accounts payable of $25,948 (December 31, 2008 - $24,844) was due to a company controlled by an officer of a subsidiary company.

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

15. Commitments and contingencies

Shipping Tonnage

The Company is committed to ship the following tons under its first 10-year marine Contract of Affreightment ("CoA-1") which commenced on July 18, 2007. Failure by the Company to ship its annual cargo commitment will result in a dead-freight charge equal to 75% of the freight rate of the unshipped tons. The Company has the option in any given year to increase or decrease the required tons by 10% and to carry forward up to 25% of the yearly contracted tons into the following year. The Company met its first contract year commitment and shipped in excess of 1.5 million tons. The Company gave formal notice under CoA-1 that it is rolling forward 25% of the contract tonnage from the second year ending July 17, 2009. The Company met this reduced shipping requirement.

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

During the year ended December 31, 2008, the Company entered into a second 15-year Contract of Affreightment ("CoA-2"), scheduled to commence in the third quarter of 2010 under which the Company committed to ship a minimum of 2,480 tons annually. Failure by the Company to ship its annual cargo commitment will result in a dead-freight charge equal to 75% of the freight rate of the unshipped tons. The Company has the option in any given year, to carry forward up to 25% of the yearly contracted tons into the following year.

In March 2009, the Company reached agreement with its shipping contractor to amend both contracts as follows: CoA-1 has been extended by 5 years and will now terminate on July 17, 2022; the start date of CoA-2 was deferred until January 1, 2014 and the contract now terminates on December 31, 2019.

The Company is currently in negotiations with its exclusive shipper to revise the terms of CoA-1 and CoA-2 to reflect the substantial decline in current market conditions. A number of potential solutions are being considered, however; should these renegotiations prove unsuccessful and the Company fails to ship the minimum tons required under the contract, the Company will have a potential liability for the third contract year ending July 17, 2010 of approximately $4.5 million. The Company has accrued $1.0 million against this contract for the penalties associated with the annual minimum volume requirement and has written down its inventory by $591,554 because the estimated annual minimum volume penalty impacts the net realizable value of inventory.

British Columbia Social Service Tax

The Company is disputing a BC social services tax assessment for the period May 2004 to December 2008. The basis for the dispute is the eligibility of the shiploading installation for the production machinery and equipment exemption available to mining companies, such as the Company. The Company believes it qualifies for this exemption and that amounts related to the shiploading installation are not due. After receiving an assessment for $567,167 (CAD$659,616) the Company received a refund of $72,513 (CAD$84,333) for the production and equipment exemption relating to amounts for the Orca Quarry. In order to avoid additional interest, the Company has paid the net amount due of $494,654 (CAD$575,283), of which $407,037 was capitalized to property, plant and equipment, and $87,617 (CAD$102,232) related to interest, has been expensed. The Company continues to engage legal counsel to defend its position and further its appeal.

16. Segmented financial information

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

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

(in thousands)	Three months ended September 30, 2009	Three months ended September 30, 2008	Nine months ended September 30, 2009	Nine months ended September 30, 2008
Customer A	$ 2,282	$ 4,024	$ 6,247	$ 10,239
Customer B	$ 2,023	$ 3,150	$ 5,389	$ 8,115

Sales by geographic area are as follows:

(in thousands)	Three months ended September 30, 2009	Three months ended September 30, 2008	Nine months ended September 30, 2009	Nine months ended September 30, 2008
United States	$ 4,305	$ 8,275	$ 12,927	$ 19,949
Canada	217	727	737	2,174
	$ 4,522	$ 9,002	$ 13,664	$ 22,123

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

(in thousands)	September 30, 2009	December 31, 2008
United States	$ 52,368	$ 44,346
Canada	65,841	61,015
	$ 118,209	$ 105,361

17. Financial instruments

Fair value of financial instruments

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

The fair value of the Company's long-term loan receivable, which is carried at amortized cost, approximates carrying value and has been estimated by discounting the anticipated future cash flows determined using a valuation model that incorporated management's best estimate of the counterparties credit risk and relevant market interest rates (note 6). As the Company is in the process of renegotiating the loan and its payment terms, actual amounts could differ.

Financial instrument risks

The Company is exposed to a number of financial risks in the normal course of its business operations, including credit risks, liquidity risks and market risks resulting from interest rates and foreign currency exchange rates. The Company monitors its exposures to these risks and employs strategies to manage the risks as it considers appropriate.

Credit risk is the risk that the Company will incur a loss due to a customer or other third party failing to discharge their obligation due to the Company. The joint venture in 0791304 B.C. Ltd (note 12) is pursuing third party financing, from which it intends to repay the loan due to the Company (note 3). The terms of the long-term loan are discussed in note 6 and the Company's audited annual financial statements.

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations associated with financial liabilities. In January 2009, the Company's loan payable was repaid in full (note 8).

Otherwise, the Company's financial instrument risk exposure and risk management strategies have not changed significantly from the prior period.

CORPORATE INFORMATION

DIRECTORS AND SENIOR OFFICERS

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Lisa Dea	Vice President Finance and Chief Financial Officer
Terrence A. Lyons	Director
Marco A. Romero	Director
Roman Shklanka	Chairman and Director
Paul B. Sweeney	Director
Herbert G.A. Wilson	President and Chief Executive Officer

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