Polaris

MINERALS CORPORATION

CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2012 and 2011
(U.S. dollars)

Polaris Minerals Corporation
Consolidated Statements of Financial Position

(Unaudited)
(thousands of U.S. dollars)

	September 30, 2012 $	December 31, 2011 $
Assets		
Current assets		
Cash	343	1,629
Trade and other receivables	3,256	2,402
Current tax assets	1,173	300
Inventories (note 3)	3,241	3,758
Other current assets	258	160
	8,271	8,249
Non-current assets		
Financial assets	1,285	1,290
Property, plant and equipment (note 4)	67,587	69,479
Investment in joint venture (note 5)	12,139	11,940
	89,282	90,958
Liabilities		
Current liabilities		
Trade and other payables	8,162	5,197
Short-term financial liability (note 6)	-	5,757
Other current liabilities (note 7)	1,673	190
Current portion of finance leases	788	440
Current portion of long-term debt (note 8)	-	1,103
	10,623	12,687
Non-current liabilities		
Finance leases	532	1,166
Long-term debt (note 8)	14,124	5,072
Restoration provision	3,519	3,339
	28,798	22,264
Equity		
Share capital (note 9)	149,795	149,705
Contributed surplus (note 10)	22,445	21,150
Accumulated other comprehensive income	2,398	1,645
Deficit	(110,609)	(101,002)
Equity attributable to Polaris Minerals Corporation shareholders	64,029	71,498
Non-controlling interest	(3,545)	(2,804)
Total equity	60,484	68,694
	89,282	90,958

Going concern (note 2)

Commitments and contingent liabilities (note 14)

Subsequent event (note 5)

Approved by the Board of Directors

"Herb Wilson"
Herb Wilson, Director

"Paul Sweeney"
Paul Sweeney, Director

Polaris Minerals Corporation
Consolidated Statements of Loss

(Unaudited)
(thousands of US dollars, except per share amounts)

	Three months ended Sept. 30, 2012 $	2011 $	Nine months ended Sept. 30, 2012 $	2011 $
Sales	9,130	6,774	23,891	16,454
Cost of goods sold	(10,783)	(8,126)	(28,170)	(21,542)
Gross loss	(1,653)	(1,352)	(4,279)	(5,088)
Selling, general and administrative expenses	(1,136)	(1,094)	(3,643)	(4,302)
Foreign exchange gain (loss)	(42)	(459)	37	(263)
Share of income (loss) from joint ventures	(44)	18	103	63
Property holding costs	(295)	-	(780)	-
Other losses	(6)	(65)	(12)	(2,202)
	(1,523)	(1,600)	(4,295)	(6,704)
Loss before interest and income taxes	(3,176)	(2,952)	(8,574)	(11,792)
Finance income	3	18	8	149
Finance expense (note 11)	(589)	(442)	(2,531)	(1,304)
	(586)	(424)	(2,523)	(1,155)
Loss before income taxes	(3,762)	(3,376)	(11,097)	(12,947)
Income tax (expense) recovery	20	(389)	612	(433)
Net loss for the period	(3,742)	(3,765)	(10,485)	(13,380)
Net loss attributable to:				
Shareholders of the parent company	(3,413)	(3,472)	(9,607)	(12,563)
Non-controlling interest	(329)	(293)	(878)	(817)
	(3,742)	(3,765)	(10,485)	(13,380)
Net loss per share:				
Basic and diluted loss per common share	(0.06)	(0.07)	(0.18)	(0.24)
Weighted average number of common shares outstanding	53,539	53,397	53,445	53,356

Polaris Minerals Corporation

Consolidated Statements of Comprehensive Loss

(Unaudited)
(thousands of U.S. dollars)

	Three months ended Sept. 30, 2012 $	2011 $	Nine months ended Sept. 30, 2012 $	2011 $
Net loss for the period	(3,742)	(3,765)	(10,485)	(13,380)
Other comprehensive income (loss)				
Foreign currency translation	861	(2,729)	890	(1,566)
Comprehensive loss for the period	(2,881)	(6,494)	(9,595)	(14,946)
Comprehensive loss attributable to:				
Shareholders of the parent company	(2,602)	(5,913)	(8,854)	(14,026)
Non-controlling interest	(279)	(581)	(741)	(920)
	(2,881)	(6,494)	(9,595)	(14,946)

Polaris Minerals Corporation

Consolidated Statements of Changes in Equity

(Unaudited)
(thousands of U.S. dollars, except number of common shares)

	Attributable to equity holders of the Company							
	Number of common shares (000's)	Amount of common shares $	Contributed surplus $	Accumulated other comprehensive income (loss) $	Deficit $	Shareholders' equity $	Non-controlling interest $	Total $
December 31, 2010	53,247	149,592	20,774	2,223	(83,215)	89,374	(1,376)	87,998
Options exercised	150	113	-	-	-	113	-	113
Share-based employee benefits	-	-	306	-	-	306	-	306
Other comprehensive income	-	-	-	(1,463)	-	(1,463)	(103)	(1,566)
Net loss	-	-	-	-	(12,563)	(12,563)	(817)	(13,380)
September 30, 2011	53,397	149,705	21,080	760	(95,778)	75,767	(2,296)	73,471
Share-based employee benefits	-	-	70	-	-	70	-	70
Other comprehensive loss	-	-	-	885	-	885	9	894
Net loss	-	-	-	-	(5,224)	(5,224)	(517)	(5,741)
December 31, 2011	53,397	149,705	21,150	1,645	(101,002)	71,498	(2,804)	68,694
Common shares issued	149	90	-	-	-	90	-	90
Warrants issued	-	-	1,126	-	-	1,126	-	1,126
Share-based employee benefits	-	-	169	-	-	169	-	169
Other comprehensive income	-	-	-	753	-	753	137	890
Net loss	-	-	-	-	(9,607)	(9,607)	(878)	(10,485)
September 30, 2012	53,546	149,795	22,445	2,398	(110,609)	64,029	(3,545)	60,484

Polaris Minerals Corporation
Consolidated Statements of Cash Flows

(Unaudited)
(thousands of U.S. dollars)

	Three months ended Sept. 30, 2012 $	Three months ended Sept. 30, 2011 $	Nine months ended Sept. 30, 2012 $	Nine months ended Sept. 30, 2011 $
Cash flows from operating activities				
Net loss	(3,742)	(3,765)	(10,485)	(13,380)
Amortization, depletion and accretion	1,302	1,430	3,813	3,968
Share-based employee benefits	27	76	169	306
Unrealized foreign exchange gain	373	522	348	364
Provision for annual minimum freight volume penalty (note 14)	-	(61)	-	145
Share of loss (income) from investment in joint ventures	44	(18)	(103)	(63)
Loss on settlement of long-term debt (note 8)	-	-	765	-
Other losses	28	67	110	2,194
Other non-cash items	-	126	-	370
	(1,968)	(1,623)	(5,383)	(6,096)
Changes in non-cash working capital items (note 12)	777	927	3,350	766
	(1,191)	(696)	(2,033)	(5,330)
Cash flows from financing activities				
Proceeds from issue of common shares	-	-	-	113
Proceeds from issue of senior secured notes	-	-	15,216	-
Financing fees	-	-	(203)	-
Repayment of principal and interest on credit facility and senior secured notes	-	-	(13,165)	-
Finance lease payments	(114)	(212)	(334)	(628)
	(114)	(212)	1,514	(515)
Cash flows from investing activities				
Dividends received	-	124	-	187
Contribution to joint ventures	(31)	-	(96)	(120)
Loan repayments	-	1,031	-	3,727
Property, plant and equipment purchases	(154)	(155)	(722)	(582)
Proceeds on disposal of property, plant and equipment	-	-	-	250
Security deposit withdrawals	-	-	52	-
	(185)	1,000	(766)	3,462
Effect of foreign currency translation on cash	-	(290)	(1)	(172)
Increase (decrease) in cash	(1,490)	(198)	(1,286)	(2,555)
Cash - beginning of period	1,833	2,954	1,629	5,311
Cash - end of period	343	2,756	343	2,756

Supplemental cash flow information (note 12)

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

1. Nature and description of the Company

Polaris Minerals Corporation ("the Company") was incorporated on May 14, 1999 and is both incorporated and domiciled in Canada. The address of the Company's registered office is 2900 – 550 Burrard Street, Vancouver, B.C., V6C 0A3. The Company's focus is threefold: the production, distribution and sales from the Orca Quarry; the development of new marine terminals along the west coast of North America; and the development of additional quarries.

2. Basis of preparation and going concern

Basis of preparation

These condensed consolidated interim financial statements have been prepared in accordance with IFRS as issued by the IASB applicable to the preparation of interim financial statements, including IAS 34, "Interim Financial Reporting". These condensed consolidated interim financial statements have been prepared using the same accounting policies and methods of computation as in the most recent annual financial statements and should be read in conjunction with the Company's annual financial statements for the year ended December 31, 2011, which have been prepared in accordance with IFRS as issued by the IASB.

Going concern

These consolidated financial statements are prepared in accordance with IFRS applicable to a going concern, which contemplate the realization of assets and settlement of liabilities in the normal course of business as they come due.

During the nine months ended September 30, 2012, net loss attributable to shareholders of the Company was $9.6 million (nine months ended September 30, 2011 – net loss $12.6 million), negative cash flow from operations was $2.0 million (nine months ended September 30, 2011 – negative $5.3 million) and as at September 30, 2012, the Company has a deficit of $110.6 million (December 31, 2011 - $101.0 million). At September 30, 2012 the Company has a working capital deficit of $2.4 million. The Company's losses are principally attributable to the severe recession in the United States, particularly the low volume of demand for construction aggregates in California, the Company's main market. These circumstances create significant doubt about the Company's ability to meet its obligations as they come due and, accordingly, the appropriateness of the use of generally accepted accounting principles applicable to a going concern.

The Company's continuing operations depend on a number of factors beyond the Company's control, including continued improvement in the economic outlook and the recovery of demand for the Company's products, particularly in California. Assuming the market continues to recover, it may be increasingly possible for the Company to generate positive cash flows and avoid additional penalties under its shipping contract (note 14). Management has taken initiatives to improve the Company's financial position and cash flow. In March 2012, a debt refinancing was completed by the issuance of CAD$15.0 million in senior secured notes (the "Notes") that mature December 31, 2016 (note 8). Proceeds from the issue of the Notes were used to repay all outstanding debt, including interest and fees, comprising CAD$6.2 million due on the bridge loan secured in November 2010 (note 6) and $7.1 million due on the long-term debt with the Company's exclusive shipper (note 8). Net proceeds of CAD$1.7 million remained for general working capital purposes. The refinancing consolidated the Company's debt into a single, five year term facility. In June 2012, the Company and the holders of the Notes agreed to defer the interest payment due on June 30, 2012 until the earlier of; the completion of the sale of the Company's jointly held Pier B freehold land, or December 31, 2012 (note 8). In May, 2012 Cemera Long Beach LLC ("Cemera") entered into a purchase and sale agreement with respect to the Pier B land at a sale price of $19.5 million, from which the Company anticipates receiving approximately $12.1 million, net of estimated closing costs and commissions. $5 million of the net proceeds will be used to reduce the Company's outstanding debt with a further $0.6 million used to pay the deferred June 2012 interest payment (note 8). In August 2012, Cemera and the purchaser agreed to extend the closing of the sale of the Pier B land to October 11, 2012. Subsequent to the quarter end, on October 9, 2012, Cemera and the purchaser agreed to further extend the closing date to November 29, 2012. In recognition of the extended time that has been required to complete the transaction, the purchaser has released non-refundable payments totalling $275,000. Finally, in June 2012, the Company received $1.7 million in advanced payment on fourth quarter aggregate shipments expected to be delivered before December 31, 2012. The steps described above are subject to uncertainty and may not allow the Company to meet its obligations. The Company may be further required to; seek additional sources of financing; curtail, reduce or delay expenditures; or look for strategic alternatives to maximize the benefits of the Company's long lived assets. The success of any of these initiatives cannot be assured.

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

Seasonality

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

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

3. Inventories

(in thousands)	September 30, 2012 $	December 31, 2011 $
Construction aggregates	2,885	3,425
Components and consumable supplies	356	333
	3,241	3,758

At September 30, 2012 and December 31, 2011 construction aggregates are measured at net realizable value. Write-downs at September 30, 2012 totalled $85,796 (December 31, 2011 - $386,171).

4. Property, plant and equipment

(in thousands)	Orca Quarry			Richmond Terminal	Head Office	Long Beach Terminal Project	Other Terminal Projects	
	Property, plant & equipment	Equipment under finance lease	Exploration properties	Property, plant & equipment	Office equipment & leasehold improvement	Berth D-44 site development costs	Site development costs	Total
	$	$	$	$	$	$	$	$
Cost								
January 1, 2011	47,080	5,193	1,286	27,015	656	416	39	81,685
Additions	227	-	-	-	-	-	-	227
Restoration provision adjustments	383	-	-	-	-	-	-	383
Other adjustments	(180)	-	-	-	-	-	-	(180)
Disposals	(183)	-	-	-	-	-	-	(183)
Foreign exchange	(1,246)	(114)	(94)	-	(14)	-	-	(1,468)
December 31, 2011	46,081	5,079	1,192	27,015	642	416	39	80,464
Accumulated depreciation								
January 1, 2011	(2,567)	(1,994)	-	(1,476)	(417)	-	-	(6,454)
Depreciation	(2,824)	(522)	-	(1,523)	(105)	-	-	(4,974)
Disposals	28	-	-	-	-	-	-	28
Foreign exchange	345	58	-	-	12	-	-	415
December 31, 2011	(5,018)	(2,458)	-	(2,999)	(510)	-	-	(10,985)
Carrying amount December 31, 2011	41,063	2,621	1,192	24,016	132	416	39	69,479
Cost								
January 1, 2012	46,081	5,079	1,192	27,015	642	416	39	80,464
Additions	460	259	-	-	-	-	-	719
Disposals	(150)	(150)	-	-	-	-	-	(300)
Foreign exchange	1,795	177	48	-	22	-	-	2,042
September 30, 2012	48,186	5,365	1,240	27,015	664	416	39	82,925
Accumulated depreciation								
January 1, 2012	(5,018)	(2,458)	-	(2,999)	(510)	-	-	(10,985)
Depreciation	(2,368)	(420)	-	(1,096)	(49)	-	-	(3,933)
Disposals	46	145	-	-	-	-	-	191
Foreign exchange	(492)	(102)	-	-	(17)	-	-	(611)
September 30, 2012	(7,832)	(2,835)	-	(4,095)	(576)	-	-	(15,338)
Carrying amount September 30, 2012	40,354	2,530	1,240	22,920	88	416	39	67,587

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

5. Investment in joint venture

Cemera Long Beach LLC ("Cemera") is a joint venture between the Company and Cemex originally established to develop a construction aggregates receiving terminal on a freehold site situated on Pier B, in the port of Long Beach, California, considered to be divided into Section A and Section B. The Company, through its 70% owned Eagle Rock Aggregates Inc subsidiary, paid $7,843,835 for a 50% interest in Section A and $7,382,433 for a 100% interest in Section B. The Company and Cemex, its joint venture partner, have entered into a Strategic Alliance Agreement and a Joint Cooperation and Development Agreement which governs the direction, strategy and operation of the joint venture.

On May 23, 2012, Cemera entered into a purchase and sale agreement ("PSA") to sell the Pier B land at a purchase price of $19.5 million with a due diligence period of ninety days, plus thirty days to achieve closing. The Company anticipates receiving approximately $12 million, net of estimated closing costs and commissions, from the sale proceeds. Under the terms of the senior secured notes due December 31, 2016 (note 8), CAD$5.0 million of the proceeds must be used to pay down, without penalty, one third of the outstanding principal.

In August 2012, Cemera and the purchaser agreed to extend the closing of the sale of the Pier B land to October 11, 2012. Subsequent to the quarter end, on October 9, 2012, Cemera and the purchaser agreed to further extend the closing date to November 29, 2012. In recognition of the extended time that has been required to complete the transaction, the purchaser has released non-refundable payments totalling $275,000.

The following details the Company's share of its investment in Cemera:

(in thousands)	September 30, 2012 $	December 31, 2011 $
Assets		
Current assets	68	41
Property	12,086	12,086
	12,154	12,127
Liabilities		
Current liabilities	15	187
	15	187

	Three months ended Sept. 30,		Nine months ended Sept. 30,	
	2012	2011	2012	2011
(in thousands)	$	$	$	$
Income (loss)	(44)	18	103	63

6. Short term financial liabilities

(in thousands)	September 30, 2012 $	December 31, 2011 $
Subordinated secured credit facility, effective interest rate 17.35%		
Principal outstanding	-	4,917
Accrued interest	-	840
	-	5,757

At December 31, 2011, the Company maintained a subordinated, non-revolving credit facility for working capital and general corporate purposes in the amount of CAD$5.0 million.

On November 17, 2011, the Company and its lenders extended the maturity of the credit facility originally due November 17, 2011 to February 29, 2012 for an arrangement fee of 2% of the outstanding balance. The interest rate remained at 15% until December 31, 2011; on January 1, 2012, it increased to 17.5% and on February 1, 2012 it increased to 20%.

On March 2, 2012, the Company repaid the credit facility in full including interest and fees, without incurring a gain or loss.

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

7. Other current liabilities

(in thousands)	September 30, 2012 $	December 31, 2011 $
Annual minimum freight volume penalties	-	190
Deferred revenue	1,673	-
	1,673	190

Annual minimum freight volume penalties

The Company anticipates meeting the annual minimum freight volume requirements of the Company's shipping contract for 2012 and therefore an accrual has not been recorded at September 30, 2012 (December 31, 2011 - $190,000) (note 14).

Deferred revenue

In June 2012, the Company received $1.7 million in advanced payment on fourth quarter aggregate shipments expected to be delivered before December 31, 2012. The balance can be applied to future shipments at the customer's discretion.

8. Long-term debt

(in thousands)	September 30, 2012 $	December 31, 2011 $
Senior secured notes, due December 31, 2017. Quarterly interest payments at 7.5% (per annum). Effective interest rate 10.6%.	-	6,175
Senior secured notes, due December 31, 2016. Semi-annual interest payments at 12% (per annum). Effective interest rate 15.54%.	14,124	-
	14,124	6,175
Current portion	-	1,103
Non-current portion	14,124	5,072
	14,124	6,175

Senior secured notes, due December 31, 2017

As part of the restructuring of its shipping arrangements in 2010 the Company issued 7.5% per annum, senior secured notes due December 31, 2017 with interest payable quarterly. Principal outstanding on the notes at December 31, 2011 totalled $6,969,113. At December 31, 2011, $1.1 million of principal of the notes was classified as current due to a mandatory prepayment clause contained in the credit agreement. In March 2012, the Company repaid the notes and accrued interest without premium or penalty. Upon settlement, the unamortized discount of $765,421 was recorded to finance expenses.

Senior secured notes, due December 31, 2016

On March 2, 2012, the Company completed a debt refinancing and issued CAD$15 million in senior secured notes that mature December 31, 2016.

The notes are senior secured obligations of the Company that have a first charge against the assets of the Company other than cash and accounts receivable and contain certain non-financial affirmative and restrictive covenants similar to those found in a bank financing. The Company is not held to any financial performance covenants. The notes bear interest at a rate of 12% per annum, payable semi-annually beginning June 30, 2012 and may be redeemed by the Company at any time without penalty. The notes also require a mandatory repayment of CAD$5.0 million in the event that the Company completes an equity financing or disposes of any asset for proceeds of greater than CAD$5.0 million. The Company has estimated that both prepayment features have minimal or nil estimated fair value and thus no amount has been recorded at inception or as at June 30, 2012. In conjunction with the senior secured notes, the Company issued 13,200,000 warrants to the lenders (note 10).

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

8. Long-term debt *(continued)*

The notes have been classified as financial liabilities and initially recorded at fair value, which was established in proportion to the combined fair value of the senior secured notes and warrants (note 10). The notes are subsequently carried at amortized cost and amortized by the effective interest method over the life of the notes using an effective rate of 15.54%. For the nine months ended September 30, 2012, non-cash accretion of the discount which is included in interest expense, was $196,680 (nine months ended September 30, 2011 – nil).

The Company and the holders of the notes agreed to defer the interest payment due on June 30, 2012. That interest payment will now be paid upon the earlier of; the completion of the sale of the Company's jointly held Pier B freehold land, or December 31, 2012. As compensation, the Company paid a fee of CAD$89,100 by issuing, on July 4, 2012, 148,500 common shares at the June 28, 2012 closing price of CAD$0.60.

9. Share capital

The Company has unlimited common shares without par value. At September 30, 2012, there were 53,545,602 common shares issued and outstanding (December 31, 2011 - 53,397,102).

On July 4, 2012, the Company issued 148,500 common shares at CAD$0.60 each as settlement of the fee for the deferral of the June 30, 2012 interest payment (note 8).

10. Contributed surplus

(in thousands)	September 30, 2012 $	December 31, 2011 $
Share-based employee benefits	14,383	14,214
Warrants	8,062	6,936
	22,445	21,150

Share-based employee benefits

The Company's stock options at September 30, 2012 and changes for the period from January 1, 2011, are as follows:

	Number outstanding	Weighted average exercise price (CAD$)
At January 1, 2011	3,411,345	$7.76
Granted	1,015,000	$0.94
Exercised	(150,000)	$0.75
Forfeited	(499,636)	$8.43
At December 31, 2011 and September 30, 2012	3,776,709	$6.11

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

10. Contributed surplus *(continued)*

At September 30, 2012, the following stock options are outstanding and exercisable:

	Options outstanding			Options exercisable		
Exercise price (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)
$0.94	1,015,000	$0.94	8.71	676,664	$0.94	8.71
$1.00 - $2.00	657,500	$1.88	5.77	657,500	$1.88	5.77
$2.50 - $4.00	345,000	$3.47	1.65	345,000	$3.47	1.65
$4.56 - $5.60	332,709	$4.76	1.95	332,709	$4.76	1.95
$8.69	85,000	$8.69	5.38	85,000	$8.69	5.38
$11.41	455,000	$11.41	0.25	455,000	$11.41	0.25
$13.75	886,500	$13.75	5.01	886,500	$13.75	5.01
	3,776,709	$6.11	5.00	3,438,373	$6.62	4.63

Warrants

In conjunction with the senior secured notes issued March 2, 2012 (note 8), the Company issued 13,200,000 common share purchase warrants that are exercisable at a price of $0.44 per share until December 31, 2012, $0.50 per share until December 31, 2013, $0.55 per share until December 31, 2014, $0.60 per share until December 31, 2015 and $0.65 per share until December 31, 2016. At the date of issue the estimated fair value of the warrants was $1,125,780, net of issue costs, with a weighted average fair value of $0.085 per warrant. Fair value of the warrants has been determined using the Black-Scholes option pricing model allocated in proportion to the combined fair value of the senior secured notes and warrants. The following assumptions have been used for the Black-Scholes option pricing model:

Average risk free rate	1.15 %
Expected life	0.84 – 4.84 years
Expected volatility	30 %
Expected dividends	–

The Company's warrants at September 30, 2012 and changes for the period are as follows:

	Number of warrants outstanding	Weighted average exercise price (CAD$)
January 1, 2011	9,387,500	$2.63
Expired	(7,812,500)	$2.25
December 31, 2011	1,575,000	$4.52
Issued	13,200,000	$0.44
September 30, 2012	14,775,000	$0.87

At September 30, 2012, 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)
950,000	August 17, 2013	$6.50	0.88
500,000	November 17, 2015	$1.50	3.13
125,000	November 19, 2015	$1.50	3.14
13,200,000	December 31, 2016	$0.44	4.25
14,775,000		$0.87	3.99

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

11. Finance expense

	Three months ended Sept. 30,		Nine months ended Sept. 30,	
	2012	**2011**	**2012**	**2011**
(in thousands)	**$**	**$**	**$**	**$**
Interest	480	347	1,486	1,043
Amortization of discount	88	69	217	175
Accretion	21	26	63	86
Loss on settlement of long-term debt (note 8)	-	-	765	-
	589	442	2,531	1,304

12. Supplemental cash flow information

	Three months ended Sept. 30,		Nine months ended Sept. 30,	
	2012	**2011**	**2012**	**2011**
(in thousands)	**$**	**$**	**$**	**$**
Changes in non-cash working capital items				
Trade and other receivables	(1,709)	(560)	(859)	(1,621)
Current tax assets	15	215	(873)	(8)
Inventories	954	(385)	475	243
Other current assets	(30)	184	(92)	307
Trade and other payables	1,547	1,473	3,216	1,845
Other current liabilities	-	-	1,483	-
	777	927	3,350	766
Interest and taxes paid				
Interest paid	25	15	1,183	113
Taxes paid	-	149	399	490

13. Related party transactions

During the three months ended September 30, 2012, directors of the Company or of subsidiaries of the Company, either directly or through a company controlled by them, provided to the Company, services at a cost of $103,745 (three months ended September 30, 2011 - $90,859) which are included in general and administrative expenses. During the nine months ended September 30, 2012, directors of the Company or of subsidiaries of the Company, either directly or through a company controlled by them, provided to the Company, services at a cost of $297,047 (nine months ended September 30, 2011 - $260,685) which are included in general and administrative expenses. At September 30, 2012, accounts payable of $34,021 (December 31, 2011 - $32,012) were due to companies controlled by common directors.

Transactions with related parties are recorded at the price agreed between the parties.

14. Commitments and contingencies

Shipping Tonnage

The Company's Contract of Affreightment, effective from January 1, 2010 with a term of 20 years, requires the Company to ship minimum tonnages per year, commencing on January 1, 2010, in the amount of 1,543,000 short tons escalating to 5,787,000 short tons per annum over seven years. The 2012 minimum shipping commitment is 1,984,000 short tons. The Company has the option in any given year to increase or decrease the annual commitment by 10% without penalty. Failure by the Company to ship its annual cargo commitment will result in a dead-freight charge equal to 75% of the freight rate for the unshipped tons. Minimum freight volume penalties are payable annually in the year in which freight volumes do not meet the minimum volume requirements. The Company and its shipper have agreed in principle, subject to definitive documentation, that the penalty rate for 2011 to 2016 can be reduced to 25% if the Company achieves certain revised business targets.