CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2013 and 2012
(U.S. dollars)

Management's Responsibility for Financial Reporting

The consolidated financial statements of Polaris Minerals Corporation have been prepared by and are the responsibility of the board of directors and management of the Company. The consolidated financial statements are prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board and reflect management's best estimates and judgement based on currently available information. Management has developed and maintains a system of internal controls to provide assurance, on a reasonable and cost effective basis, that the Company's assets are safeguarded, transactions are authorized and financial information is accurate and reliable.

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

The consolidated financial statements have been audited by the Company's independent auditors, PricewaterhouseCoopers LLP, who are appointed by the shareholders. Their report outlines the scope of their audit and gives their opinion on the consolidated financial statements.

"Herbert Wilson"
Herbert Wilson
President and Chief Executive Officer

"Darren McDonald"
Darren McDonald
Vice President, Finance and Chief Financial Officer

March 6, 2014

March 6, 2014

Independent Auditor's Report

To the Shareholders of Polaris Minerals Corporation:

We have audited the accompanying consolidated financial statements of **Polaris Minerals Corporation**, which comprise the consolidated statements of financial position as at December 31, 2013 and December 31, 2012 and the consolidated statements of loss, comprehensive loss, changes in equity and cash flows for the years ended December 31, 2013 and 2012, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Polaris Minerals Corporation as at December 31, 2013 and December 31, 2012 and their financial performance and their cash flows for the years then ended in accordance with International Financial Reporting Standards.

/s/ PricewaterhouseCoopers LLP

Chartered Accountants
Vancouver, British Columbia

PricewaterhouseCoopers LLP
PricewaterhouseCoopers Place, 250 Howe Street, Suite 700, Vancouver, British Columbia, Canada V6C 3S7
T: +1 604 806 7000, F: +1 604 806 7806, www.pwc.com/ca

"PwC" refers to PricewaterhouseCoopers LLP, an Ontario limited liability partnership.

Polaris Minerals Corporation
Consolidated Statements of Financial Position

(thousands of U.S. dollars)

	December 31, 2013 $	December 31, 2012 $
Assets		
Current assets		
Cash	9,385	5,537
Trade and other receivables (note 4)	4,000	2,438
Current tax assets	276	686
Inventories (note 5)	2,698	4,069
Other current assets	368	172
	16,727	12,902
Non-current assets		
Financial assets (note 6)	1,190	1,271
Property, plant and equipment (note 7)	60,654	65,852
Investments in joint ventures (note 8)	-	128
	78,571	80,153
Liabilities		
Current liabilities		
Trade and other payables (note 9)	4,031	5,005
Current portion of finance leases (note 10)	651	695
Current portion of property tax provision (note 12)	289	-
	4,971	5,700
Non-current liabilities		
Finance leases (note 10)	530	494
Long-term debt (note 11)	-	7,232
Property tax provision (note 12)	867	-
Restoration provision (note 13)	3,141	3,429
	9,509	16,855
Equity		
Share capital (note 14)	172,517	156,772
Contributed surplus (note 15)	22,418	21,347
Accumulated other comprehensive income	(136)	2,109
Deficit	(121,448)	(113,240)
Equity attributable to shareholders of the Company	73,351	66,988
Non-controlling interest (note 16)	(4,289)	(3,690)
Total equity	69,062	63,298
	78,571	80,153

Commitments and contingent liabilities (note 23)

Approved by the Board of Directors

"Lenard Boggio"
Lenard Boggio, Director

"Herb Wilson"
Herb Wilson, Director

Polaris Minerals Corporation

Consolidated Statements of Loss

For the years end December 31, 2013 and 2012

(thousands of US dollars, except per share amounts)

	2013 $	2012 $
Sales	44,893	32,196
Cost of goods sold (note 17)	(44,869)	(37,484)
Gross profit (loss)	24	(5,288)
Selling, general and administrative expenses (note 17)	(5,364)	(4,761)
Foreign exchange gain	161	9
Share of income (loss) from joint ventures (note 8)	(1)	323
Property holding costs	(591)	(885)
Property tax provision (note 12)	(1,535)	-
Other gains (losses)	246	(6)
	(7,084)	(5,320)
Loss before interest and income taxes	(7,060)	(10,608)
Finance income	49	40
Finance expense (note 18)	(714)	(2,145)
Finance charges (note 11)	(870)	(1,055)
	(1,535)	(3,160)
Loss before income taxes	(8,595)	(13,768)
Income tax (expense) recovery (note 20)	(40)	549
Net loss for the year	(8,635)	(13,219)
Net loss attributable to:		
Shareholders of the Company	(8,208)	(12,238)
Non-controlling interest	(427)	(981)
	(8,635)	(13,219)
Net loss per share:		
Basic and diluted loss per common share	(0.11)	(0.23)
Weighted average number of common shares outstanding	73,648	53,506

Polaris Minerals Corporation

Consolidated Statements of Comprehensive Loss

For the years ended December 31, 2013 and 2012

(thousands of U.S. dollars)

	2013 $	2012 $
Net loss for the year	(8,635)	(13,219)
Other comprehensive (loss) income – Items that may be declassified to profit or loss		
Foreign currency translation	(2,417)	559
Comprehensive loss for the year	(11,052)	(12,660)
Comprehensive loss attributable to:		
Shareholders of the Company	(10,452)	(11,775)
Non-controlling interest	(600)	(885)
	(11,052)	(12,660)

Polaris Minerals Corporation

Consolidated Statements of Changes in Equity

For the years ended December 31, 2013 and 2012

(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, 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
Warrants exercised	13,200	6,977	(1,126)	-	-	5,851	-	5,851
Share-based employee benefits	-	-	197	-	-	197	-	197
Other comprehensive loss	-	-	-	464	-	464	95	559
Net loss	-	-	-	-	(12,238)	(12,238)	(981)	(13,219)
December 31, 2012	66,746	156,772	21,347	2,109	(113,240)	66,988	(3,690)	63,298
Common shares issued	13,225	14,970	-	-	-	14,970	-	14,970
Warrants issued	-	-	376	-	-	376	-	376
Warrants exercised	425	775	(205)	-	-	570	-	570
Share-based employee benefits	-	-	900	-	-	900	-	900
Other comprehensive loss	-	-	-	(2,245)	-	(2,245)	(172)	(2,417)
Net loss	-	-	-	-	(8,208)	(8,208)	(427)	(8,635)
December 31, 2013	80,396	172,517	22,418	(136)	(121,448)	73,351	(4,289)	69,062

Polaris MINERALS CORPORATION

Polaris Minerals Corporation

Consolidated Statements of Cash Flows

For the years ended December 31, 2013 and 2012

(thousands of U.S. dollars)

	2013 $	2012 $
Cash flows from operating activities		
Net loss	(8,635)	(13,219)
Amortization, depletion and accretion	4,495	5,510
Share-based employee benefits	900	197
Unrealized foreign exchange (gain) loss	(150)	87
Interest	630	1,546
Share of loss (income) from investment in joint ventures	1	(323)
Loss on settlement of long term debt (note 11)	767	925
Property tax provision (note 12)	1,156	-
Other (gains) losses	(16)	68
	(852)	(5,209)
Changes in non-cash working capital items (note 21)	(510)	(892)
	(1,362)	(6,101)
Cash flows from financing activities		
Proceeds from issue of common shares (net of issue costs)	15,877	5,838
Proceeds from issue of senior secured notes	-	15,216
Financing fees	-	(203)
Interest paid	(630)	(3,259)
Repayment of principal on credit facility and senior secured notes	(7,669)	(18,411)
Finance lease payments	(428)	(450)
	7,150	(1,269)
Cash flows from investing activities		
Contribution to joint ventures	-	(95)
Proceeds from sale of land in joint venture	-	12,281
Property, plant and equipment purchases	(1,683)	(1,044)
Security deposit withdrawals	-	52
	(1,683)	11,194
Effect of foreign currency translation on cash	(257)	84
Increase in cash	3,848	3,908
Cash - beginning of year	5,537	1,629
Cash - end of year	9,385	5,537

Supplemental cash flow information (note 21)

(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 Suite 2740 - 1055 West Georgia Street, Vancouver, B.C., V6E 3R5. The Company's focus is threefold: the production, distribution and sales of aggregates from the Orca Quarry; the development of new aggregate marine terminals along the west coast of North America; and the development of additional aggregate quarries.

2. Basis of preparation

These consolidated financial statements have been prepared in compliance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") The Company has consistently applied the same accounting policies in all periods presented.

These financial statements were approved by the board of directors for issue on March 6, 2014.

3. Summary of significant accounting policies

Basis of measurement

These financial statements have been prepared on a historical cost basis except for financial instruments classified as fair value through profit or loss, which are stated at their fair value.

Principles of consolidation

These consolidated financial statements include the financial statements of the Company and the entities controlled by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those of the Company.

Inter-company balances and transactions, including any unrealized income and expenses arising from intercompany transactions, are eliminated in preparing the consolidated financial statements.

New and amended standards adopted

The accounting policies followed in these condensed consolidated interim financial statements are consistent with those of the previous financial year, except as described below.

The Company has adopted the following new and revised standards, along with any consequential amendments, effective January 1, 2013.

i. IFRS 10, "Consolidated Financial Statements", replaces the guidance on control and consolidation in IAS 27, "Consolidated and Separate Financial Statements", and SIC-12, "Consolidation – Special Purpose Entities". IFRS 10 requires consolidation of an investee only if the investor possesses power over the investee, has exposure to variable returns from its involvement with the investee and has the ability to use its power over the investee to affect its returns. Detailed guidance is provided on applying the definition of control. The accounting requirements for consolidation have remained largely consistent with IAS 27. The Company assessed its consolidation conclusions on January 1, 2013 and determined that the adoption of IFRS 10 did not result in any changes in the consolidation status of any of its subsidiaries and investees.

ii. IFRS 11, "Joint Arrangements", supersedes IAS 31, "Interest in Joint Ventures", and requires joint arrangements to be classified either as joint operations or joint ventures depending on the rights and obligations of each investor that jointly controls the arrangement. For joint operations, a company recognizes its share of assets, liabilities, revenues and expenses of the joint operation. An investment in a joint venture is accounted for using the equity method as set out in IAS 28. "Investments in Associates and Joint Ventures" (amended in 2011). The other amendments to IAS 28 did not affect the Company. The Company has classified its joint arrangements and concluded that the adoption of IFRS 11 did not result in any changes in the accounting for its joint arrangements.

iii. IFRS 12, Disclosure of Interests in Other Entities, outlines the disclosure requirements for interests in subsidiaries and other entities to enable users to evaluate the risks associated with interests in other entities and the effects of those interests on an entity's financial position, financial performance and cash flow. Additional disclosure required by IFRS 12 is included in note 16.

(U.S dollars, except where noted)

3. Significant accounting policies *(continued)*

iv. IFRS 13, "Fair Value Measurement", provides a single framework for measuring fair value. The measurement of the fair value of an asset or liability is based on assumptions that market participants would use when pricing the asset or liability under current market conditions, including assumptions about risk. The Company adopted IFRS 13 on January 1, 2013 on a prospective basis. The adoption of IFRS 13 did not require any adjustments to the valuation techniques used by the Company to measure fair value and did not result in any measurement adjustments as at January 1, 2013.

v. The Company has adopted the amendments to IAS 1 effective January 1, 2013. These amendments require the Company to group other comprehensive income items by those that will be reclassified subsequently to profit or loss and those that will not be reclassified. These changes do not result in any adjustments to other comprehensive income or comprehensive income.

vi. IFRIC 20, "Stripping Costs in the Production Phase of a Surface Mine", sets out the accounting for overburden removal (stripping) costs in the production phase of an open pit mine or quarry. Stripping activity may create two types of benefit: i) inventory produced and ii) access to the mineral to be processed. Stripping costs associated with the former should be accounted for as a current production cost in accordance with IAS 2, "Inventories". The latter should be accounted for as an addition to or enhancement of an existing asset. These changes did not result in any changes in or adjustments to the accounting for stripping costs.

The consolidated financial statements include the accounts of the Company and its subsidiaries ("Group"). The subsidiaries and the Company's ownership interests therein, are as follows:

Company	Location	Ownership interest	Status
Eagle Rock Materials Ltd.	Canada	70 %	Consolidated subsidiary
Eagle Rock Aggregates, Inc.	United States	70 %	Consolidated subsidiary
Quality Rock Holdings Ltd.	Canada	100 %	Consolidated subsidiary
Polaris Aggregates Inc.	United States	100 %	Consolidated subsidiary
Orca Sand & Gravel Limited Partnership	Canada	88 %	Consolidated subsidiary
Orca Sand & Gravel Ltd.	Canada	88 %	Consolidated subsidiary
Quality Sand & Gravel Ltd.	Canada	100 %	Consolidated subsidiary
5329 Investments Ltd. (2)	Canada	100 %	Consolidated subsidiary
Orca Finance Ltd. (3)	Canada	100 %	Consolidated subsidiary
Polaris Materials Inc.	United States	100 %	Consolidated subsidiary
Cemera Long Beach LLC	United States	(1)	Equity accounted joint venture

(1) Refer to note 8 for the description of the ownership interest in Cemera Long Beach LLC.
(2) Subsequent to the year end, 5329 Investments Ltd. was dissolved by a vertical amalgamation into Quality Sand & Gravel Ltd.
(3) Orca Finance Ltd. was dissolved in 2013.

Significant accounting judgments and estimates

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

(i) Determination of mineral reserves
Reserves are estimates of the amount of product that can be economically and legally extracted from the Company's properties. In order to estimate reserves, estimates are required about a range of geological, technical and economic factors, including quantities, production techniques, production costs, capital costs, transport costs, demand, prices and exchange rates. Estimating the quantity of reserves requires the size, shape and depth of deposits to be determined by analyzing geological data. This process may require complex and difficult geological judgments to interpret the data. Changes in the proven and probable reserves estimates may impact the carrying value of property, plant and equipment, restoration provisions, recognition of deferred tax amounts and depreciation, depletion and amortization.

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

For quarrying property interests the Company considers both external and internal sources of information in assessing whether there are any indications of impairment. External sources of information the Company considers include changes in the market, economic and legal environment in which the Company operates that are not within its control and affect the recoverable amount of

(U.S dollars, except where noted)

3. Significant accounting policies *(continued)*

quarrying property interests. Internal sources of information the Company considers include indications of economic performance of the assets. In determining the recoverable amounts of the Company's quarrying property interests, the Company's management makes estimates of the discounted future after-tax cash flows expected to be derived from the Company's properties, costs to sell the quarrying properties and the appropriate discount rate. Reductions in price forecasts, increases in estimated future costs of production, increases in estimated future non-expansionary capital expenditures, reductions in the amount of recoverable reserves and resources, and/or adverse current economics can result in a write-down of the carrying amounts of the Company's quarrying interests.

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

(iv) Provision for Property Tax
The Company's provision for property tax assessment represents management's best estimate of the amount of property taxes due in respect of the Company's aggregate terminal located in the City of Richmond California. The Company has been assessed personal property taxes on the value of the building, leasehold improvements, and equipment at the site. The Company is appealing the assessment on the basis that certain of the costs included in the assessment should not be subject to property tax and should not be included in the assessed value. Changes in these amounts or the outcome of the Company's appeal could result in changes to the provision recognized by the Company.

Foreign currency translation

The Company's presentation currency is the United States dollar ("U.S. dollar"). The functional currency of the Company and for each subsidiary of the Company is the currency of the primary economic environment in which it operates.

The functional currency of aggregate sales and terminal operations is the US dollar. The Company translates non-US dollar balances for these operations into US dollars as follows:

(i) Property, plant and equipment using historical rates;
(ii) Other assets and liabilities using the closing exchange rate as at the balance sheet date with translation gains and losses recorded in net income for the period; and
(iii) Income and expenses using the average exchange rate for the period, except for expenses that relate to nonmonetary assets and liabilities measured at historical

The functional currency of the quarrying operations and the corporate head office is the Canadian dollar. The Company translates these operations into US dollars as follows:

(i) Assets and liabilities using the closing exchange rate as at the balance sheet date with translation gains and losses recorded in other comprehensive income; and
(ii) Income and expenses using the average exchange rate for the period with translation gains and losses recorded in other comprehensive income

Inventories

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

When inventories have been written down to net realizable value ("NRV"), the Company makes a new assessment of NRV in each subsequent period. If circumstances that caused the write-down no longer exist, the remaining amount of the write-down is reversed.

(U.S dollars, except where noted)

3. Significant accounting policies *(continued)*

Property, plant and equipment

Expenditures incurred to develop new aggregate properties or marine receiving terminals are capitalized. Costs are written down to the recoverable amount if impaired, or written off if the property or interest is sold, allowed to lapse or abandoned.

Developed property, plant and equipment are carried at cost less accumulated depreciation and depletion and accumulated impairment. Capitalized costs for quarries are depleted using a unit of production method over the estimated economic life of the quarry to which they relate following the commencement of operations. Capitalized costs for marine receiving terminals are amortized over the useful lives of the underlying interests following the commencement of operations. Depreciation related to production is included in Cost of goods sold.

Property, plant and equipment is depreciated or depleted over its estimated useful life using the following rates:

Quarry property costs	Units of production
Property, plant & equipment	3 to 25 years
Equipment under finance lease	10 years
Office equipment	3 to 10 years
Leasehold improvements	Life of lease

The cost of equipment held under finance leases is equal to the lower of the net present value of the minimum lease payments or the fair value of the leased property at the inception of the lease and is amortized over the term of the lease, except when there is reasonable certainty that the leased assets will be purchased at the end of the lease, in which case they are amortized over the estimated useful life. Equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on disposal of the asset, determined as the difference between the net disposal proceeds and the carrying amount of the asset, is recognized in statement of income (loss).

Where an item of plant and equipment comprises significant components with different useful lives, the components are accounted for as separate items of plant and equipment. Expenditures incurred to replace a component of an item of property, plant and equipment that is accounted for separately, including major inspection and overhaul expenditures are capitalized.

Useful lives, residual values and depreciation methods are reassessed annually for all property, plant and equipment with the impact of any changes in estimate accounted for on a prospective basis.

Impairment of long-lived assets

At each financial position reporting date the carrying amounts of the Company’s assets are reviewed to determine whether there is any indication that those assets are impaired. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment, if any. The recoverable amount is the higher of fair value less costs to sell and the value in use. Fair value is determined as the amount that would be obtained from the sale of the asset in an arm’s length transaction between knowledgeable and willing parties. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Future cash flows are based on expected future production, estimated aggregate prices, and estimated operating, capital, and reclamation costs. Assumptions underlying future cash flow estimates are subject to risks and uncertainties. Any differences between significant assumptions used and actual market conditions and/or the Company’s performance could have a material effect on the Company’s financial position and results of operations.

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount and the impairment loss is recognized in the statement of income (loss) for the period. For the purposes of impairment testing, exploration and evaluation assets are allocated to cash-generating units to which the exploration activity relates. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash generating unit to which the asset belongs.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognized immediately in the statement of income (loss).

(U.S dollars, except where noted)

3. Significant accounting policies *(continued)*

Environmental rehabilitation and decommissioning

The Company recognizes liabilities for statutory, contractual, legal or constructive obligations associated with the retirement of property, plant and equipment. The Company records the present value of any environmental rehabilitation and decommissioning costs as a long-term liability in the period in which the related environmental disturbance occurs, based on the net present value of the estimated future costs that are required by current legal and regulatory requirements. Discount rates using a pre-tax rate that reflect the time value of money and the risks specific to the obligation are used to calculate the net present value. The net present value of future rehabilitation cost estimates arising from the decommissioning of plant and other site preparation work is capitalized to quarrying assets along with a corresponding increase in the rehabilitation provision in the period incurred. The rehabilitation asset is depreciated on the same basis as quarrying assets.

The liability is accreted over time through periodic charges to profit or loss and it is reduced by actual costs of decommissioning and reclamation. The present value of the liability is added to the carrying amount of the capitalized mineral property. This capitalized amount will be amortized over the estimated useful life of the asset. The obligation is adjusted at the end of each fiscal period to reflect the passage of time and changes in the estimated future costs underlying the obligation.

Provisions

Provisions are recorded when a present legal or constructive obligation exists as a result of past events where it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

Share based payments

The Company applies the fair value method of accounting for all stock option awards to employees and others providing similar services. Under this method the Company recognizes a compensation expense for all share options awarded based on the fair value of the options on the date of grant which is determined by using a Black-Scholes option pricing model. Accordingly, the fair value of all share options granted, and estimated to eventually vest, is recorded, over the vesting period, as a charge to the statement of income (loss) and a credit to contributed surplus. At the end of each reporting period, the Company revises its estimate of the number of equity instruments expected to vest. The impact of the revision of original estimates, if any, is charged to the statement of income (loss) such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to contributed surplus. Consideration paid on exercise of share options in addition to the fair value attributed to stock options granted is credited to share capital.

Income taxes

Income tax on the profit or loss for the periods presented comprises current and deferred tax. Income tax is recognized in the statement of income (loss) except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

Current income taxes are calculated based on taxable income for the current year at enacted or substantially enacted statutory tax rates.

Deferred income taxes are calculated using the liability method of accounting. Temporary differences arising from the difference between the tax basis of an asset or liability and its carrying amount on the balance sheet are used to calculate deferred income tax liabilities or assets. Deferred income tax assets and liabilities are measured using enacted or substantially enacted tax rates and laws that are expected to apply when the temporary differences are expected to reverse. Deferred income tax assets are recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized.

Temporary differences are not provided for the initial recognition of assets or liabilities that affect neither accounting nor taxable profit at the time of the transaction; and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

Investment in joint ventures

The Company may conduct a portion of its business through joint ventures under which the joint venture participants are bound by contractual agreements establishing joint control over the ventures. The Company accounted for the joint venture in Cemera Long Beach LLC using the equity method, whereby the Company recorded the initial costs of the joint venture and the carrying amount is increased or decreased to recognise the Company's share of the profit or loss of the joint venture after the date of acquisition.

(U.S dollars, except where noted)

3. Significant accounting policies *(continued)*

Financial instruments

All financial assets are initially recorded at fair value and designated upon inception into one of the following four categories:

i. Held to maturity - measured at amortized cost.

ii. Available-for-sale - measured at fair value.

iii. Loans and receivables - measured at amortized cost.

iv. Fair-value-through-profit-or-loss ("FVTPL") - measured at fair value with gains and losses recognized through statement of income (loss).

Financial assets classified as available-for-sale are measured at fair value with gains and losses recognized in other comprehensive income (loss) except for impairment losses. Interest calculated using the effective interest method and foreign exchange gains and losses on monetary items, will be recognised in profit and loss. Transaction costs associated with FVTPL financial assets are expensed as incurred, while transaction costs associated with all other financial assets are included in the initial carrying amount of the asset. Cash, trade and other receivables and security deposits are designated as loans and receivables.

All financial liabilities are initially recorded at fair value and designated upon inception as FVTPL or other financial liabilities. Financial liabilities classified as other financial liabilities are initially recognized at fair value less directly attributable transaction costs. After initial recognition, other financial liabilities are subsequently measured at amortized cost using the effective interest rate method. The effective interest rate method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that discounts estimated future cash payments through the expected life of the financial liability. The Company's trade and other payables, and long term debt are classified as other financial liabilities.

Revenue recognition

Revenue from the sale of construction aggregates, net of any discounts, is recognized on the sale of products at the time the Company has transferred to the buyer the significant risks and rewards of ownership; the Company retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold; the amount of revenue can be measured reliability; it is probable that the economic benefits associated with the transaction will flow to the entity; and the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Earnings per share

Earnings per share are calculated using the weighted average number of common shares outstanding during the year. The calculation of diluted earnings per share assumes that outstanding options and warrants are exercised and the proceeds are used to repurchase shares of the Company at the average market price of the shares for the period. The effect is to increase the number of shares used to calculate diluted earnings per share and is only recognized when the effect is dilutive.

Accounting standards and amendments issued but not yet adopted

Unless otherwise noted, the following revised standards and amendments are effective for annual periods beginning on or after January 1, 2014.

(i) IFRS 9, *Financial Instruments,* was issued in November 2009 and addresses classification and measurement of financial assets. It replaces the multiple category and measurement models in IAS 39 for debt instruments with a new mixed measurement model having only two categories: amortized cost and fair value through profit or loss. IFRS 9 also replaces the models for measuring equity instruments. Such instruments are either recognized at fair value through profit or loss or at fair value through other comprehensive income. Where equity instruments are measured at fair value through other comprehensive income, dividends are recognized in profit or loss to the extent that they do not clearly represent a return of investment; however, other gains and losses (including impairments) associated with such instruments remain in accumulated comprehensive income indefinitely. Requirements for financial liabilities were added to IFRS 9 in October 2010 and they largely carried forward existing requirements in IAS 39, *Financial Instruments – Recognition and Measurement,* except that fair value changes due to credit risk for liabilities designated at fair value through profit and loss are generally recorded in other comprehensive income. IFRS 9 was amended In November 2013, to (i) include guidance on hedge accounting, (ii) allow entities to early adopt the requirement to recognize changes in fair value attributable to changes in an entity's own credit risk, from financial liabilities designated under the fair value option, in OCI (without having to adopt the remainder of IFRS 9) and (iii) remove the previous mandatory effective date of January 1, 2015, although the standard is available for early adoption.

(ii) IFRIC 2*1, Accounting for Le*vies imposed by Governments, clarifies that the obligating event giving rise to a liability to pay a levy is the activity described in the relevant legislation that triggers payment of the levy. The Company is currently in the process of assessing the impact of this new guidance.

(U.S dollars, except where noted)

4. Trade and other receivables

(in thousands)	December 31, 2013 $	December 31, 2012 $
Trade receivables	3,869	2,260
Accrued interest	3	5
Other taxes receivable	57	134
Other receivables	71	39
	4,000	2,438

5. Inventories

(in thousands)	December 31, 2013 $	December 31, 2012 $
Construction aggregates	2,461	3,793
Components and consumable supplies	237	276
	2,698	4,069

6. Financial assets

(in thousands)	December 31, 2013 $	December 31, 2012 $
Loans and receivables measured at amortized cost:		
Orca quarry security deposits	1,059	1,130
Other long-term receivables	131	141
Total financial assets	1,190	1,271

Orca Quarry security deposits

The Company maintains CAD$1,126,184 (December 31, 2012 - CAD$1,124,099) in interest-bearing term deposits for irrevocable standby letters of credit and safekeeping agreements required by performance bonds on the Orca Quarry. The deposits are automatically renewed each year until returned to the Company upon completion of the performance bond, as such, their carrying value approximates fair value. As at December 31, 2013, deposits bear interest at a rate of 0.35% to 1.25% (December 31, 2012 - 0.45% to 1.25%).

(U.S dollars, except where noted)

7. 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, 2012	46,081	5,079	1,192	27,015	642	416	39	80,464
Additions	569	434	-	26	-	-	-	1,029
Environmental rehabilitation adjustments	(70)	-	-	-	-	-	-	(70)
Disposals	(103)	(244)	-	-	-	-	-	(347)
Foreign exchange	937	116	31	-	16	-	-	1,100
December 31, 2012	47,414	5,385	1,223	27,041	658	416	39	82,176
Accumulated depreciation								
January 1, 2012	(5,018)	(2,458)	-	(2,999)	(510)	-	-	(10,985)
Depreciation	(3,200)	(546)	-	(1,621)	(58)	-	-	(5,425)
Disposals	40	239	-	-	-	-	-	279
Foreign exchange	(119)	(64)	-	-	(10)	-	-	(193)
December 31, 2012	(8,297)	(2,829)	-	(4,620)	(578)	-	-	(16,324)
Carrying amount December 31, 2012	39,117	2,556	1,223	22,421	80	416	39	65,852
Cost								
January 1, 2013	47,414	5,385	1,223	27,041	658	416	39	82,176
Additions	1,057	1,056	-	34	6	2	-	2,155
Environmental rehabilitation adjustments	(144)	-	-	-	-	-	-	(144)
Disposals	(449)	(478)	-	-	-	(3)	-	(930)
Foreign exchange	(3,825)	(365)	(91)	-	(48)	-	-	(4,329)
December 31, 2013	44,053	5,598	1,132	27,075	616	415	39	78,928
Accumulated depreciation								
January 1, 2013	(8,297)	(2,829)	-	(4,620)	(578)	-	-	(16,324)
Depreciation	(2,522)	(551)	-	(1,239)	(30)	-	-	(4,342)
Disposals	503	364	-	-	-	-	-	867
Foreign exchange	1,274	212	-	-	39	-	-	1,525
December 31, 2013	(9,042)	(2,804)	-	(5,859)	(569)	-	-	(18,274)
Carrying amount December 31, 2013	35,011	2,794	1,132	21,216	47	415	39	60,654

(U.S dollars, except where noted)

8. Investments in joint ventures

The Company conducted a portion of its business through joint ventures under which the venturers are bound by contractual arrangements establishing joint control. The Company records its investments in joint ventures using the equity method.

Cemera Long Beach LLC.

Cemera Long Beach LLC ("Cemera") a joint venture between the Company and Cemex Inc. ("Cemex") was established to develop a construction aggregates receiving terminal on a freehold site situated on Pier B, in the port of Long Beach, California. The Company and Cemex, its Strategic Alliance partner, entered into an operating agreement which governed the direction, strategy and operation of the Cemera joint venture. On November 30, 2012, Cemera sold the Pier B land for cash consideration of $19.5 million and as a consequence the joint venture was wound up during March 2013. The Company received $12.3 million, net of closing costs and commissions, from the land sale proceeds.

9. Trade and other payables

(in thousands)	December 31, 2013 $	December 31, 2012 $
Trade payables	2,449	3,542
Accrued liabilities	1,582	1,463
	4,031	5,005

10. Finance leases

Included in property, plant and equipment is quarrying equipment that the Company has acquired pursuant to lease agreements. In February 2013 the Company refinanced CAD$439,913 of leases on quarrying equipment at 5.90% interest. The new lease has been accounted for as a finance lease and terminates February 2016. Monthly lease payments are CAD$13,298. The Company's lease agreements terminate between October 2014 and September 2018. The quarrying equipment is the security for the indebtedness.

Future minimum lease payments are as follows:

(in thousands)		$
2014	(CAD$ 746)	701
2015	(CAD$ 232)	218
2016	(CAD$ 85)	80
2017	(CAD$ 72)	68
2018	(CAD$220)	207
Total minimum lease payments		1,274
Less: Interest portion		93
Present value of capital lease obligations		1,181
Less: current portion		651
Non-current portion		530

(U.S dollars, except where noted)

11. Long-term debt

(in thousands)	December 31, 2013 $	December 31, 2012 $
Senior secured notes, due December 31, 2016. Semi-annual interest payments at 12% (per annum). Effective interest rate 15.71%.	-	7,232
Carrying amount	-	7,232
Current portion	-	-
Non-current portion	-	7,232
	-	7,232

Senior secured notes, due December 31, 2016

The notes were senior secured obligations of the Company with a first charge against the assets of the Company other than cash and accounts receivable. The notes were classified as financial liabilities and initially recorded at fair value, which was established in proportion to the combined fair value of the notes and concurrently issued warrants. The notes were subsequently carried at amortized cost and amortized by the effective interest method over the life of the notes.

The notes were repayable by the Company, in whole or in part, as its option, at any time without premium or penalty.

For the year ended December 31 2013, non-cash accretion of the discount which was included in interest expense, was CAD$81,386 (2012 – CAD$263,322).

During 2012, the Company and the holders of the notes agreed to defer the interest payment due on June 30, 2012, with that interest payment made upon the completion of the sale of the Pier B land. 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. Due to a mandatory prepayment clause contained in the credit agreement, one third of the outstanding principal, $CAD5.0 million, was repaid without penalty when the sale of the Pier B land closed on November 30, 2012 (note 8). On December 31, 2012, a further $CAD1.9 million of principal was repaid with proceeds received from the exercise of warrants (note 15).

In June 2013, the Company repaid the notes and accrued interest. Upon settlement, the unamortized discount of $870,111 was recorded to finance expenses for the year ended December 31, 2013.

12. Property tax provision

During the fourth quarter of 2012, the Company's subsidiary Eagle Rock Aggregates Inc. ("ERA"), was verbally notified by the County Assessor for Contra Costa County ("the County') that the property taxes in respect of the Company's aggregate terminal located in the City of Richmond, California, may not have been duly reassessed following the completion of construction at the end of 2007. The Company entered into discussions with the County Assessor which were ongoing at the end of December, 2013. During 2013 ERA received a payment demand, including penalties, for property tax dating back to 2008. Under the terms of its lease agreement with Levin Terminals Inc. ("Levin"), ERA has paid its pro-rata share of property tax on the Richmond terminal land each year to Levin. The County's new assessment is in regard to personal property taxes on the value of the building, leasehold improvements, and equipment at the site. To date the Company has been successful in reducing the original assessment period from five years to four under a statute of limitations applicable to the tax code and has also filed a notice of appeal against the assessment. To prevent any additional accumulation of interest and/or penalties, ERA entered into an Escape Assessment Installment Plan (the "Plan") with the County, and made a payment of $379,000 on August 15th, which was equal to 20% of the assessed taxes and will be applied against the final settlement which depends on the outcome of the appeal. Under the Plan, the remaining outstanding balance of the taxes is payable in four equal annual installments commencing August 31, 2014. The Company is appealing on the basis that certain of the costs included in the assessment should not be subject to property tax and should not be included in the assessed value. The Company has recorded a provision for its current best estimate of the property taxes owing of $1.535 million. The liability at December 31, 2013 of $1.156 million is net of the amount already paid. Of this amount $867,000 has been classified as a long-term liability based on the Plan agreed with the County. The Company's appeal is expected to be heard during the first half of 2014.

(U.S dollars, except where noted)

13. Restoration provision

The Company has restoration and decommissioning obligations associated with its operating quarry and processing plant. The following table summarizes the movements in the provision for the years ended December 31, 2013 and 2012:

(in thousands)	2013 $	2012 $
As at January 1	3,429	3,339
New or revised provisions	(145)	(70)
Accretion	81	85
Foreign exchange	(224)	75
As at December 31	3,141	3,429

The measurement of the liability assumes undiscounted estimated future cash flows needed to settle the liability of approximately CAD$3.8 million. These amounts are expected to be expended throughout the quarry life to 2035.

These estimated future cash flows were discounted at a risk-free rate of 3.13% (2012 – 2.45%) after applying an inflation rate of 2.04% (2012 - 2.04%).

14. Share capital

The Company has unlimited common shares without par value. At December 31, 2013, there were 80,396,289 common shares issued and outstanding (December 31, 2012 – 66,745,602).

On June 25, 2013, the Company issued 13,225,000 common shares on a bought deal basis at CAD$1.31 each for gross proceeds of CAD$17.3 million. Proceeds to the Company, after issue and transaction costs, were $15.3 million.

On November 14, 2013, 425,687 common shares were issued at CAD$1.31 on the exercise of warrants for proceeds of CAD$557,650.

15. Contributed surplus

(in thousands)	December 31, 2013 $	December 31, 2012 $
Share-based employee benefits	15,340	14,411
Warrants	7,078	6,936
	22,418	21,347

Share-based employee benefits

The Company established an incentive stock option plan (“the Plan”) on April 23, 2001. The Board of Directors (“the Board”) determines the exercise price of an option, but the price shall not be less than the closing price on the trading day immediately preceding the date it is granted. Vesting and other terms are at the discretion of the Board. The Plan also prohibits the reduction of the exercise price of any outstanding options without prior shareholder approval. The Board administers the Plan, whereby it may from time to time grant options to directors, senior officers, employees, consultants, personal holding companies and certain registered plans. At December 31, 2013, the maximum options to be allowed outstanding under the plan which comprise 10% of outstanding shares are 8,039,629 (December 31, 2012 – 6,674,560). All options are exercisable in Canadian dollars.

(U.S dollars, except where noted)

15. Contributed surplus *(continued)*

The Company's stock options at December 31, 2013 and changes for the period are as follows:

	Number outstanding	Weighted average exercise price (CAD$)
At December 31, 2011	3,776,709	$6.11
Forfeited	(365,000)	$9.37
Expired	(50,000)	$1.00
At December 31, 2012	3,361,709	$5.84
Granted	1,390,000	$1.56
Forfeited	(30,000)	$1.29
Expired	(672,500)	$8.56
At December 31, 2013	4,049,209	$3.95

At December 31, 2013, 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	995,000	$0.94	7.46	995,000	$0.94	7.46
$1.00 - $2.00	1,905,000	$1.67	8.33	964,998	$1.77	7.36
$2.50 - $4.00	235,000	$3.75	0.54	235,000	$3.75	0.54
$4.56 - $5.60	127,709	$4.88	2.09	127,709	$4.88	2.09
$8.69	85,000	$8.69	4.13	85,000	$8.69	4.13
$13.75	701,500	$13.75	3.76	701,500	$13.75	3.76
	4,049,209	$3.95	6.59	3,109,207	$4.67	5.76

During the year ended December 31, 2013, options granted had a total fair value of CAD$1,534,242 and a weighted average grant-date fair value of CAD$1.14 per option. The options have been valued using the Black-Scholes options pricing model, with the following assumptions:

Average risk free rate	1.50 – 2.08%
Expected life	5.15 – 7.15 years
Expected volatility	81.3 – 92.2%
Expected dividends	–

Warrants

In conjunction with the 13,225,000 share issue on June 25, 2013, (note 14), the company issued 661,250 warrants that are exercisable at a price of $1.31 per share until June 25, 2015. At the date of issue the estimated fair value of the warrants was CAD$395,091. Fair value of the warrants has been determined using the Black Scholes option pricing model.

(U.S dollars, except where noted)

15. Contributed surplus *(continued)*

The following assumptions were used for the Black-Scholes option pricing model:

Average risk free rate	1.25 %
Expected life	2 years
Expected volatility	74 %
Expected dividends	–

The Company's warrants at December 31, 2013 and changes for the period are as follows:

	Number of warrants outstanding	Weighted average exercise price (CAD$)
December 31, 2011	1,575,000	$4.52
Issued	13,200,000	$0.44
Exercised	(13,200,000)	$0.44
December 31, 2012	1,575,000	$4.52
Issued	661,250	$1.31
Exercised	(425,687)	$1.31
Expired	(950,000)	$6.50
December 31, 2013	860,563	$1.45

At December 31, 2013, 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)
500,000	November 17, 2015	$1.50	1.88
125,000	November 19, 2015	$1.50	1.88
235,563	June 25, 2015	$1.31	1.48
860,563		$1.45	1.77

16. Non-controlling interest

The Company holds an 88% interest in the Orca Sand and Gravel Limited Partnership ("Orca") 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, with the balance of its interest as follows:

(in thousands)	$
Balance – December 31, 2011	2,804
Non-controlling interest share of net loss	981
Non-controlling interest share of other comprehensive income	(95)
Balance - December 31, 2012	3,690
Non-controlling interest share of net loss	427
Non-controlling interest share of other comprehensive income	172
Balance - December 31, 2013	4,289

(U.S dollars, except where noted)

16. Non-controlling interest *(continued)*

At the request of the Namgis and in order to enable the Namgis to make their required equity contributions to the partnership once a construction decision was made, the Company advanced a total of $8,032,337 during the period from 2006 to 2007, at interest rates reflective of the equity nature of the loans. The Company's sole recourse for repayment is to the distributions receivable by the Namgis from the partnership, after repayment of any approved third party who has loaned the Namgis funds for equity contributions. Reflective of the equity nature of the funding, the balance of the loans offset the minority interest's share of equity. Due to the uncertainty associated with the recoverability, the Company has never recognized corresponding interest of $3,526,446 on the Namgis loans.

The loans to the Namgis were restructured during the year ended December 31, 2009 and included; a suspension of interest until the Company's volumes substantially increase, reduced interest rates upon recommencement of interest being charged, repayment of the loans are permitted at anytime, and upon achieving positive cash flow in Orca Sand and Gravel Limited Partnership the Namgis may elect that up to one-half of the amount to which they are entitled under the partnership agreement be paid in cash.

Orca owns the quarry assets which are separately disclosed in Note 7. In addition, the environmental restoration provision disclosed in Note 13, relates to the quarrying assets owned by Orca. The majority of sales made by Orca to the Company's subsidiary Eagle Rock Aggregates utilize a transfer price set independently by the Canada Revenue Agency under an advanced transfer price ruling. Orca's net loss for 2013 was $3,553,506.

17. Expenses by nature

(in thousands)	2013 $	2012 $
Cost of materials and consumables	6,645	4,354
Change in inventories	(3)	(1,073)
Salaries, wages, and employee benefits	6,376	5,447
Share based employee benefits	900	197
Amortization, depletion and depreciation	4,495	5,510
Distribution costs	23,029	20,456
Royalties and through-put	4,251	3,142
Utilities and rental payments	2,266	1,842
Professional and consulting fees	815	862
Operations support	1,330	1,413
Other	129	95
Total cost of goods sold, sales costs, general expenses, and administrative costs	50,233	42,245

18. Finance expense

(in thousands)	2013 $	2012 $
Interest on debt	549	1,776
Amortization of discount	80	283
Accretion of restoration provision	85	85
	714	2,145

Polaris
MINERALS CORPORATION

(U.S dollars, except where noted)

19. Compensation of key management

Key management personnel include the members of the Board of Directors and the Senior leadership team. Compensation for key management personnel (including directors) was as follows:

(in thousands)	2013 $	2012 $
Salaries and other benefits	1,524	1,477
Share based benefits	711	153
	2,235	1,630

20. Income taxes

Income tax expense differs from the amount that would result from applying statutory income tax rates to the loss before provision for income taxes due to the following:

(in thousands)	2013 $	2012 $
Loss before income taxes	(8,595)	(13,768)
Combined federal and provincial income tax rates	25.75%	25.00%
Income tax recovery based on the above rates	(2,213)	(3,442)
Non-deductible expenses	237	125
Difference in foreign tax rates	(44)	(314)
Future tax benefit to the non-controlling interest	15	162
Foreign exchange and other items	69	(394)
Amounts provided for in prior years	7	(554)
Income tax benefits not previously recognized	-	1
Income tax benefits not recognized	1,945	3,867
Income tax expense	16	(549)
Represented by:		
Current income tax expense	16	(549)
Future income tax expense	-	-
	16	(549)

The combined federal and provincial income tax rates increased due to an increase in income tax rates in Canada.

Unrecognized deferred tax assets

The components of the Company's net unrecognized tax asset (liability) are as follows:

(in thousands)	December 31, 2013 $	December 31, 2012 $
Non-capital losses	21,152	20,561
Property, plant and equipment	12,424	11,552
Asset retirement obligation	732	875
Share issuance costs	256	132
Capital leases	307	297
Unrealized foreign exchange losses	745	2,579
Capital losses	406	417
Other	-	(223)
	36,022	36,190

The majority of the unrecognized deferred tax assets, other than non-capital losses, have no expiry date.

(U.S dollars, except where noted)

20. Income taxes *(continued)*

As at December 31, 2013 the Company has tax losses for income tax purposes in Canada and the United States which may be used to reduce future taxable income. The income tax benefit, if any, of these losses have not been recorded in these consolidated financial statements because of the uncertainty of their recovery. A portion of the losses in the US are subject to limitation. The future expiration dates are as follows:

(in thousands)	Canada $	United States $	Total $
2022	-	5	5
2023	-	20	20
2024	2,243	8	2,251
2025	175	712	887
2026	3,049	136	3,185
2027	6,675	206	6,881
2028	6,131	2,620	8,751
2029	9,893	-	9,893
2030	16,981	-	16,981
2031	9,269	1,659	10,928
2032	8,005	3,537	11,542
2033	3,009	1,379	4,388
	65,430	10,282	75,712
Capital losses, no expiry date	3,335		3,335

21. Supplemental cash flow information

(in thousands)	2013 $	2012 $
Changes in non-cash working capital items		
Trade and other receivables	(1,425)	(40)
Current tax assets	410	(387)
Inventories	1,485	(335)
Other current assets	(206)	(9)
Trade and other payables	(774)	(121)
	(510)	(892)
Taxes paid		
Taxes paid	18	399

22. Related party transactions

During the year ended December 31, 2013, the Company accrued for, or paid, the following services by related parties. Proconsult UK Ltd. (“Proconsult”), a company controlled by a director of a subsidiary of the Company, provided to the Company, management and marketing services at a cost of $292,917 (year ended December 31, 2012 - $377,016). The Company paid Proconsult a retainer of $26,585 per month plus expenses for the first six months, however, effective July 2013, the monthly retainer was reduced to $14,500 per month plus expenses. Navigator Management Ltd. (“Navigator”), a company controlled by a director of the Company, provided consulting services at a cost of CAD$42,055 (year ended December 31, 2012 - CAD$37,010). The Company paid Navigator a retainer of CAD$3,000 per month plus expenses under a consulting agreement.

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

At December 31, 2013, accounts payable included; $19,252 due to Proconsult, (December 31, 2012 - $26,585) and CAD$3,850 due to Navigator, (December 31, 2012 - CAD$3,000).

(U.S dollars, except where noted)

23. Commitments and contingencies

Shipping Tonnage

The Company has a Contract of Affreightment (“NCoA”) which is effective from January 1, 2010 with a term of 20 years. The NCoA requires the Company to ship minimum tonnages per year. On December 19, 2013 the Company and its exclusive shipper, executed an amendment to NCoA that set the annual minimum tonnage at 2,979,000 short tons for each remaining year of the contract. 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 in the NCoA. No penalties were paid by the Company in respect of the 2013 contract year.

Operating and through-put agreements

The following minimum payments are required under operating leases, rent, equipment rentals, car leases, and aggregate through-put commitments as at December 31, 2013:

(in thousands)	$
2014	2,190
2015	2,067
2016	2,025
2017	2,070
2018	2,101
Thereafter	10,421
	20,874

The Company has a 20 year ground lease with an option for two ten-year extensions and a 20 year facilities use agreement with an option for one ten-year extension, the regular term of both ending January 2028, for the site of the Richmond Terminal. Base rent and through-put charges based on minimum aggregate volumes purchased and/or sold through the Richmond Terminal, are payable in monthly payments. Additionally, the Company has a lease for an 8.3 acre site on Berth D-44 in the Port of Long Beach, California, with an initial term of five years and three additional five-year extension options, exercisable by the Company, which would extend the tenure to June 30, 2030.

Cemex strategic alliance

The Company has a long-term alliance with Cemex, an international construction materials company. The alliance consists of a strategic alliance agreement, a supply and distribution agreement, joint cooperation and development agreements and a standstill agreement.

The ten year strategic alliance agreement, entered into in September 2007, sets out the exclusivity between the Company and Cemex for the purchase and distribution of marine supplied construction aggregates, sand, gravel and crushed rock, on the west coast of the United States along with terms for new terminal and quarry development related to those products. An alliance committee, comprised of two members from each company, oversees the ongoing operations of the alliance. The agreement has an option to be extended for additional ten-year terms upon mutual agreement by the Company and Cemex.

The twenty year supply and distribution agreement for marine transported construction aggregates, entered into in September 2007, provides for Cemex to be the exclusive marketer of the Company’s sand and gravel and for the Company to be the exclusive supplier to Cemex for its own internal use and for sales to third parties in northern California (excluding the counties of Marin, Sonoma, Mendocino and Napa). The agreement provides for a market pricing mechanism which is adjusted annually. It also provides for annual minimum tonnage purchase and supply commitments; however, previous minimum tonnage commitments are no longer being applied, with supply commitments being negotiated annually. This agreement automatically renews for two ten-year periods, subject to not exceeding the life of the Orca Quarry and a five-year termination notice.

(U.S dollars, except where noted)

23. Commitments and contingencies *(continued)*

The ten year joint cooperation and development agreements, entered into in September 2007, provide a mechanism through which the Company and Cemex will work together to pursue and develop new construction aggregate marine receiving terminals in Washington, Oregon and California (except for the counties of Marin, Sonoma, Mendocino and Napa). A development committee, comprised of two members from each company, will use their best efforts to identify terminals opportunities that are acceptable to both companies. Each new terminal development will be entered into contemporaneously with a supply and distribution agreement which sets out the exclusive area served by that terminal. In the event that either party does not wish to pursue a proposed terminal development, the proposing party is free to pursue the development of that terminal unencumbered, but with the loss of exclusivity for supply or distribution, as the case may be, related to the area served by that terminal. The agreement has an option to be extended for additional ten-year terms upon mutual agreement by the Company and Cemex.

Shamrock Materials Inc. supply agreement

In October 2005, the Company, through its subsidiary, Eagle Rock Aggregates Inc., entered into a long-term, twenty year, aggregates supply agreement (“ASA”) with Shamrock Materials Inc. (“Shamrock”), a well established construction aggregates consumer located in the San Francisco Bay area. The ASA may be further extended by three 5 year periods, at the option of Shamrock. The ASA has granted Shamrock the exclusive right to promote, market, resell and distribute sand and gravel within a defined territory (the counties of Marin, Sonoma, Mendocino and Napa). In return, the Company has the right to be the exclusive provider of imported sand and gravel to Shamrock within the same territory. The ASA provides for the purchase and supply of minimum annual volumes of sand and gravel from the Orca Quarry for distribution within the defined area in San Francisco Bay. However, previous minimum tonnage commitments are no longer being applied, with supply commitments being negotiated annually. Prices for the supply of sand and gravel pursuant to the ASA will be reviewed on an annual basis and adjusted to accommodate variations in the costs and changes in market prices for similar products within the defined area. Any adjustments based on changes to market prices will be shared by Shamrock and the Company according to an agreed formula. The ASA delivery schedules contemplate that a portion of a fully-laden vessel will be discharged into Shamrock’s barges at anchorage, and the balance discharged and sold at the Company’s Richmond Terminal and at Cemex’s existing land-based discharge terminals.

Royalties

The Company pays combined royalties of CAD$1.25 per metric tonne (2012 – CAD$1.25) base on the tonnage of sand and gravel sold. For the year ended December 31, 2013, an expense of CAD$ 3,760,885 (2012 – CAD$2,546,442) was recorded in respect of royalties. The Company has a guarantee of CAD$100,000 against the payment of royalties.

24. Segment reporting

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 two customers in Canada and four customers in the United States of America comprising 100% of the Company’s sales.

The customers with significant sales are as follows:

(in thousands)	2013 $	2012 $
Customer A	29,413	24,176
Customer B	8,396	6,331
Customer C	4,932	-

Sales by geographic area are as follows:

(in thousands)	2013 $	2012 $
United States	44,582	31,962
Canada	311	234
	44,893	32,196

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

(in thousands)	December 31, 2013 $	December 31, 2012 $
United States	21,671	22,876
Canada	38,983	42,976
	60,654	65,852

(U.S dollars, except where noted)

25. Capital management

The Company's objectives when managing capital is to safeguard the entity's ability to continue as a going concern in order to continue development of its aggregates and port terminal properties and to maintain a flexible capital structure which optimizes the cost of capital at an acceptable risk level.

The Company considers its share capital, contributed surplus, accumulated other comprehensive income, and deficit as capital.

The Company manages its capital structure in order to ensure sufficient resources are available to meet day to day operating requirements and to have the financial ability to grow its operations through terminal and quarry development. Methods used by the Company to manage its capital, taking into consideration changes in economic conditions, include issuing new share capital or obtaining debt financing. The Company is not subject to any externally imposed capital requirements.

26. Financial instruments

Fair value of financial instruments

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

	December 31, 2013		December 31, 2012	
(in thousands)	Carrying amount $	Fair value $	Carrying amount $	Fair value $
Loans and receivables				
Cash	9,385	9,385	5,537	5,537
Trade and other receivables (note 4)	3,943	3,943	2,304	2,304
Security deposits (note 6)	1,059	1,059	1,130	1,130
Other long-term receivables (note 6)	131	131	141	141
Other financial liabilities				
Senior secured notes	-	-	7,232	7,561

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

Credit risk

Credit risk is the risk that the Company will incur a loss due to a customer or other third party failing to discharge their obligation due to the Company. The Company maintains demand deposit accounts as well as term deposits, with major banks in Canada and the USA. The Company has six significant customers, four of which at December 31, 2013 comprise 100% (2012 – 100%) of trade receivables. The Company's largest customer is one of the world's largest international construction materials companies and the remaining customers are significant construction materials companies within their markets of San Francisco and Hawaii.

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

(in thousands)	2013 $	2012 $
Cash	9,385	5,537
Trade and other receivables	3,943	2,304
Security deposits	1,059	1,130
Other long-term receivables	131	141
	14,518	9,112

At December 31, 2013, no allowance for credit losses has been recorded against accounts receivable. No collateral or other form of security is held in respect of the amounts that comprise the Company's exposure to credit risk.

(U.S dollars, except where noted)

26. Financial instruments *(continued)*

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.

A maturity analysis of the undiscounted cash flows of the Company's financial liabilities at December 31, 2013 is as follows:

(in thousands)	**Within 1 year** $	**Between 1 – 2 years** $	**Between 2 – 3 years** $	**Between 3 – 4 years** $	**Between 4 – 5 years** $	**Over 5 years** $
Trade and other payables	4,031	-	-	-	-	-
Finance leases	651	200	69	59	202	-
	4,682	200	69	59	202	-

Market Risks

Foreign currency risk

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

For the year ended December 31, 2013 a $0.01 change in the US/Canadian exchange rate, assuming all other variables did not change, would effect net gain/(loss) by $60,000.

Interest rate risk

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

For the year ended December 31, 2013 a 100 basis point change in interest rates, assuming all other variables did not change, would effect on annual interest income by $90,000.