



CONSOLIDATED INTERIM FINANCIAL STATEMENTS

June 30, 2011 and 2010
(U.S. dollars)

Polaris Minerals Corporation

Consolidated Statements of Financial Position

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

	June 30, 2011	December 31, 2010
	\$	\$
Assets		
Current assets		
Cash	2,954	5,311
Trade and other receivables	2,926	1,855
Current tax assets	378	155
Inventories (note 3)	2,407	3,092
Other current assets	319	435
Current portion of other financial assets (note 4)	116	642
	9,100	11,490
Non-current assets		
Other financial assets (note 4)	2,450	6,664
Interests in joint ventures (note 5)	14,235	14,224
Property, plant and equipment (note 6)	74,556	75,231
	100,341	107,609
Liabilities		
Current liabilities		
Trade and other payables	4,025	2,900
Current tax liabilities	11	7
Short-term financial liabilities (note 7)	5,147	4,941
Current portion of finance leases	1,449	1,720
Current portion of long term debt (note 8)	1,000	1,000
Current portion of provisions (note 9)	206	795
	11,838	11,363
Non-current liabilities		
Finance leases	604	685
Long-term debt (note 8)	4,950	4,652
Provisions (note 9)	3,060	2,911
	20,452	19,611
Equity		
Share capital (note 10)	149,705	149,592
Contributed surplus (note 11)	21,004	20,774
Accumulated other comprehensive income	3,201	2,223
Deficit	(92,306)	(83,215)
Equity attributable to shareholders of the parent company	81,604	89,374
Non-controlling interest	(1,715)	(1,376)
Total equity	79,889	87,998
	100,341	107,609
Going concern (note 2)		
Commitments and contingent liabilities (note 9)		

Approved by the Board of Directors

"Paul Sweeney"
Paul Sweeney, Director

"Herbert Wilson"
Herbert Wilson, Director

Polaris Minerals Corporation

Consolidated Statements of Loss and Comprehensive Loss

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

	Three months ended June 30		Six months ended June 30	
	2011	2010	2011	2010
	\$	\$	\$	\$
Sales	5,953	4,723	9,680	9,607
Cost of goods sold	(6,361)	(4,950)	(10,831)	(9,887)
Reversal of (provision for) annual minimum freight volume penalty (note 9)	(86)	(295)	(206)	1,506
Amortization, depletion and depreciation	(1,203)	(1,130)	(2,379)	(2,120)
	(7,650)	(6,375)	(13,416)	(10,501)
Gross loss	(1,697)	(1,652)	(3,736)	(894)
Selling, general and administrative expenses	(1,615)	(1,621)	(3,208)	(2,878)
Shipping contract renegotiation costs (note 9)	-	-	-	(5,991)
	(1,615)	(1,621)	(3,208)	(8,869)
Operating loss	(3,312)	(3,273)	(6,944)	(9,763)
Interest income	42	94	131	402
Interest expense	(434)	(254)	(862)	(358)
Foreign exchange gain	28	(253)	196	(123)
Income from equity accounted interests in joint ventures	14	29	45	89
Other gains and losses (note 4)	(2,127)	63	(2,137)	32
	(2,477)	(321)	(2,627)	42
Loss before taxes	(5,789)	(3,594)	(9,571)	(9,721)
Income tax recovery (expense)	116	(9)	(44)	(74)
Loss for the period	(5,673)	(3,603)	(9,615)	(9,795)
Other comprehensive income				
Foreign currency translation	273	(2,357)	1,163	(658)
Other comprehensive income (loss) for the period	273	(2,357)	1,163	(658)
Total comprehensive loss for the period	(5,400)	(5,960)	(8,452)	(10,453)
Loss attributable to:				
Shareholders of the parent company	(5,387)	(3,301)	(9,091)	(9,260)
Non-controlling interest	(286)	(302)	(524)	(535)
	(5,673)	(3,603)	(9,615)	(9,795)
Total comprehensive loss attributable to:				
Shareholders of the parent company	(5,155)	(5,288)	(8,113)	(9,772)
Non-controlling interest	(245)	(672)	(339)	(681)
	(5,400)	(5,960)	(8,452)	(10,453)
Loss per share:				
Basic and diluted loss per common share	(0.10)	(0.06)	(0.17)	(0.17)
Weighted average number of common shares outstanding	53,381	53,247	53,336	53,236

Polaris Minerals Corporation

Consolidated Statements of Cash Flows

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

	Three months ended June 30		Six months ended June 30	
	2011 \$	2010 \$	2011 \$	2010 \$
Cash flows from operating activities				
Net loss	(5,673)	(3,603)	(9,615)	(9,795)
Amortization, depletion and accretion	1,355	1,252	2,538	2,324
Non-cash shipping contract renegotiation costs (note 9)	-	-	-	5,453
Share-based employee benefits	198	107	231	147
Unrealized foreign exchange gain	(87)	274	(159)	(107)
Provision for (reversal of) annual minimum freight volume penalty (note 9)	86	294	206	(1,506)
Income from equity accounted investment	(14)	(29)	(45)	(89)
Other losses	2,117	(61)	2,127	(43)
Other non-cash items	124	-	244	-
	(1,894)	(1,766)	(4,473)	(3,616)
Changes in non-cash working capital items (note 12)	192	(486)	634	(1,245)
	(1,702)	(2,252)	(3,839)	(4,861)
Cash flows from financing activities				
Proceeds from issue of common shares	58	17	113	17
Payment on provision for minimum freight volumes	-	-	(795)	-
Finance lease payments	(212)	(186)	(416)	(367)
	(154)	(169)	(1,098)	(350)
Cash flows from investing activities				
Dividends received from equity accounted investment	32	29	63	59
Contributions to equity accounted investment	(30)	(145)	(120)	(145)
Loan advances	-	(124)	-	(124)
Loan repayments	2,447	1,888	2,696	2,886
Property, plant and equipment purchases	(312)	(271)	(427)	(489)
Proceeds on disposal of property, plant and equipment	-	-	250	-
Security deposit withdrawals	-	46	-	39
	2,137	1,423	2,462	2,226
Effect of foreign currency translation on cash	65	(108)	118	(38)
Increase (decrease) in cash	346	(1,106)	(2,357)	(3,023)
Cash - beginning of period	2,608	3,639	5,311	5,556
Cash - end of period	2,954	2,533	2,954	2,533

Supplemental cash flow information (note 12)

Polaris Minerals Corporation

Consolidated Statement of Changes in Equity

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

	Attributable to equity holders of the Company							Total \$
	Number of common shares (000's)	Amount of common shares \$	Contributed surplus \$	Accumulated other comprehensive income \$	Deficit \$	Shareholders' equity \$	Non- controlling interest \$	
As at January 1, 2010	53,225	149,574	20,453	-	(70,111)	99,916	(514)	99,402
Options exercised	22	18	(1)	-	-	17	-	17
Share-based employee benefits	-	-	142	-	-	142	-	142
Other comprehensive income	-	-	-	(512)	-	(512)	(146)	(658)
Net loss	-	-	-	-	(9,260)	(9,260)	(535)	(9,795)
As at June 30, 2010	53,247	149,592	20,594	(512)	(79,371)	90,303	(1,195)	89,108
Share-based employee benefits	-	-	180	-	-	180	-	180
Other comprehensive income	-	-	-	2,735	-	2,735	482	3,217
Net loss	-	-	-	-	(3,844)	(3,844)	(663)	(4,507)
As at 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	-	-	230	-	-	230	-	230
Other comprehensive income	-	-	-	978	-	978	185	1,163
Net loss	-	-	-	-	(9,091)	(9,091)	(524)	(9,615)
As at June 30, 2011	53,397	149,705	21,004	3,201	(92,306)	81,604	(1,715)	79,889

Polaris Minerals Corporation

Notes to the Consolidated Financial Statements

(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 Suite 2740 - 1055 West Georgia Street, Vancouver, B.C., V6E 3R5. 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

The Company prepares its financial statements in accordance with Canadian generally accepted accounting principles as set out in the Handbook of the Canadian Institute of Chartered Accountants ("CICA Handbook"). In 2010, the CICA Handbook was revised to incorporate International Financial Reporting Standards ("IFRS"), and require publicly accountable enterprises to apply such standards effective for years beginning on or after January 1, 2011. Accordingly, the Company commenced reporting on this basis in its 2011 interim consolidated financial statements. In these financial statements, the term "Canadian GAAP" refers to Canadian GAAP before the adoption of IFRS.

These interim consolidated financial statements have been prepared in accordance with IFRS applicable to the preparation of interim financial statements, including IAS 34, *Interim Financial Reporting* and IFRS 1, *First-time Adoption of International Financial Reporting Standards*. The accounting policies followed in these interim financial statements are the same as those applied in the company's interim financial statements for the period ended March 31, 2011. The Company has consistently applied the same accounting policies throughout all periods presented, as if these policies had always been in effect. Note 14 discloses the impact of the transition to IFRS on the Company's reported financial position as at June 30, 2010 and financial performance and cash flows for the three and six month periods ended June 30, 2010, including the nature and effect of significant changes in accounting policies from those used in the Company's consolidated financial statements for the year ended December 31, 2010.

The accounting policies applied in these condensed interim consolidated financial statements are based on IFRS effective for the year ended December 31, 2011, as issued and outstanding as of August 11, 2011, the date the Board of Directors approved the statements. Any subsequent changes to IFRS that are given effect in the Company's annual consolidated financial statements for the year ending December 31, 2011 could result in restatement of these interim consolidated financial statements, including the transition adjustments recognized on change-over to IFRS.

The condensed interim consolidated financial statements should be read in conjunction with the Company's Canadian GAAP annual financial statements for the year ended December 31, 2010, and the Company's interim financial statements for the quarter ended March 31, 2011 prepared in accordance with IFRS applicable to interim financial statements.

Going concern

These unaudited 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 six months ended June 30, 2011, the Company incurred a net loss of \$9.6 million (June 30, 2010 – net loss \$9.8 million), had a negative cash flow from operations of \$3.8 million (June 30, 2010 – negative \$4.9 million) and as at June 30, 2011, has a deficit of \$92.3 million (December 31, 2010 - \$83.2 million). At June 30, 2011 the Company has a working capital deficit of \$2.7 million. Included in the \$2.7 million are \$1.0 million of payments related to the Company's finance leases due October 2011 and CAD\$5 million related to the short term credit facility that matures November 2011. The Company's losses continue to be negatively affected by the severe recession in the United States and particularly the low volume of demand for construction aggregates in the Company's main market, California. 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. These include: improvement in the economic outlook, the recovery of demand for the Company's products, particularly in California, the ability to close the sale of the Pier B property, and access to capital markets. These market conditions continue to result in reduced revenues, causing the Company to incur losses. Until the market recovers, it will be difficult to generate positive cash flows and the Company may incur additional penalties under its shipping contract (note 9).

In June 2011 the Company received \$2.35 million as an early pre-payment in full on its outstanding loan receivable, due March 1, 2028. The Company is seeking to refinance the CAD\$1.1 million of finance leases for quarrying equipment that are otherwise due in October 2011 and to divest additional non-core financial assets, so that it may continue to meet its operating expenditures until the Pier B property held by the Cembra Long Beach LLC joint venture is sold (note 5) or the Company can raise additional capital.

Polaris Minerals Corporation

Notes to the Consolidated Financial Statements

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

2. Basis of preparation and going concern *(continued)*

There can be no assurance that the steps described above will allow the Company to meet its obligations, which may require the Company to continue to exercise its right to pay interest in the form of additional notes, as allowed under the terms of the senior secured notes (note 8); raise equity capital; curtail, reduce or delay expenditures; or seek strategic alternatives to maximize the benefits of the Company's long lived assets.

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

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

3. Inventories

(in thousands)	June 30, 2011	December 31, 2010
	\$	\$
Construction aggregates	2,088	2,611
Components and consumable supplies	319	481
	2,407	3,092

Construction aggregates held at June 30, 2011 and December 31, 2010 are measured at net realizable value.

4. Other financial assets

(in thousands)	June 30, 2011	December 31, 2010
	\$	\$
Loans and receivables measured at amortized cost:		
Loan at 6.5%, advanced to a related party, unsecured, monthly payments comprise principal and interest, due December 31, 2018	1,083	1,105
Loan at 5.5%, secured, monthly payments of principal and interest, due March 1, 2028	-	4,646
Other	270	381
Total loans and receivables	1,353	6,132
Held-to-maturity investments measured at amortized cost:		
Orca quarry security deposits	1,213	1,174
Total held-to-maturity investments	1,213	1,174
Total financial assets	2,566	7,306
Current portion	116	642
Non-current portion	2,450	6,664
	2,566	7,306

Polaris Minerals Corporation

Notes to the Consolidated Financial Statements

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

4. Other financial assets (continued)

Loan at 6.5%, due December 31, 2018

At June 30, 2011, the Company has a loan of CAD\$1,044,332 (December 31, 2010 - CAD\$1,097,529), advanced to a related party, an entity in which the Company has a 33.3% ownership interest and was formed as a jointly controlled operation to construct and operate a tugboat for the berthing of freighters at the Orca Quarry. The loan is unsecured and matures December 1, 2018. The loan bears interest at an annual rate of 6.5% from April 1, 2010 to March 31, 2015, and the greater of 6.5% or Prime plus 4% from April 1, 2015 to December 31, 2018. Monthly payments of CAD\$14,692, represent principal and interest.

Loan at 5.5%, due March 1, 2028

In June 2011, the Company received \$2.35 million as an early payment in full on its loan to a third party debtor, representing a 48% discount on the outstanding balance of \$4.5 million. As a result, a loss of \$2.13 million is included in other gains and losses for the three and six months ended June 30, 2011.

Orca quarry security deposits

The Company maintains CAD\$1,169,593 (December 31, 2010 - CAD\$1,167,462) 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 June 30, 2011, deposits bear interest at a rate of 0.30% to 1.05% (December 31, 2010 - 0.30% to 1.05%, January 1, 2010 - 0.25% to 1.05%).

5. Interests in joint ventures

The Company conducts 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 the following joint ventures using the equity method.

0791304 B.C. Ltd.

The Company has a 33.3% interest in 0791304 B.C. Ltd. The entity was formed to construct and operate a berthing tugboat to facilitate the berthing of freighters at the Orca Quarry. The investment in 0791304 B.C. Ltd. was \$84,645 at June 30, 2011 (December 31, 2010 - \$39,431).

Cemera Long Beach LLC

Cemera Long Beach LLC ("Cemera") is a joint venture between the Company and Cemex to develop a construction aggregates receiving terminal, divided into Section A and Section B of the site, in the port of Long Beach, California. The Company, through its 70% owned Eagle Rock Aggregates Inc, 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, the joint venture partner, have a Strategic Alliance Agreement and a Joint Cooperation and Development Agreement which governs the direction, strategy and operation of the joint venture. Given the current expectation it is probable that the freehold land on Pier B that the joint venture purchased will be sold in the next twelve months, the interest in the Pier B property costs has been classified as property held for sale.

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

(in thousands)	June 30, 2011	December 31, 2010
	\$	\$
Assets		
Cash	9	23
Accounts receivable and other	16	169
Property held for sale	14,178	14,178
	14,203	14,370
Liabilities		
Accounts payable	3	9
Accrued liabilities	50	50
	53	59

Polaris Minerals Corporation

Notes to the Consolidated Financial Statements

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

6. Property, plant and equipment

(in thousands)	Orca Quarry			Richmond Terminal	Head Office	Long Beach Terminal Project	Other terminal projects	Total
	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	
	\$	\$	\$	\$	\$	\$	\$	\$
Cost								
January 1, 2010	46,454	4,914	1,208	26,426	739	71	151	79,963
Additions	477	-	2	839	1	345	-	1,664
Environmental rehabilitation adjustments	(2,315)	-	-	(249)	-	-	(35)	(2,599)
Disposals	(110)	-	-	(1)	(122)	-	(77)	(310)
Foreign exchange	2,574	279	76	-	38	-	-	2,967
December 31, 2010	47,080	5,193	1,286	27,015	656	416	39	81,685
Accumulated depreciation								
January 1, 2010	-	(1,396)	-	-	(384)	-	-	(1,780)
Depreciation	(2,552)	(501)	-	(1,476)	(124)	-	-	(4,653)
Disposals	105	-	-	-	113	-	-	218
Foreign exchange	(120)	(97)	-	-	(22)	-	-	(239)
December 31, 2010	(2,567)	(1,994)	-	(1,476)	(417)	-	-	(6,454)
Carrying amount December 31, 2010	44,513	3,199	1,286	25,539	239	416	39	75,231
Cost								
January 1, 2011	47,080	5,193	1,286	27,015	656	416	39	81,685
Additions	172	-	-	-	-	231	-	403
Disposals	(125)	-	-	-	-	-	-	(125)
Other adjustments	(163)	-	-	-	-	-	-	(163)
Foreign exchange	1,548	162	44	-	20	-	-	1,774
June 30, 2011	48,512	5,355	1,330	27,015	676	647	39	83,574
Accumulated depreciation								
January 1, 2011	(2,567)	(1,994)	-	(1,476)	(417)	-	-	(6,454)
Depreciation	(1,286)	(264)	-	(728)	(56)	-	-	(2,334)
Disposals	20	-	-	-	-	-	-	20
Foreign exchange	(170)	(66)	-	-	(14)	-	-	(250)
June 30, 2011	(4,003)	(2,324)	-	(2,204)	(487)	-	-	(9,018)
Carrying amount June 30, 2011	44,509	3,031	1,330	24,811	189	647	39	74,556

Polaris Minerals Corporation

Notes to the Consolidated Financial Statements

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

7. Short term financial liabilities

(in thousands)	June 30, 2011	December 31, 2010
	\$	\$
Subordinated secured credit facility at 15%. Principal and interest due November 8, 2011. Effective interest rate 17.35%.		
Principal outstanding	5,184	5,027
Discount	(37)	(86)
Carrying amount	5,147	4,941

On November 8, 2010, the Company obtained a subordinated, non-revolving credit facility in the amount of CAD\$5.0 million for working capital and general corporate purposes. The credit facility matures on November 8, 2011 and bears interest at 15% per annum. The Company has the right to repay the credit facility at any time prior to maturity for the principal plus accrued interest at 15% per annum, plus 5% of the principal. Additionally, the lender has the right, upon sale of certain assets of the borrower greater than CAD\$5 million, to demand repayment of the principal plus accrued interest. The facility is secured by a general security agreement providing a second lien over the assets of the Company and contains certain covenants similar to those found in an arms-length bank financing.

The credit facility has been classified as a financial liability measured at amortized cost. The credit facility is carried net of unamortized discount from par value, which is being amortized by the effective interest method over the life of the facility using an effective rate of 17.35%. At June 30, 2011 trade and other payables includes accrued interest of \$496,917 (December 31, 2010 - \$109,495). For the six months ended June 30, 2011, non-cash accretion of the discount, included in interest was \$50,782 (six months ending June 30, 2010 - \$nil). In conjunction with the credit facility, the Company issued 625,000 warrants to the lenders (note 11).

8. Long-term debt

(in thousands)	June 30, 2011	December 31, 2010
	\$	\$
Senior secured notes at 7.5%, with quarterly interest payments. Principal paid in twelve quarterly payments commencing March 31, 2015. Effective interest rate 10.6%.		
Principal outstanding	6,713	6,470
Discount	(763)	(818)
Carrying amount	5,950	5,652
Current portion	1,000	1,000
Non-current portion	4,950	4,652
	5,950	5,652

As part of the restructuring of its shipping arrangements (note 9), the Company issued 7.5% senior secured notes due December 31, 2017 with interest payable quarterly. Principal outstanding on the notes at June 30, 2011 totalled \$6,712,911. On March 31st and June 30th, 2011, the Company exercised its right to pay its quarterly interest payments of \$119,651 and \$123,218, respectively, in the form of additional notes, with the same terms, conditions and maturity date as the original notes. Repayment of the notes commences on March 31, 2015 with quarterly payments of \$525,000, with a final payment of \$937,911 on December 31, 2017.

The notes are repayable by the Company, in whole or in part, at its option, at any time without premium or penalty. Mandatory prepayments are required from; certain debt or equity issuances, insurance proceeds, certain asset sales, or upon a change in control. The Company has the right to pay interest in the form of additional notes for a period of up to five years from the issue date. All of the notes are secured by a first priority lien over the assets of the Company, including shares of certain subsidiaries, and contain certain covenants similar to those found in an arms-length bank financing.

Polaris Minerals Corporation

Notes to the Consolidated Financial Statements

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

8. Long-term debt (continued)

Upon completion of the Pier B land sale (note 5), the Company will pay \$1 million to CSL, to be applied against the outstanding principal.

The notes have been classified as financial liabilities measured at amortized cost. The notes are carried net of unamortized discount from par value, which is being amortized by the effective interest method over the life of the notes using an effective rate of 10.6%. For the six months ended June 30, 2011, non-cash accretion of the discount, included in interest on long-term debt, was \$54,774 (six months ended June 30, 2010 – \$29,953).

9. Provisions

(in thousands)	Annual freight volume \$	Environmental rehabilitation and decommissioning \$	Total \$
January 1, 2010	1,800	4,696	6,496
Current portion	1,800	-	1,800
Non-current portion	-	4,696	4,696
Liabilities settled	(1,800)	-	(1,800)
New or revised provisions	795	(2,254)	(1,459)
Accretion expense	-	241	241
Foreign exchange	-	228	228
December 31, 2010	795	2,911	3,706
Current portion	795	-	795
Non-current portion	-	2,911	2,911
Liabilities settled	(795)	-	(795)
New or revised provisions	206	-	206
Accretion expense	-	60	60
Foreign exchange	-	89	89
June 30, 2011	206	3,060	3,266
Current portion	206	-	206
Non-current portion	-	3,060	3,060

Environmental rehabilitation and decommissioning

At December 31, 2010, due to the low volume of demand for construction aggregates and reduced production levels, the Company reviewed its progress to date against the original reclamation plan and revised the timing and amount of future cash flows related to environmental rehabilitation. The liability assumes undiscounted estimated future cash flows needed to settle the liability incurred to June 30, 2011 of approximately CAD\$4.8 million which are expected to be expended throughout the quarry life to 2035. These estimated future cash flows have been discounted at a risk-free rate of 3.87% after applying an inflation rate of 2.04%.

Annual freight volume

On July 18, 2009, the Company entered into two shipping contracts (CoA-1 and CoA-2). These contracts required the Company to ship certain minimum tonnages. During 2009, the Company did not meet its minimum tonnage shipped and accrued a provision for expected payments of \$1,800,000 at December 31, 2009.

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Notes to the Consolidated Financial Statements

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

9. Provisions (continued)

During the quarter ended March 31, 2010, the Company restructured its shipping agreements, amalgamating them into a single revised Contract of Affreightment ("NCoA") which was effective from January 1, 2010 with a term of 20 years. This renegotiation resulted in the amount provided at December 31, 2009 being reversed through cost of goods sold in 2010 as under the NCoA, annual minimum freight volume penalties incurred under CoA-1 were cancelled. The Company incurred a restructuring fee, comprising of a payment of \$500,000 on signing of the agreement and issuance of \$6,350,000 in senior secured notes (note 8). The cash payment of \$500,000 and the fair value of the notes at the date of restructuring of \$5,453,480 were expensed in the year ended December 31, 2010. The NCoA requires the Company to ship minimum annual tonnages of 1,543,000 short tons escalating to 5,787,000 short tons per annum over seven years. The 2011 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 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. For the six months ended June 30, 2011, the Company accrued \$206,260 (six months ended June 30, 2010 – \$294,000) for penalties associated with the annual minimum volume requirement.

10. Share capital

The Company has unlimited common shares without par value. At June 30, 2011, there were 53,397,102 common shares issued and outstanding (December 31, 2010 - 53,247,102).

11. Contributed surplus

(in thousands)	June 30, 2011	December 31, 2010
	\$	\$
Share-based employee benefits	14,068	13,838
Warrants	6,936	6,936
	21,004	20,774

Share-based employee benefits

The Company established an incentive stock option plan ("the Plan") on April 23, 2002. 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. As at June 30, 2011, the maximum options to be allowed outstanding under the plan are 5,339,710 (December 31, 2010 – 5,324,710) and all options are exercisable in Canadian dollars.

The Company's stock options at June 30, 2011 and changes for the period are as follows:

	Number outstanding	Weighted average exercise price (CAD\$)
At January 1, 2010	3,707,595	\$7.85
Granted	50,000	\$1.80
Exercised	(22,500)	\$0.78
Forfeited	(323,750)	\$8.41
At December 31, 2010	3,411,345	\$7.76
Granted	1,015,000	\$0.94
Exercised	(150,000)	\$0.75
Forfeited	(298,212)	\$8.83
At June 30, 2011	3,978,133	\$6.20

Polaris Minerals Corporation

Notes to the Consolidated Financial Statements

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

11. Contributed surplus (continued)

At June 30, 2011, 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	9.97	338,336	\$0.94	9.97
	\$1.00 - \$2.00	717,500	\$1.89	7.11	560,834	\$1.87	6.83
	\$2.50 - \$4.00	345,000	\$3.47	2.90	345,000	\$3.47	2.90
	\$4.56 - \$5.60	378,133	\$4.86	3.41	378,133	\$4.86	3.41
	\$8.69	85,000	\$8.69	6.64	85,000	\$8.69	6.64
	\$11.41	505,000	\$11.41	1.51	505,000	\$11.41	1.51
	\$13.75	932,500	\$13.75	6.26	932,500	\$13.75	6.26
		3,978,133	\$6.20	6.20	3,144,803	\$7.54	5.30

During the six months ended June 30, 2010, options granted had a total fair value of CAD\$566,463 and a weighted average grant-date fair value of CAD\$0.59 per option. The options have been valued using the Black-Scholes option pricing model, with the following assumptions:

Average risk free rate	2.15 – 2.52 %
Expected life	4.95 – 6.95 years
Expected volatility	67.7 – 70.0 %
Expected dividends	-

Warrants

The Company's warrants at June 30, 2011 and changes for the period are as follows:

	Number of warrants outstanding	Weighted average exercise price (CAD\$)
January 1, 2010	10,916,346	\$3.12
Issued	625,000	\$1.50
Expired	(2,153,846)	\$4.80
December 31, 2010	9,387,500	\$2.63
Issued	-	-
Expired	(7,812,500)	\$2.25
June 30, 2011	1,575,000	\$4.52

Polaris Minerals Corporation

Notes to the Consolidated Financial Statements

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

11. Contributed surplus (continued)

At June 30, 2011, 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	2.13
500,000	November 17, 2015	\$1.50	4.39
125,000	November 19, 2015	\$1.50	4.39
1,575,000		\$4.52	3.03

12. Supplemental cash flow information

(in thousands)	Three months ended June 30		Six months ended June 30	
	2011	2010	2011	2010
	\$	\$	\$	\$
<i>Changes in non-cash working capital items</i>				
Accounts receivable	(1,045)	420	(1,285)	(145)
Inventories	439	(498)	628	(808)
Prepaid expenses and other	32	205	124	329
Accounts payable and accrued liabilities	766	(613)	1,167	(621)
	192	(486)	634	(1,245)
<i>Interest and taxes paid</i>				
Interest paid	76	167	37	221
Taxes paid	183	34	341	170
<i>Significant non-cash investing and financing activities</i>				
Property, plant and equipment in accounts payable and accrued liabilities	-	8	-	8

13. Related party transactions

During the three months ended June 30, 2011 and 2010, directors, either directly or through a company controlled by them, provided to the Company, services at a cost of \$87,411 (three months ended June 30, 2010 - \$102,735) which are included in general and administrative expenses. During the six months ended June 30, 2011 and 2010, directors, either directly or through a company controlled by them, provided to the Company, services at a cost of \$169,739 (six months ended June 30, 2010 - \$208,862) which are included in general and administrative expenses. At June 30, 2011, accounts payable of \$42,660 (December 31, 2010 - \$27,315) were due to companies controlled by common directors.

During the three months ended June 30, 2011, a related party provided tug berthing services to the Company at a cost of \$280,710 (three months ended June 30, 2010 - \$267,435). During the six months ended June 30, 2011, a related party provided tug berthing services to the Company at a cost of \$533,083 (six months ended June 30, 2010 - \$651,195). At June 30, 2011, included in trade payables and accrued liabilities was \$173,000 (December 31, 2010 - \$76,500) due to the related parties.

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

Polaris Minerals Corporation

Notes to the Consolidated Financial Statements

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

14. Transition to IFRS

The Company adopted IFRS effective January 1, 2010 ("the transition date") and prepared its opening IFRS balance sheet as at that date. Prior to the adoption of IFRS the Company prepared its financial statements in accordance with Canadian GAAP. The Company's consolidated financial statements for the year ending December 31, 2011 will be the first annual financial statements that comply with IFRS. The Company will ultimately prepare its opening IFRS balance sheet by applying existing IFRS with an effective date of December 31, 2011 or prior. Accordingly, the opening IFRS balance sheet and the December 31, 2010 comparative balance sheet presented in the consolidated financial statements for the year ending December 31, 2011 may differ from those presented at this time.

Elected exemptions from full retrospective application

In preparing these consolidated financial statements in accordance with IFRS 1, "First-time Adoption of International Financial Reporting Standards" ("IFRS 1"), the Company has applied certain of the optional exemptions from full retrospective application of IFRS. The optional exemptions applied are described below.

Business combinations

The Company has applied the business combinations exemption in IFRS 1 to not apply IFRS 3, "Business Combinations" retrospectively to past business combinations. Accordingly, the Company has not restated business combinations that took place prior to the transition date.

Cumulative translation differences

The Company has elected to set the previous accumulated cumulative translation account, which is included in accumulated other comprehensive income, to zero at January 1, 2010.

Share-based payment transactions

The Company has elected not to apply IFRS 2, "Share-based Payments" ("IFRS 2") to stock options granted prior to November 7, 2002 or to those granted after, that have vested by the transition date.

Borrowing costs

The Company has elected the transition date, January 1, 2010, as the date to apply the transitional provisions set out in IAS 23, "Borrowing Costs" ("IAS 23"). The capitalization of borrowing costs under IAS 23 will commence from this date onwards. Borrowing costs previously capitalized under Canadian GAAP have not been adjusted on transition to IFRS.

Decommissioning liabilities

The Company has elected to apply the IFRS 1 optional exemption for its decommissioning liabilities. Accordingly the decommissioning liabilities have been re-measured as per the requirements of IFRIC 1, "Changes in existing Decommissioning, Restoration and Similar Liabilities" ("IFRIC 1") as at January 1, 2010, the date of transition to IFRS.

Deemed cost of property, plant and equipment

IFRS 1 provides the option to measure individual items of property, plant and equipment at the transition date at fair value and use that fair value as its deemed cost. The Company has elected to use the fair value of certain assets at the Orca Quarry, the Richmond Terminal, and the Eagle Rock Quarry Project at the transition date as their deemed cost.

Mandatory exceptions to retrospective application

In preparing these consolidated financial statements in accordance with IFRS 1 the Company has applied certain mandatory exceptions from full retrospective application of IFRS. The mandatory exceptions applied from full retrospective application of IFRS are described below.

Estimates

Hindsight was not used to create or revise estimates and accordingly the estimates previously made by the Company under Canadian GAAP are consistent with their application under IFRS.

Consolidated and separate financial statements

The Company has prospectively applied certain elements of IAS 27, "Consolidated and Separate Financial Statements" ("IAS 27") as required by the mandatory exemption in IFRS 1.

Polaris Minerals Corporation

Notes to the Consolidated Financial Statements

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

14. Transition to IFRS (continued)

Reconciliation from Canadian GAAP to IFRS

An explanation of how the transition from Canadian GAAP to IFRS has affected the Company's financial position, financial performance and cash flows is set out in the following tables and the notes that accompany the tables.

Reconciliation of assets, liabilities and equity as at June 30, 2010 (in thousands)	Canadian GAAP ⁽¹⁾ (audited) \$	Note	Effect of transition to IFRS \$	IFRS (un-audited) \$
Assets				
Current assets				
Cash	2,657	(d)	(124)	2,533
Trade and other receivables	3,486	(d)	162	3,648
Current tax assets	269		-	269
Inventories	3,523		-	3,523
Other current assets	254		-	254
Current portion of other financial assets	895		-	895
	11,084		38	11,122
Non-current assets				
Assets held for sale	12,052	(d)	(12,052)	-
Other financial assets	6,505		-	6,505
Interests in joint ventures	42	(d)	12,001	12,043
Property, plant and equipment	97,639	(a)(b)(d)	(22,186)	75,453
	127,322		(22,199)	105,123
Liabilities				
Current liabilities				
Trade and other payables	3,241	(d)	(55)	3,186
Current portion of finance leases	750		-	750
	3,991		(55)	3,936
Non-current liabilities				
Finance leases	1,830		-	1,830
Long-term debt	5,479		-	5,479
Provisions	2,307	(a)	2,463	4,770
	13,607		2,408	16,015
Non-controlling interest	229	(e)	(229)	-
Shareholders' equity				
Share capital	149,592		-	149,592
Contributed surplus	20,666	(e)	(72)	20,594
Accumulated other comprehensive income	13,317	(c)	(13,829)	(512)
Deficit	(70,089)		(9,282)	(79,371)
Equity attributable to shareholders of the parent company	113,486		(23,183)	90,303
Non-controlling interest	-	(e)	(1,195)	(1,195)
Total equity	113,486		(24,378)	89,108
	127,322		(22,199)	105,123

⁽¹⁾ Certain Canadian GAAP numbers have been presented differently to conform to IFRS.

Polaris Minerals Corporation

Notes to the Consolidated Financial Statements

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

14. Transition to IFRS (continued)

Reconciliation of statement of loss and comprehensive loss for the three months ended June 30, 2010 (in thousands, except per share amounts)	Canadian GAAP ⁽¹⁾ (audited) \$	Note	Effect of transition to IFRS \$	IFRS (un-audited) \$
Sales	4,723		-	4,723
Cost of goods sold	(4,950)		-	(4,950)
Reversal of provision for annual minimum freight volume penalty	(295)		-	(295)
Amortization, depletion and depreciation	(1,420)	(a)	290	(1,130)
	<u>(6,665)</u>		<u>290</u>	<u>(6,375)</u>
Gross (loss) profit	(1,942)		290	(1,652)
Selling, general and administrative expenses	(1,621)		-	(1,621)
Shipping contract renegotiation costs	-		-	-
	<u>(1,621)</u>		<u>-</u>	<u>(1,621)</u>
Operating loss	(3,563)		290	(3,273)
Interest income	94		-	94
Interest expense	(192)	(a)	(62)	(254)
Foreign exchange gain (loss)	55	(b)	(308)	(253)
Income from equity accounted interests in joint ventures	46	(d)	(17)	29
Other gains and losses	16	(d)	47	63
	<u>19</u>		<u>(340)</u>	<u>(321)</u>
Loss before taxes	(3,544)		(50)	(3,594)
Income tax expense	(9)		-	(9)
Loss for the period	(3,553)		(50)	(3,603)
Other comprehensive income				
Foreign currency translation	(5,487)	(b)	3,130	(2,357)
Other comprehensive income (loss) for the period	(5,487)		3,130	(2,357)
Total comprehensive loss for the period	(9,040)		3,080	(5,960)
Loss attributable to:				
Shareholders of the parent company	(3,237)		(64)	(3,301)
Non-controlling interest	(316)		14	(302)
	<u>(3,553)</u>		<u>(50)</u>	<u>(3,603)</u>
Total comprehensive income (loss) attributable to:				
Shareholders of the parent company	(8,724)		3,436	(5,288)
Non-controlling interest	(316)		(356)	(672)
	<u>(9,040)</u>		<u>3,080</u>	<u>(5,960)</u>
Loss per share:				
Basic and diluted loss per common share	(0.06)		(0.00)	(0.06)
Weighted average number of common shares outstanding	53,247		-	53,247

⁽¹⁾ Certain Canadian GAAP numbers have been presented differently to conform to IFRS.

Polaris Minerals Corporation

Notes to the Consolidated Financial Statements

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

14. Transition to IFRS (continued)

Reconciliation of statement of loss and comprehensive loss for the six months ended June 30, 2010 (in thousands, except per share amounts)	Canadian GAAP ⁽¹⁾ (audited) \$	Note	Effect of transition to IFRS \$	IFRS (un-audited) \$
Sales	9,607		-	9,607
Cost of goods sold	(9,887)		-	(9,887)
Reversal of provision for annual minimum freight volume penalty	1,506		-	1,506
Amortization, depletion and depreciation	(2,677)	(a)	557	(2,120)
	(11,058)		557	(10,501)
Gross (loss) profit	(1,451)		557	(894)
Selling, general and administrative expenses	(2,878)		-	(2,878)
Shipping contract renegotiation costs	(5,991)		-	(5,991)
	(8,869)		-	(8,869)
Operating loss	(10,320)		557	(9,763)
Interest income	402		-	402
Interest expense	(247)	(a)	(111)	(358)
Foreign exchange gain (loss)	(157)	(b)	34	(123)
Income from equity accounted interests in joint ventures	68	(d)	21	89
Other gains and losses	24	(d)	8	32
	90		(48)	42
Loss before taxes	(10,230)		509	(9,721)
Income tax expense	(74)		-	(74)
Loss for the period	(10,304)		509	(9,795)
Other comprehensive income				
Foreign currency translation	(1,221)	(b)	563	(658)
Other comprehensive income (loss) for the period	(1,221)		563	(658)
Total comprehensive loss for the period	(11,525)		1,072	(10,453)
Loss attributable to:				
Shareholders of the parent company	(9,741)		481	(9,260)
Non-controlling interest	(563)		28	(535)
	(10,304)		509	(9,795)
Total comprehensive income (loss) attributable to:				
Shareholders of the parent company	(10,962)		1,190	(9,772)
Non-controlling interest	(563)		(118)	(681)
	(11,525)		1,072	(10,453)
Loss per share:				
Basic and diluted loss per common share	(0.18)		0.01	(0.17)
Weighted average number of common shares outstanding	53,236		-	53,236

⁽¹⁾ Certain Canadian GAAP numbers have been presented differently to conform to IFRS.

Polaris Minerals Corporation

Notes to the Consolidated Financial Statements

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

14. Transition to IFRS *(continued)*

(a) Property, plant and equipment

IFRS requires each component of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item to be depreciated separately over its own useful economic life. The Company has applied IAS 16 on a retrospective basis and has identified assets to be separately componentized. At June 30, 2010, this amounted to a decrease in property, plant and equipment of \$741,492 (December 31, 2010 - \$856,938) on transition to IFRS.

The Company reassessed the provision for environmental rehabilitation in accordance with IFRS, which resulted in an increase of \$2,423,436 at June 30, 2010 (December 31, 2010 - \$2,406,014) which was included in property, plant and equipment. The changes required under IFRS primarily relate to changes in the risk-free rate used under IFRS. At June 30, 2010, \$2,478,378 (December 31, 2010 - \$2,621,292) was recognized as an increase in the provision for environmental rehabilitation. Cumulative additional depletion at June 30, 2010 of \$113,047 (December 31, 2010 - \$142,141) was recorded due to the increase in the amounts capitalized to property, plant and equipment. Accretion due to changes in the provision for environmental rehabilitation decreased by \$15,541 at June 30, 2010 (December 31, 2010 - \$31,515).

In accordance with IFRS 1, the Company elected to measure certain assets at the Orca Quarry, the Richmond Terminal, and the Eagle Rock Quarry Project at January 1, 2010 at fair value and use that fair value as its deemed cost. The fair value of these assets at January 1, 2010 resulted in a \$23.0 million reduction in the carrying value of property, plant and equipment and a corresponding adjustment to opening retained earnings. The adjustment impacted the amortization recorded in subsequent periods as follows; six months ended June 30, 2010 decreased \$571,000, and the year ended December 31, 2010 decreased \$1,143,000.

(b) The effect of changes in foreign exchange rates

As part of the transition to IFRS, the Company identified differences in the application of functional currencies to its US subsidiaries in its consolidated financial statements in accordance with IAS 21, "Effects of Changes in Foreign Exchange Rates", compared to previous Canadian GAAP.

(c) Cumulative translation differences

The Company has elected to set the previously accumulated cumulative translation account, which is included in accumulated other comprehensive income, to zero at January 1, 2010.

(d) Joint venture interests

Under Canadian GAAP, joint ventures are accounted for using the proportionate consolidation method. IFRS currently provides a policy choice to either apply proportionate consolidation or the equity method of accounting to joint ventures including jointly controlled entities, operations and assets. As part of the transition to IFRS, the Company began accounting for its investment in Cembra LLC on an equity basis. Cash balances and changes in working capital have been adjusted for the equity method of accounting for the Company's investments in joint ventures under IFRS (Note 5).

(e) Non-controlling interest

The Company previously presented non-controlling interest below liabilities in the statement of financial position as required by Canadian GAAP. IFRS specifies that non-controlling interest is presented as a component of equity. In addition, differences described in (a) and (b) above impacted the amount of non-controlling interest recorded under IFRS.