

Consolidated Financial Statements
December 31, 2005 and 2004
(expressed in Canadian dollars)

Management's Responsibility for Financial Reporting

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

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

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

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



Marco A. Romero
President and Chief Executive Officer



Harry P. Sutherland
Vice President, Finance and Chief Financial Officer
February 27, 2006

Auditors' Report

To the Shareholders of
Polaris Minerals Corporation

We have audited the consolidated balance sheets of **Polaris Minerals Corporation** as at December 31, 2005 and 2004 and the consolidated statements of operations and deficit and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2005 and 2004 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.



Chartered Accountants

Vancouver, British Columbia
February 27, 2006

Polaris Minerals Corporation
Consolidated Balance Sheets
As at December 31, 2005 and 2004
(expressed in Canadian dollars)

	2005 \$	2004 \$ (restated - note 2)
Assets		
Current assets		
Cash and cash equivalents	1,152,155	6,159,947
Accounts receivable	133,211	123,294
Prepaid expenses and deposits	334,733	187,032
	<u>1,620,099</u>	<u>6,470,273</u>
Property, plant & equipment (note 3)	7,203,012	4,981,172
Other assets (note 4)	55,968	86,127
Deferred financing costs (note 5)	807,397	-
	<u>9,686,476</u>	<u>11,537,572</u>
Liabilities		
Current liabilities		
Accounts payable	679,933	537,506
Accruals and provisions	711,067	110,985
	<u>1,391,000</u>	<u>648,491</u>
Shareholders' Equity		
Share capital (note 6)	18,629,705	9,332,014
Special warrants (note 7)	-	9,261,691
Contributed surplus (note 2)	1,516,912	699,378
Deficit	(11,851,141)	(8,404,002)
	<u>8,295,476</u>	<u>10,889,081</u>
	<u>9,686,476</u>	<u>11,537,572</u>

Commitments (note 8)
Contingency (note 12)
Subsequent events (note 14)

Approved by the Board of Directors



Roman Shklanka, Director



Marco Romero, Director

Polaris Minerals Corporation
Consolidated Statements of Operations and Deficit
For the years ended December 31, 2005 and 2004
(expressed in Canadian dollars)

	2005 \$	2004 \$ (restated - note 2)
Income		
Interest	83,438	157,657
Expenses		
Community relations	609,939	659,740
General and administrative	914,809	782,868
Marketing	384,533	320,950
Salaries and benefits	803,762	757,882
Stock-based compensation	817,534	422,352
	<u>3,530,577</u>	<u>2,943,792</u>
Loss for the year	(3,447,139)	(2,786,135)
Deficit - beginning of year	(8,404,002)	(5,617,867)
Deficit - end of year	<u>(11,851,141)</u>	<u>(8,404,002)</u>
Basic and diluted loss per common share	(0.27)	(0.22)
Weighted average number of common shares outstanding	<u>12,980,639</u>	<u>12,526,386</u>

Polaris Minerals Corporation
Consolidated Statements of Cash Flows
For the years ended December 31, 2005 and 2004
(expressed in Canadian dollars)

	2005 \$	2004 \$ (restated - note 2)
Cash flows from operating activities		
Loss for the year	(3,447,139)	(2,786,135)
Items not affecting cash		
Amortization	38,874	39,498
Stock-based compensation	817,534	422,352
	(2,590,731)	(2,324,285)
Changes in non-cash working capital items		
Accounts receivable	(9,917)	(59,538)
Prepaid expenses and deposits	(147,701)	(170,930)
Accounts payable	142,427	299,841
Accruals and provisions	600,082	(25,320)
	584,891	44,053
	(2,005,840)	(2,280,232)
Cash flows from financing activities		
Net proceeds from issue of common shares	36,000	5,000
Net proceeds from issue of special warrants	-	9,261,691
Deferred financing costs	(807,397)	-
	(771,397)	9,266,691
Cash flows from investing activities		
Property, plant and equipment costs	(2,221,840)	(1,722,402)
Other assets	(8,715)	(54,728)
	(2,230,555)	(1,777,130)
(Decrease) increase in cash and cash equivalents	(5,007,792)	5,209,329
Cash and cash equivalents - beginning of year	6,159,947	950,618
Cash and cash equivalents - end of year	1,152,155	6,159,947

Non-cash investing and financing activities (Note 13).

Polaris Minerals Corporation
Notes to Consolidated Financial Statements
December 31, 2005 and 2004
(expressed in Canadian dollars)

1 Nature of operations

The Company was incorporated on May 14, 1999. It is engaged in the development and future operation of construction aggregates properties and projects located in western North America.

2 Significant accounting policies

Accounting principles

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

Principles of consolidation

The consolidated financial statements include the accounts of the Company and its subsidiaries. The subsidiaries and the Company's ownership interests therein, are as follows: Eagle Rock Materials Ltd. (70%), Eagle Rock Aggregates, Inc. (70%), Quality Rock Holdings Ltd. (100%), Polaris Aggregates Inc. (100%) and, effective April 2005, Orca Sand & Gravel Limited Partnership (88%), Orca Sand & Gravel Ltd. (88%), Quality Sand & Gravel Ltd. (100%), and 5329 Investments Ltd. (100%).

Cash and cash equivalents

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

Translation of foreign currency

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

Use of estimates

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

Fair value of financial instruments

The fair values of cash and cash equivalents, accounts receivable, prepaid expenses and deposits, accounts payable and accruals and provisions approximate their book value due to their short-term nature.

Financial risk

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

Property, plant and equipment

Property, plant and equipment are recorded at cost, which comprises direct, third party property costs and excludes management and indirect costs.

Construction aggregate property costs are deferred and will be amortized against future production following commencement of commercial production, written down to net realizable value, or written off if the properties are sold, allowed to lapse or are abandoned. Costs incurred on properties prior to the acquisition or the determination of potentially viable deposits are charged to operations. Carrying values do not necessarily reflect present or future values. The recovery of carrying values will depend upon the Company establishing reserves, obtaining financing for construction and attaining profitable operations (Note 3).

Shipping and terminal costs related to the acquisition, evaluation and development of shipping and terminal access arrangements are deferred and will be amortized over the useful lives of the underlying interests following commencement of operations, written down to net realizable value, or written off if the underlying interests are allowed to lapse or are abandoned. Carrying values do not necessarily reflect present or future values and the recovery of carrying values will depend upon the Company obtaining financing for construction and attaining profitable operations (Note 3).

Effective January 1, 2004, the Company adopted the new standard of the Canadian Institute of Chartered Accountants (CICA) Handbook Recommendation contained in section 3063 relating to impairment of long-lived assets. The Company reviews and evaluates its long-lived assets for impairment when events or changes in circumstances indicate that the related carrying amounts may not be recoverable. An impairment loss is recognized when the asset carrying value exceeds net recoverable amount. Net recoverable amount is generally determined using estimated undiscounted future cash flows. Impairment is considered to exist if total estimated future cash flows on an undiscounted basis are less than the carrying amount of the asset. An impairment loss is measured and recorded based on the estimated fair value of the assets. Assumptions underlying future cash flow estimates are subject to risks and uncertainties. Any differences between significant assumptions used and actual market conditions and/or the Company's performance could have a material effect on the Company's financial position and results of operations. Prior to this adoption, impairment charges were determined using non-discounted estimated net recoverable amounts. There was no impact on the financial statements resulting from the implementation of this new standard.

Other assets

Other assets are recorded at cost. Motor vehicles are amortized over 3 years and office furniture and equipment are amortized over 3.3 years.

Asset retirement obligation

The Company has adopted CICA 3110, *Asset Retirement Obligations*, which establishes standards for the recognition, measurement and disclosure of asset retirement obligations and the related asset retirement costs. The standard applies to obligations associated with the retirement of property, plant and equipment when those obligations result from the acquisition, construction, development or normal operation of the assets. The section requires the recognition of all legal obligations associated with retirement, whether by sale, abandonment, recycling or other disposal of assets. Under this standard, these obligations are recognized in the period in which a reasonable estimate can be made. They are initially measured at the present value of the future obligation and subsequently adjusted for the accretion of discount and any changes in the underlying cash flows. The asset retirement cost is capitalized to the related asset and amortized over time. Adoption of this standard did not have a material impact on the Company's financial statements.

Variable Interest Entities

The Company has adopted Accounting Guideline 15 (AcG-15), *Consolidation of Variable Interest Entities (VIE)*, effective January 1, 2005, whereby the guideline establishes when a company should consolidate a variable interest entity in its financial statements. AcG-15 provides the definition of a VIE and requires a VIE to be consolidated if a company is at risk of absorbing the VIE's expected losses, or is entitled to receive the majority of the its expected residual returns, or both. The adoption of Accounting Guideline 15 has not had a material impact on the Company's financial statements.

Stock options

The Company has a stock option plan as described in note 6(c).

Effective January 1, 2004, the Company adopted the recommendations of the new CICA Handbook Section 3870, *Stock-based Compensation and Other Stock-based Payments*. This section establishes standards for the recognition, measurement and disclosure of stock-based compensation and other stock-based payments in exchange for goods and services. The section requires that all stock-based awards made to non-employees be measured and recognized using a fair value based method. The section encourages a fair value based method for all awards granted to employees, but only requires the use of a fair value based method for direct awards of stock, stock appreciation rights, and awards that call for settlement in cash or other assets.

As of January 1, 2005, the Company adopted the recommendations of CICA Section 3870 in respect of options granted to employees and directors. Stock-based compensation is calculated on the date of the grant of options using the Black-Scholes option pricing model. The Company records the compensation expense on the dates that the options vest. This change in accounting policy was applied retroactively with restatement for all periods commencing January 1, 2002. For the year ended December 31, 2004, the restatement had the effect of increasing net loss by \$422,352 (2003 - \$149,816; 2002 - \$127,210), and increasing deficit and contributed surplus by \$699,378 (2003 - \$277,026; 2002 - \$127,210).

Accordingly, the fair value of all stock options granted is recorded over the vesting period as a

charge to operations and a credit to contributed surplus. Consideration paid on exercise of stock options, in addition to the fair value attributed to stock options granted, is credited to share capital.

Community relations

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

Income taxes

Income taxes are calculated using the liability method of accounting. Temporary differences arising from the difference between the tax basis of an asset or liability and its carrying amount on the balance sheet are used to calculate future income tax liabilities or assets. Future income tax assets and liabilities are measured using tax rates and laws that are expected to apply when the temporary differences are expected to reverse.

Loss per common share

Loss per common share is calculated using the weighted average number of common shares and special warrants issued and outstanding during the years ended December 31, 2005 and 2004. Special warrants are included in this calculation in accordance with EIC 50 as they are automatically convertible into common shares upon expiry (note 7). All outstanding stock options would be anti-dilutive and therefore have no effect on the determination of loss per share.

3 Property, plant & equipment

	Orca Sand & Gravel \$	Eagle Rock Quarry \$	Shipping & Terminals \$	Total \$
Balance - December 31, 2003	940,277	1,438,028	880,465	3,258,770
Expenditures	1,212,071	60,477	449,854	1,722,402
Balance - December 31, 2004	2,152,348	1,498,505	1,330,319	4,981,172
Expenditures	1,454,299	-	767,541	2,221,840
Balance - December 31, 2005	3,606,647	1,498,505	2,097,860	7,203,012

a) Orca Sand & Gravel

The Orca Sand & Gravel Project (the Project) is located on tidewater, west of the city of Port McNeill, British Columbia. The Company plans to quarry and screen the sand and gravel resource to produce construction aggregates products on site. Products will be shipped in bulk carriers to coastal urban markets in California.

In August 2002, the Company entered into a joint venture with the Kwakiutl First Nation (Kwakiutl) to explore for viable sand and gravel deposits within their traditional territory, located on northern Vancouver Island, British Columbia. In April 2003, the Company executed a similar

joint venture agreement and an impact and benefits agreement with the Namgis First Nation (Namgis) over their traditional territory, also located on northern Vancouver Island. The Company was the operator and owned 80% of both joint ventures, and each First Nation owned 20% of their joint ventures. The asserted traditional territories of the First Nations partially overlap, and the joint venture agreements provided that, in the event that a potential project was identified within the area of overlap, the parties would establish a tripartite joint venture owned 80% by the Company and 10% by each First Nation.

Initial reconnaissance exploration programs identified the East Cluxewe deposit (the Orca Quarry), located to the west of Highway 19 and to the east of the Cluxewe River, the West Cluxewe deposit, laying to the west of the Cluxewe River, and the Bear Creek deposit on the east of the East Cluxewe deposit. The East Cluxewe and Bear Creek deposits lie within the overlap area, whereas the West Cluxewe deposit is located in territory exclusively claimed by the Kwakiutl.

In October 2004, the Kwakiutl and the Company agreed to replace their joint venture agreement with an impact and benefits agreement, which was executed in March 2005, and includes the following principal terms:

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

The Company and the Namgis subsequently agreed to negotiate a limited partnership agreement, a shareholders agreement, a loan agreement, and an impact and benefits agreement in connection with the overlap area of the Orca Sand & Gravel Project, and to amend their joint venture and impact and benefits agreements in connection with the balance of their asserted traditional territory.

In April 2005, the Company and the Namgis formed the Orca Sand & Gravel Limited Partnership (the Partnership) and executed an impact and benefits agreement. The principal terms are as follows:

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

in the Partnership by up to 50%, by purchasing Partnership units from the Company for cash at fair market value.

In April 2003, the Company, on behalf of the joint venture, entered into an exploration agreement with Western Forest Products Limited, now Western Forest Products Inc. (WFP), the owner of the lands hosting the East and West Cluxewe deposits. Pursuant to the agreement, the Company and WFP have executed and registered a *profit a prendre* agreement dated March 2005, which has the following principal terms:

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

In March 2004, the Company entered into an exploration agreement with Weyerhaeuser Company Limited, now Island Timberlands Limited Partnership, the owner of the fee simple land hosting the Bear Creek deposit. The exploration agreement gave the Company the exclusive right to undertake exploration programs and negotiate a long term lease. The Company has completed its exploration program and has earned the exclusive rights to negotiate the lease agreement by June 2006. The Company expects to complete the negotiations by the June 2006 deadline or receive a further extension.

In May 2004, the Company staked mineral claims over the entire Orca Project area. In July 2005, the Company received from the provincial government the environmental assessment certificate and the mine permit for the Orca Quarry and in October and November 2005 the Company received the federal environmental approvals. In September 2005, the Company obtained a two year provincial licence of occupation for the Orca Quarry ship loader, which gives the Company the right to negotiate a long-term foreshore lease.

In October 2005, the Company completed an independent technical report in compliance with National Instrument 43-101 that confirmed the feasibility of the development of the East Cluxewe deposit, including the associated ship loader, and the terminal and discharge facility in the Port of Richmond, San Francisco Bay (the Richmond Terminal). The report converted the Orca Quarry resources to reserves.

Subsequent to the year ended December 31, 2005, the Company completed the necessary financing for the construction of the Orca Quarry and the Richmond Terminal, and made the decision to commence construction (note 14).

Included in the value of the Orca Project at December 31, 2005, is an amount receivable from the Namgis of \$588,917 (2004 - \$281,680). In April 2005, the Company and the Namgis entered into an amended loan agreement, the principal terms of which are as follows:

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

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

b) Eagle Rock Quarry

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

In April 2001, the Company staked mineral claims over the area of interest, and made applications for land and foreshore tenure to the Province of British Columbia and the Port Alberni Port Authority. The environmental assessment certificate and mine permit for the Eagle Rock Quarry were issued in September 2003, and the 50-year lease with the Province of British Columbia was executed in March 2005. A foreshore lease application for the ship loader has been approved in principle, and the terms are currently being negotiated.

On October 1, 2002, Eagle Rock Materials Ltd. (ERM) acquired 100% of the Company's interest in the project. ERM was formed for the purpose of holding the interests of the Company and certain First Nations in the project. The Company owns 70% of ERM, the Hupacasath First Nation (Hupacasath) and the Ucluelet First Nation (Ucluelet) each own 10%, and the remaining 10% is held in trust by the Company for the Tseshaht First Nation. The Company, the Hupacasath and the Ucluelet executed a shareholders' agreement and an impact and benefits agreement. The principal terms of those agreements are as follows:

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

c) *Shipping and terminals*

In September 2004, the Company entered into a long-term lease with Levin Enterprises, Inc. for the Richmond Terminal. In May 2004, the Company received the planning permit for the Richmond Terminal from the City of Richmond, and in February 2005 it received the environmental permit from the Bay Conservation and Development Commission. In February 2006, the Company executed the corresponding vessel berthing agreement for the Richmond Terminal.

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

4 Other assets

	2005 \$	2004 \$
Motor vehicle	8,000	8,000
Equipment and furniture	140,271	154,085
	<u>148,271</u>	<u>162,085</u>
Less: Accumulated amortization	(92,303)	(75,958)
	<u>55,968</u>	<u>86,127</u>

5 Deferred financing costs

Legal, accounting, printing and other costs directly related to the Company's prospectus for its initial public offering described in note 14 have been deferred. These costs will be netted against the gross proceeds of the financing upon closing.

6 Share capital

Authorized
Unlimited common shares without par value (2004 - 100,000,000)

Issued

	2005		2004	
	Number of common shares	Amount \$	Number of common shares	Amount \$
Balance - beginning of year	10,206,660	9,332,014	10,204,160	9,327,014
For cash	40,000	36,000	2,500	5,000
On exercise of special warrants (note 7)	2,750,000	9,261,691	-	-
Balance - end of year	<u>12,996,660</u>	<u>18,629,705</u>	<u>10,206,660</u>	<u>9,332,014</u>

a) *Common shares*

During the year ended December 31, 2005, the Company issued 40,000 common shares for proceeds of \$36,000 upon the exercise of stock options.

During the year ended December 31, 2004, the Company issued 2,500 common shares for proceeds of \$5,000 upon the exercise of stock options.

b) *Broker warrants*

	Number outstanding	Average exercise price \$	Expiry date
Issued and outstanding at December 31, 2005 and 2004	<u>250,000</u>	<u>5.00</u>	<u>2006</u>

In connection with the special warrants offering (note 7), the agent received broker warrants entitling it to acquire 250,000 common shares at an exercise price of \$5.00 per common share for a period of two years. Since a deemed exercise event did not occur by February 27, 2005, each broker warrant became exercisable into 1.1 common shares. The broker warrants expired, unexercised, on February 27, 2006.

c) *Stock Options*

The Company established an incentive stock option plan (the Plan) on April 23, 2002. The board of directors (the Board) administers the Plan, whereby it may from time to time grant options up to a total of 1,900,000 (2004 - 1,700,000) options to directors, senior officers, employees and consultants. In September 2005, the Company amended the Plan to increase the exercise period of options granted and to be granted from five years to 10 years. The Board determines the exercise price of an option, but the price shall not be less than the fair market value of a common share on the date it was granted. Vesting and other terms are at the discretion of the Board.

	Number outstanding	Average exercise price \$	Expiry date
At December 31, 2003	1,152,500	1.02	2011 - 2013
Granted	290,000	3.31	2014
Exercised	(2,500)	2.00	2013
Cancelled	(12,500)	2.20	2013
At December 31, 2004	<u>1,427,500</u>	<u>1.47</u>	<u>2011 - 2014</u>
Granted	192,500	4.10	2015
Exercised	(40,000)	0.90	2012
Cancelled	(17,500)	3.82	2014
At December 31, 2005	<u>1,562,500</u>	<u>1.79</u>	<u>2011 - 2015</u>

As at December 31, 2005, 1,537,500 options were exercisable at a weighted average exercise price of \$1.74.

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

	2005	2004
Average risk free rate	3.11% - 4.12%	3.55%
Expected life	7 months - 10 years	5 years
Expected volatility	45%	45%
Expected dividends	-	-

As a consequence of amending the Plan in 2005, the Company recorded a further stock-based compensation expense of \$516,205 in recognition of the incremental fair value of the options outstanding as of that date. The total stock-based compensation recorded in the year ended December 31, 2005 was \$817,534.

The Black-Scholes option pricing model was developed for use in estimating the fair value of traded options. Option pricing models require the input of highly subjective assumptions including expected life and expected volatility. Changes in the subjective input assumptions can materially affect the fair value estimate and, therefore, the existing models do not necessarily provide a reliable single measure of the fair value of the Company's stock options.

7 Special warrants

	Number of special warrants	Amount \$
Private placement	2,500,000	10,000,000
Issue costs	-	(738,309)
Balance - December 31, 2004	2,500,000	9,261,691
Deemed exercise December 22, 2005	(2,500,000)	(9,261,691)
Balance - December 31, 2005	-	-

On February 5, 2004, the Company made a private placement offering of 2,500,000 special warrants at \$4.00 per special warrant, which closed on February 27, 2004. Each special warrant was exercisable, for no additional consideration, into one common share of the Company. The special warrants would be deemed to be exercised if, by February 27, 2005, either a final prospectus for an initial public offering was filed, which resulted in the Company receiving gross proceeds of not less than \$30 million, or if the Company closed a business transaction that resulted in the holders of the special warrants being entitled, on exercise of the special warrants, to freely tradeable securities or to cash. A deemed exercise event did not occur by February 27, 2005, which resulted in each special warrants being exercisable into 1.1 common shares. As a result of the Company receiving a receipt for its final prospectus for an initial public offering on December 22, 2005, the Company's special warrants were deemed to be exercised on behalf of the holders for 2,750,000 common shares for no further consideration.

In connection with the offering, the agent received broker warrants entitling it to acquire 250,000 common shares at an exercise price of \$5.00 per common share for a period of two years (note 6(b)). A cash commission equal to 6.0% of the gross proceeds was also paid to the agent.

8 Commitments

At December 31, 2005, the Company has the following minimum payments required under operating leases:

	\$
2006	119,799
2007	66,958

In December 2005, the Company committed to purchase \$800,000 of steel pipe in order to meet the critical path for the construction of the Company's ship loader at the Orca Quarry.

9 Income taxes

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

	2005	2004
Statutory tax rate	34.86%	35.62%
Loss for the year	(3,447,139)	(2,786,135)
	2005	2004
	\$	\$
Provision for income taxes based on statutory Canadian combined federal and provincial income tax rates	(1,201,673)	(992,421)
Difference in foreign tax rates	488	5,481
Decrease in Canadian tax rates	145,811	98,329
Future tax benefit to the minority interest	129,515	108,462
Accounting charges having no tax basis	292,606	160,553
Tax assets for which an income tax benefit has not been recognized	633,253	619,596
	-	-

- b) The significant components of the Company's future tax asset, assuming a future tax rate of 34.12% (2004 - 35.62%), are as follows:

	2005 \$	2004 \$
Future income tax assets		
Excess of tax basis over carrying value of assets	1,786,527	(625,847)
Operating loss carry-forward	2,722,676	3,684,683
	4,509,203	3,058,836
Valuation allowance for future tax assets	(4,509,203)	(3,058,836)
	-	-

- c) The Company has Canadian non-capital loss carry-forwards of \$5,624,000 (2004 - \$9,745,000), and U.S. tax losses of \$2,096,000 (2004 - \$1,901,000) that may be available for tax purposes. The non-capital losses expire as follows:

	Canada \$	United States \$
2012	287,000	
2013	1,033,000	
2014	665,000	
2015	3,639,000	
2022		16,000
2023		781,000
2024		507,000
2025		792,000

10 Segmented financial information

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

11 Related party transactions

During the years ended December 31, 2005, certain directors, their family members and a director of certain of the Company's subsidiaries, either directly or through companies controlled by them, provided services to the Company, as follows:

- Marketing services at a cost of \$246,646 (2004 - \$237,867).
- Technical services at a cost of \$16,910 (2004 - \$20,263).
- Clerical services at a cost of \$4,549 (2004 - \$6,612).

At December 31, 2005, accounts payable of \$21,765 (2004 - \$8,446) were outstanding, directly or indirectly, with respect to certain directors and their family members, either directly or through companies controlled by them.

12 Contingency

During the year ended December 31, 2005, the Company was served a petition made to the Supreme Court of British Columbia by the Komoyue Heritage Society and others disputing the issuance to the Company of its Environmental Assessment Certificate M05-01. The Company believes that the petition is without merit, and the Company has taken action to protect its interest in the status of Environmental Assessment Certificate M05-01.

13 Non cash investing and financing activities

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

14 Subsequent events

Subsequent to December 31, 2005, the Company:

- completed an initial public offering of 16,628,185 common shares at \$4.80 per share for gross proceeds of \$79,815,288. A cash commission equal to 6.0% of the gross proceeds was paid to the agent. On January 10, 2006, the Company's shares were listed on the Toronto Stock Exchange and commenced trading.
- finalized an agreement for a US\$47 million debt facility. The facility comprised two Tranches, A and B, for US\$21 million and US\$26 million respectively. The loans are repayable on January 1, 2012, but may be prepaid at any time without penalty. The loans bear interest that increases annually, commencing at 10% and 15% for Tranche A and Tranche B respectively in 2006, and increasing to a maximum of 20% to 25% per annum respectively in 2011. Subsequent to the first sale of a shipment of construction aggregates from the Orca Quarry, the Company must elect either to grant 1,000,000 warrants or grant a royalty of US\$0.21 per short ton on 88% of construction aggregates shipments for the life of the quarry to the lenders as the Tranche A fee. Similarly, with respect to the Tranche B fee, the Company must elect either to grant 1,153,846 warrants (reduced from 3,000,000 due the election of the Company subsequent to December 31, 2005, to reduce the Tranche B facility from US\$26 million to US\$10 million) or grant a royalty of US\$0.03 per short ton on 88% of construction aggregates shipments for each US\$1 million of that facility. Each Tranche A and B warrant is exercisable into one common share at \$4.80 per share until November 30, 2010. The Tranche A and B warrants and royalty certificates have been issued and are being held in trust. Draw downs under the facility may be made at the discretion of the Company until December 31, 2006, and as of February 27, 2006, no funds had been drawn down.
- made the decision to commence construction of the Orca Quarry and the Richmond Terminal
- entered into construction contracts totalling \$29.4 million and made purchase commitments of \$4.4 million related to the Orca Quarry.