



Polaris
MINERALS CORPORATION

2006 SECOND QUARTER REPORT





August 14, 2006

TO OUR SHAREHOLDERS:

I am pleased to report that construction of the Orca Quarry is proceeding well. The site is now one of the busiest construction sites on Vancouver Island. The marine piling work for the ship loading system is some 65% complete and the innovative piling design and installation method we adopted has minimized environmental impacts. As a result, Fisheries and Oceans Canada has issued time extensions to the original seasonal window, which will allow this critical work to be completed this year. This took the pressure off what was originally a very tight schedule. Erection of the processing plant is well underway, and clearing of the pit surface and overburden is also advancing rapidly, ready for mineral extraction to begin in the fall. The office and maintenance buildings are also nearing completion. This is a very fast track program for completing the construction of such a large operation. However, we remain on schedule to begin processing material by the year end and are forecasting to be on budget, a very significant achievement given the challenges presented by the high levels of construction activity and associated inflation across North America, and particularly in British Columbia.

When we communicated our wish to achieve high environmental and social standards to the local residents of northern Vancouver Island, and when we invited them to participate in the planning process, strong relationships were developed and ultimately we gained invaluable support for our proposals. For instance, the extensive consultation with local communities, carried out during the environmental assessment and permitting process, demonstrated that there was a strong desire to see the project utilize local resources to the greatest extent possible. It is pleasing to report that we have been able to do so and that a large number of contracts have been placed with companies on Vancouver Island. These include: fabrication of the quadrant shiploader; the structural steelwork for the processing plant; all electrical installations; foundation engineering and construction; ground clearing; roadwork; and many more.

In addition to the positive environmental results from the marine piling, we have continued to apply high environmental standards to the remainder of the operation. The final process design incorporates a water recycling system incorporating a filtering process that eliminates the use of settling ponds, minimizes silt handling and clean-up costs and allows for the silt to be readily used to beneficiate the soils during reclamation. As compensation for the habitat affected by the footprint of the marine piles, we agreed with Fisheries and Oceans Canada, supported by the local First Nations, to build an artificial rock reef, and to populate it with 1,000 juvenile Northern Abalone, a highly endangered shellfish on the federal species at risk list. In August, we voluntarily completed the out-planting of a total of 4,400 juveniles into our reef and the adjacent natural habitat. This large number of transplants was undertaken because the breeding facility for the abalone has been forced to close for economic reasons and, as a result, we ended up effectively mounting a rescue mission. The abalone has been severely over-harvested in this region, and the reintroduction of large numbers into the area around our marine facility gives them a new chance to repopulate an area where they were once plentiful.

On August 10th, we received the building permit for the Richmond Terminal, in San Francisco Bay. This final approval of our design allows us to complete negotiations with our civil engineering and building contractors. In the coming weeks, we plan to initiate the construction of this state-of-the-art aggregate storage and distribution facility. We continue to expect significant capital cost savings and expect to announce these shortly. This aggregate receiving terminal is an important gateway into the California market and is a strategic element of our long-term business plan. One of its most striking features is that it will be enclosed in a large building that virtually eliminates dust and noise. As a result, the residents and leaders of the City of

Richmond supported our proposal. Our approach to the development of this facility is again an example of how our environmental values have enabled the development of strategic components of the business plan. It is one more confirmation that our high standards don't have to conflict with our bottom line.

We continue to anticipate strong demand for our products in our target markets and we are making good progress in our quest to position ourselves as an aggregate supplier of choice to the California ready-mix concrete industry. Despite a reduction in private sector construction expenditures, reflecting the effect of higher interest rates on housing development, infrastructure expenditures are on the rise in California. After months of negotiations, California lawmakers approved a bond package on May 5, 2006, to fund the State's share of the first phase of Governor Arnold Schwarzenegger's proposed \$222 billion infrastructure program. Federal funds have already been secured. California voters will be asked to vote on the bond issue during the general election scheduled for November 7th, 2006. The package includes four separate bond measures to fund parts of the infrastructure program: \$19.9 billion for transportation, \$10.4 billion for school improvements, \$4.1 billion for flood control and \$2.9 billion for new housing. The bond package also includes a separate measure, a constitutional amendment that would prohibit the California sales tax on gasoline from being used for anything other than transportation programs. We expect that a positive vote will be the virtual starting gun for a major public infrastructure building program that will, in turn, set the pace of growth of Polaris' business for the foreseeable future.

Finally, I am pleased to report that we continue to make progress on all other critical fronts and that we expect our strategy to unfold as planned.

Sincerely,



Marco Romero
President & Chief Executive Officer

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis of the financial condition and operations of Polaris Minerals Corporation (the "Company") has been prepared by management as of August 10, 2006, and should be read in conjunction with the Company's unaudited consolidated interim financial statements for the period ended June 30, 2006, as well as the audited consolidated financial statements for the year ended December 31, 2005 and the related management's discussion and analysis contained in the 2005 Annual Report, which have been prepared in accordance with Canadian generally accepted accounting principles.

OVERVIEW

The Company is focused on the emerging trade of marine exports of construction aggregates from its coastal properties located on Vancouver Island, British Columbia, Canada to urban markets located on the western seaboard of North America.

In January 2006, the Company closed its initial public offering (IPO) on the Toronto Stock Exchange, and raised net proceeds of approximately \$74 million. The Company also closed a bridge debt facility for up to US\$31 million.

The Company's 88% owned subsidiary, Orca Sand & Gravel Ltd. ("OSG"), is the General Partner responsible for the development and operation of the Company's first construction aggregate property, a six million tonne per year sand and gravel plant located on tidewater, west of the town of Port McNeill, British Columbia (the "Orca Quarry"). OSG will quarry and process the sand and gravel resource to produce construction aggregate products on site. These products will be shipped in bulk carriers to coastal urban markets, initially in California, under a long term contract with CSL International Inc., the world's leading operator of self-discharging vessels. Initially, shipments will be to San Francisco Bay (the "Bay") and vessels will be partially discharged into third party barges ("lightered") at anchorage in the Bay prior to discharging the balance of the cargo at the Company's receiving, storage and distribution facility in the Port of Richmond in the Bay (the "Richmond Terminal"). Access to a third party terminal is also being sought. This lightering arrangement offers the most economical shipping solution. The Company has also entered into a long-term aggregates supply agreement with a well established construction aggregates consumer located in the San Francisco Bay area. The agreement will provide barge capacity for lightering which will account for approximately 55% of the projected first year sales of the Orca Quarry, falling to 25% of year four projected sales.

Construction of the quarry commenced in the first quarter and is proceeding according to schedule, including the marine piling works for the shiploading facility and processing plant foundations. All construction is expected to be completed by the year end with shipments to market anticipated during the first quarter of 2007.

OSG is the General Partner for the Orca Sand & Gravel Limited Partnership (the "Partnership") which is 88% owned by the Company and 12% by the Namgis First Nation. At the request of the Namgis, the Company makes advances to the Namgis to enable them to make their required equity contributions to the Partnership. The Company's sole recourse for repayment is through the distributions receivable by the Namgis from the Partnership. Advances made after the construction decision are repayable solely from those distributions and cannot be prepaid. The Namgis have contributed equity of approximately \$1.1 million to the Partnership.

Eagle Rock Materials Ltd. ("ERM") owns the rights to develop the Eagle Rock Quarry, a very large granite resource located on deep tidewater in the Alberni Inlet, south of the town of Port Alberni, British Columbia. A Mine Permit was obtained for this quarry in 2003 and the Company is actively seeking market outlets which would support the development of the quarry to produce crushed rock construction aggregate products on site. Products would also be shipped in bulk carriers to coastal urban markets, including California. The Company owns 70% of ERM, the remaining 30% being owned by First Nations that have asserted traditional territory rights over the quarry area.

A wholly owned subsidiary of ERM, Eagle Rock Aggregates Inc. ("ERA") is responsible for marketing and terminal development in the USA. ERA holds a long-term lease with Levin Enterprises, Inc. for a construction aggregates storage and distribution terminal in the Port of Richmond in San Francisco Bay. Funding for the construction of the Richmond Terminal was secured by the Company in January 2006, based on an initial design which proved to be too expensive. A redesign of the terminal has now been carried out to more economically accommodate the complex ground conditions prevalent around the Bay and the revised design, submitted to the City of Richmond Building Department, received a Building Permit on August 10, 2006. Final construction costs are expected to give rise to significant capital cost savings. ERA is also progressing discussions with other Ports and port operators in pursuance of the objective to establish multiple entry locations to serve the major cities on the California coast.

RESULTS OF OPERATIONS

During the quarter ended June 30, 2006, the Company incurred a loss of \$94,000 (\$0.00 per share) compared to a loss of \$622,000 (\$0.05 per share) in the comparative quarter. During the six months ended June 30, 2006 the Company incurred a loss of \$2,239,000 (\$0.08 per share) compared to a loss of \$1,706,000 (\$0.13 per share) in the comparative period.

Operating activities, taking into account non-cash items and non cash working capital, increased cash \$204,000 for the three months ended June 30, 2006 compared to cash outflow of \$803,000 in the 2005 period. During the six month period ended June 30, 2006, operating activities used cash of \$1,187,000 compared to cash used of \$1,786,000 in the 2005 period.

The Company had no operating revenues during the period, and the losses were attributable to expenses incurred, as discussed below.

Expenses of \$841,000 were charged to operations during the June 30, 2006 quarter, compared to expenses of \$689,000 in the comparative quarter. Expenses in the current six month period amounted to \$3,239,000 compared to \$1,797,000 in the 2005 period.

- Community relations expenses decreased for the June quarter to \$29,000 from \$119,000 in the comparative quarter. Expenses amounted to \$78,000 in the current six month period ended June 30, 2006 compared to \$429,000 in the comparative period. The majority of these costs represented funding of the Kwakiutl and Namgis First Nations in connection with the restructuring of their participating interests in the Orca Project in 2005. These matters have now been resolved and, as expected, costs declined in line with the lower level of community activities at the Orca Project and the Eagle Rock Quarry.
- General and administrative costs in the three months ended June 30, 2006 increased to \$354,000 from \$295,000 in the 2005 year. For the 2006 six month period, costs were \$705,000 compared to \$463,000 in the 2005 period. The increase is mainly attributable to increased investor relations activity and insurance as a result of the Company listing on the Toronto Stock Exchange as well as increased general office costs related to the construction of the Orca Quarry.
- Marketing costs in the three months ended June 30, 2006 increased to \$133,000 compared to \$100,000 in the 2005 quarter, and remained consistent at \$212,000 compared to \$192,000 in the six month period. The increase is mainly attributable to increased consulting fees for the Company's shipping, discharging, and marketing arrangements.
- Regulatory compliance costs in the three months ended June 30, 2006 increased to \$33,000 compared to \$Nil in the 2005 quarter and increased \$52,000 compared to \$Nil in the six months ended June 30, 2006 as a result of completing the Company's initial public offering in the first quarter of 2006.
- Salaries and benefits increased to \$232,000 in the three month period ended June 30, 2006 from \$175,000 in 2005, mainly due to increased staffing levels in 2006. Costs for the 2006 six month period were \$1,353,000 compared to \$419,000 in 2005. This increase, in accordance with senior managements' employment contracts, is a result of \$800,000

in management bonuses paid as certain milestones were achieved. Increased staffing levels account for the remaining increase in the six months ended June 30, 2006.

- An expense of \$59,000 was recorded in the three months ended June 30, 2006 for stock-based compensation compared with \$Nil in the 2005 period and for the six months ended June 30, 2006, an expense of \$839,000 compared with \$294,000 was recorded. Further, \$15,000 in stock based compensation was capitalised to property, plant & equipment for the three and six month period ended June 30, 2006 compared with \$Nil in the comparative periods. The increase in stock based compensation in the second quarter of 2006, is a result of 167,102 stock options being issued while no stock options were issued for the same period in 2005 and 454,602 stock options issued in the six months ended June 30, 2006 compared with 167,500 for 2005 and the differing variables utilized in the Black-Scholes option valuation.

SUMMARY OF QUARTERLY RESULTS

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

	Three Months Ended							
	2006		2005				2004	
	June 30,	Mar. 31,	Dec. 31,	Sept. 30,	June 30,	Mar. 31,	Dec. 31,	Sept. 30,
	\$	\$	\$	\$	\$	\$	\$	\$
Revenue	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil
Interest income	699,326	206,661	12,969	20,480	27,015	22,974	51,442	39,542
Loss for the quarter	(94,046)	(2,144,629)	(663,615)	(1,077,440)	(621,716)	(1,084,368)	(718,214)	(552,174)
Basic and diluted loss per share	(0.01)	(0.08)	(0.06)	(0.08)	(0.05)	(0.08)	(0.06)	(0.04)

FINANCING

During the six months ended June 30, 2006, the Company closed its initial public offering and issued 16,628,185 common shares at \$4.80 per share for net proceeds of \$73,944,142. 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 with the symbol PLS.

The Company also closed a US\$31 million debt facility in the six months ended June 30, 2006. The facility comprised two Tranches, A and B, for US\$21 million and US\$10 million, respectively. The loans are repayable on January, 2012, but may be repaid 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 elects either to grant 1,153,846 warrants 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 August 10, 2006, no funds had been drawn.

INVESTING

The Company capitalises only direct costs incurred on projects determined to be viable, and charges certain other costs to operations, including salary and support costs; marketing studies and initiatives; and community relations programs.

Orca Sand & Gravel Quarry

The Company capitalised \$11,622,000 to the Orca Project during the June 2006 quarter and \$19,618,000 during the six months ended June 30, 2006 compared to \$144,000 in the June 2005 quarter and \$306,000 for the six month period ended June 30, 2005. Included in this increase is \$10,525,000 and \$17,880,000 for the quarter and six months ended June 30, 2006, respectively, of Assets Under Construction which relates to the commencement of construction on the Orca Quarry with a major portion of these costs being associated with the Company's ship loader, process plant, load-out conveyor and land clearing. Other costs incurred in the six months ended June 30, 2006 include sampling & testing, geotechnical surveys, development of drawings for the Orca Quarry Ship loader and the remediation of an old dump adjacent to the Cluxewe River, but outside the Company's lease area. This remediation was mandated by the Land Titles Act and was therefore a precondition to the execution and registration of the lease agreement with Western Forest Products Inc. ("WFP"). However, an agreement is in place to recover 50% of these costs from Orca Quarry royalties payable to WFP. The costs incurred to June 30, 2005 were principally attributable to the preparation and filing of the environmental and mine permit applications and assessment work on the mineral claims, the development of the feasibility study and remediation of the dump near the Cluxewe River.

Eagle Rock Quarry Project

During the three and six months ended June 30, 2006, \$Nil and \$9,000 was capitalised to the Eagle Rock Quarry compared with \$Nil expenditures in 2005. Costs incurred in 2006 comprised lease costs to keep the property in good standing.

Shipping and Terminals

During the three and six months ended June 30, 2006, the Company capitalised costs of \$223,000 and \$471,000, respectively, compared to \$112,000 and \$160,000 in 2005. Costs in 2006 and 2005 were principally incurred in connection with the Company's leased terminal site at the Port of Richmond, permitting and on product testing.

LIQUIDITY AND CAPITAL RESOURCES

At June 30, 2006, the Company had working capital of \$53 million, including cash of \$54 million compared to working capital of \$189,000 and cash of \$1.2 million at December 31, 2005. On January 10, 2006, the Company raised net proceeds of approximately \$74 million and arranged a debt facility of approximately \$36 million (US\$31 million). The Company expects that these arrangements will finance the construction of the Orca Quarry and Richmond Terminal, and fund their operations through to sustainable positive net cash flows.

Subsequent to its construction decision on January 10, 2006, the Company entered into certain contracts for the construction of the Orca Quarry, which have been included in the following table of contractual obligations:

	Payments Due by Period				
	Total	Less than one year	2-3 years	4-5 years	After 5 years
Operating leases	\$204,000	\$62,000	\$111,000	\$33,000	
Orca Quarry - construction contracts	\$20,000,000	\$20,000,000	-	-	-
Orca Quarry - purchase obligations	\$4,346,000	\$4,346,000	-	-	-

RELATED PARTY TRANSACTION

During the six months ended June 30, 2006, a company controlled by a director of the Company provided services to the Company in the United States in connection with its proposed shipping, discharging, and marketing arrangements, at a cost of \$127,000 respectively (2005 - \$116,000).

CRITICAL ACCOUNTING ESTIMATES

The Company's accounting policies are described in Note 2 to the December 31, 2005 audited consolidated financial statements. Both the accounting policies used and the estimates made by management can impact the consolidated financial statements. The Company considers the estimate of stock-based compensation to be significant.

The Company uses the fair-value method of accounting for stock based compensation related to incentive stock options granted. In determining the fair value, the Company makes estimates of the expected volatility of the stock, the expected life of the option and the discount rate. Changes in these estimates could result in the fair value of the stock-based compensation being less than or greater than the amount recorded.

FINANCIAL INSTRUMENTS AND OTHER INSTRUMENTS

The fair values of cash and cash equivalents, accounts receivable and prepaid expenses and deposits, restricted cash, accounts payable and accruals and provisions approximate their book value due to their short-term nature. Cash and cash equivalents and restricted cash include cash and short-term investments held in the form of high quality commercial paper. The investment terms are less than three months at the time of acquisition and are highly liquid to ensure that funds are available to meet the financial obligations of the Company.

CAPITAL STOCK

As at the date of this report, the Company had unlimited common shares authorized, of which 29,649,845 were outstanding. The Company also had 2,082,102 options outstanding, currently exercisable into 1,793,542 common shares.

RISKS AND UNCERTAINTIES

During 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 the environmental assessment certificate for the Orca Quarry. The Company believes that the petition is without merit and has taken action to protect its interest in the status of the environmental assessment certificate.

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

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

Quarrying involves a high degree of risk and the Company has no history of construction aggregates project development or operations. Additionally, certain groups are opposed to quarrying and could attempt to interfere with the Company's operations, whether by legal process, regulatory process or otherwise. The Company's title to its properties may be subject to disputes or other claims, including land title claims of First Nations. Construction aggregates quarrying, processing and development activities are highly regulated and changes to government regulations or interpretation of those regulations may also adversely affect the Company. The Company currently depends on a single property with a construction aggregate resource that has an estimated life of 25 years. In order to maintain its annual production the Company will be required to obtain other construction aggregates resources in the future to bring into production. The Company's operations are subject to environmental risks and the actual costs of reclamation for the property are uncertain. Further, the Company's insurance will not cover all the potential risks associated with a quarrying operation.

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

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

OUTLOOK

The Company expects to meet its long-term business objective of becoming a leading exporter of construction aggregates from British Columbia to the west coast of North America. Its principal goals for 2006 are to:

- complete construction of the Orca Quarry;
- commence construction of the Richmond Terminal for completion in 2007;
- commence production and build product inventories at the Orca Quarry;
- secure additional construction aggregates sales contracts and terminal access.

CAUTIONARY NOTE REGARDING FORWARD LOOKING STATEMENTS

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

heading "Risk Factors" in the Company's Annual Information Form (AIF) in respect of its financial year-ended December 31, 2005, both of which are filed with Canadian regulators on SEDAR (www.sedar.com). The Company expressly disclaims any intention or obligation to update or revise any forward-looking statements and information whether as a result of new information, future events or otherwise. All written and oral forward-looking statements and information attributable to us or persons acting on our behalf are expressly qualified in their entirety by the foregoing cautionary statements.

OTHER INFORMATION

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

Polaris Minerals Corporation
CONSOLIDATED BALANCE SHEETS

	June 30, 2006 \$	December 31, 2005 \$
<i>(expressed in Canadian dollars)</i>		
	(unaudited)	
Assets		
Current assets		
Cash and cash equivalents	54,369,405	1,159,778
Accounts receivable	1,331,230	138,458
Prepaid expenses and deposits	138,633	335,933
	<hr/>	<hr/>
	55,839,268	1,634,169
Property, plant and equipment (note 3)	28,654,701	8,557,529
Other assets (note 4)	185,722	55,968
Security deposits (note 5)	700,000	-
Deferred financing costs (note 6)	409,595	807,397
	<hr/>	<hr/>
	85,789,286	11,055,063
Liabilities		
Current liabilities		
Accounts payable	2,625,619	695,058
Accruals and provisions	95,067	750,388
	<hr/>	<hr/>
	2,720,686	1,445,446
Non-controlling interest (note 9)	2,214,314	1,314,141
	<hr/>	<hr/>
	4,935,000	2,759,587
Shareholders' Equity		
Share capital (note 8)	92,573,847	18,629,705
Contributed surplus	2,370,255	1,516,912
Deficit	(14,089,816)	(11,851,141)
	<hr/>	<hr/>
	80,854,286	8,295,476
	<hr/>	<hr/>
	85,789,286	11,055,063
Commitments (note 10)		
Contingency (note 13)		

Approved by the Board of Directors

"Roman A. Shklanka"
Roman A. Shklanka, Director

"John H. Purkis"
John H. Purkis, Director

Polaris Minerals Corporation

CONSOLIDATED STATEMENTS OF OPERATIONS AND DEFICIT

<i>(expressed in Canadian dollars)</i>	Three-month period ended June 30,		Six-month period ended June 30,	
	2006 \$ (unaudited)	2005 \$ (unaudited)	2006 \$ (unaudited)	2005 \$ (unaudited)
Income				
Interest	699,326	27,015	905,987	49,989
Expenses				
Community relations	29,439	119,185	78,237	429,498
General and administrative	353,651	295,162	704,703	463,438
Marketing	132,990	100,106	212,346	191,515
Regulatory compliance	33,814	-	52,320	-
Salaries and benefits	231,599	174,774	1,352,505	418,566
Stock-based compensation	59,424	-	838,587	293,552
	840,917	689,227	3,238,698	1,796,569
Loss before undernoted items	(141,591)	(662,212)	(2,332,711)	(1,746,580)
Non-controlling interest	47,545	40,496	89,827	40,496
Gain on disposal of asset	-	-	4,209	-
Loss for the period	(94,046)	(621,716)	(2,238,675)	(1,706,084)
Deficit - Beginning of period	(13,995,770)	(9,488,370)	(11,851,141)	(8,404,002)
Deficit - End of period	(14,089,816)	(10,110,086)	(14,089,816)	(10,110,086)
Basic and diluted loss per common share	(0.00)	(0.05)	(0.08)	(0.13)
Weighted average number of common shares outstanding	29,624,845	12,964,574	28,706,161	12,964,574

CONSOLIDATED STATEMENTS OF CASH FLOWS

<i>(expressed in Canadian dollars)</i>	Three-month period ended June 30,		Six-month period ended June 30,	
	2006 \$ (unaudited)	2005 \$ (unaudited)	2006 \$ (unaudited)	2005 \$ (unaudited)
Cash flows from operating activities				
Loss for the period	(94,046)	(621,716)	(2,238,675)	(1,706,084)
Items not affecting cash				
Amortization	24,104	10,632	27,452	21,199
Gain on disposal of asset	-	-	(4,209)	-
Non-controlling interest	(47,545)	(40,496)	(89,827)	(40,496)
Stock-based compensation	59,424	-	838,586	293,552
	<u>(58,063)</u>	<u>(651,580)</u>	<u>(1,466,673)</u>	<u>(1,431,829)</u>
Changes in non-cash working capital items				
Accounts receivable	(981,221)	(16,653)	(1,192,772)	61,580
Prepaid expenses and deposits	(30,010)	6,514	197,300	13,975
Accounts payable	1,290,389	(102,203)	1,930,561	(396,751)
Accruals and provisions	(16,977)	(39,540)	(655,321)	(32,665)
	<u>262,181</u>	<u>(151,882)</u>	<u>279,768</u>	<u>(353,861)</u>
	<u>204,118</u>	<u>(803,462)</u>	<u>(1,186,905)</u>	<u>(1,785,690)</u>
Cash flows from financing activities				
Net proceeds from issue of common shares	(15,393)	36,000	74,349,053	36,000
Non-controlling interest cash contributions	-	1,451,412	990,000	1,451,412
Deferred financing costs	(7,109)	-	(7,109)	-
	<u>(22,502)</u>	<u>1,487,412</u>	<u>75,331,944</u>	<u>1,487,412</u>
Cash flows from investing activities				
Property, plant and equipment costs	(11,830,026)	(1,665,288)	(20,082,415)	(1,875,448)
Security deposit	(500,000)	-	(700,000)	-
Proceeds on disposal of other assets	-	-	6,209	-
Other assets	(76,480)	(3,938)	(159,206)	(4,648)
	<u>(12,406,506)</u>	<u>(1,669,226)</u>	<u>(20,935,412)</u>	<u>(1,880,096)</u>
Increase (decrease) in cash and cash equivalents	(12,224,890)	(985,276)	53,209,627	(2,178,374)
Cash and cash equivalents - Beginning of period	66,594,295	4,966,849	1,159,778	6,159,947
Cash and cash equivalents - End of period	54,369,405	3,981,573	54,369,405	3,981,573

NOTES TO CONSOLIDATED STATEMENTS*(expressed in Canadian dollars)**June 30, 2006***1 Nature of operations**

Polaris Minerals Corporation (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 Basis of presentation

These financial statements are prepared in accordance with Canadian generally accepted accounting principles. They do not include all of the disclosures required by generally accepted accounting principles for annual financial statements. For further information, refer to the Company's consolidated financial statements, including the accounting policies and notes thereto, for the year ended December 31, 2005.

These interim consolidated financial statements follow the same accounting policies, and the methods of their application, as the annual consolidated financial statements for the year ended December 31, 2005. Certain comparative information has been reclassified to conform to the current period's presentation.

3 Property, plant and equipment

	Orca Sand & Gravel Quarry \$	Eagle Rock Quarry Project \$	Shipping & terminals \$	Total \$
Balance - December 31, 2004	2,152,348	1,498,505	1,330,319	4,981,172
Expenditures	2,808,816	-	767,541	3,576,357
Balance - December 31, 2005	4,961,164	1,498,505	2,097,860	8,557,529
Expenditures	1,737,239	8,740	470,804	2,216,783
Assets under construction	17,880,389	-	-	17,880,389
Balance - June 30, 2006	24,578,792	1,507,245	2,568,664	28,654,701

Assets under construction are not amortized until the asset is substantially complete and ready for productive use.

a) Orca Sand & Gravel Quarry

The Orca Sand & Gravel Quarry (the "Orca Quarry") is a six million tonne per year sand and gravel plant located on tidewater, west of the town of Port McNeill, British Columbia. The Company began construction of the quarry in the first quarter of 2006 and once complete, will quarry and process the sand and gravel resource to produce construction aggregates products on site. Products will be shipped in bulk carriers to coastal urban markets, initially in California, under a long-term shipping contract.

The Company has a beneficial interest in the Orca Quarry of 88% the remaining 12% being owned by the Namgis First Nation which has asserted traditional territory rights over the area.

b) Eagle Rock Quarry Project

The Eagle Rock Quarry Project is located on deep tidewater in the Alberni Inlet, southwest of the city of Port Alberni, British Columbia. Products would also be shipped in bulk carriers to coastal urban markets, most probably in California.

The Eagle Rock Quarry Project is held by Eagle Rock Materials Ltd. ("ERM"). The Company owns 70% of ERM, with the remaining 30% being owned by First Nations that have asserted traditional territory rights over the area.

c) Shipping & terminals

The Company holds a long-term lease with Levin Enterprises, Inc. for a construction aggregates storage and distribution terminal in the Port of Richmond in San Francisco Bay.

4 Other assets

	June 30, 2006 \$	December 31, 2005 \$
Motor vehicle	72,876	8,000
Equipment and furniture	210,089	140,271
Leasehold improvements	16,857	-
	<hr/>	<hr/>
	299,822	148,271
Less: Accumulated amortization	(114,100)	(92,303)
	<hr/>	<hr/>
	185,722	55,968
	<hr/>	<hr/>

5 Security deposits

The Company has issued \$700,000 in irrevocable standby letters of credit as performance bonds on the Orca Quarry. The letters of credit are automatically renewed each year until returned to the Company upon completion of the performance bond and are secured by interest-bearing deposits of \$700,000.

6 Deferred financing costs

Legal, accounting and other costs directly related to the completion of the Company's prospectus for its initial public offering (note 8 (a)) and long-term debt facility (note 7) were deferred as at December 31, 2005. On January 10, 2006, the Company closed its initial public offering and, as a result, deferred costs of \$420,304 were netted against the proceeds. The remaining deferred costs of \$409,595 are attributable to the long-term debt facility and will be amortized over the term of the debt or expensed if no funds have been drawn by December 31, 2006.

7 Long-term debt facility

The Company has a US\$31 million debt facility comprised of two Tranches, A and B, for US\$21 million and US\$10 million, respectively. The loans are repayable in January 2012, but may be repaid 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% and 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 can elect either to grant 1,153,846 warrants 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 June 30, 2006, no funds had been drawn down.

8 Share capital

Authorized

Unlimited common shares without par value

Issued

	June 30, 2006		December 31, 2005	
	Number of common shares	Amount \$	Number of common shares	Amount \$
Balance - Beginning of period	12,996,660	18,629,705	10,206,660	9,332,014
For cash	16,628,185	79,815,288	40,000	36,000
Share issue costs	-	(5,871,146)	-	-
On exercise of special warrants	-	-	2,750,000	9,261,691
Balance - End of period	29,624,845	92,573,847	12,996,660	18,629,705

a) Common shares

In January 2006, the Company completed an initial public offering of 16,628,185 common shares at \$4.80 per share for net proceeds of \$73,944,142. A cash commission equal to 6.0% of the gross proceeds was paid to the agent.

b) Stock options

	Number outstanding	Weighted average exercise price \$	Expiry Date
Balance - December 31, 2004	1,427,500	1.47	2011 – 2014
Granted	192,500	4.10	2015
Exercised	(40,000)	0.90	2012
Cancelled	(17,500)	3.82	2014
	<hr/>		
Balance - December 31, 2005	1,562,500	1.79	2011 – 2015
Granted	454,602	5.09	2016
	<hr/>		
Balance – June 30, 2006	<u>2,017,102</u>	<u>2.53</u>	<u>2011 - 2016</u>

As at June 30, 2006, 1,818,542 options were exercisable at a weighted average exercise price of \$2.21.

The options granted during the three-month period ended June 30, 2006 have been valued using the Black-Scholes option pricing model and the following assumptions:

	June 30, 2006
Average risk-free rate	4.38%
Expected life	5 years
Expected volatility	36.65%
Expected dividends	-

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.

9 Non-controlling interest

	Non-controlling interest in subsidiary \$	Namgis loan receivable \$	Total \$
Balance - December 31, 2004	-	-	-
Equity contributions	2,040,329	(588,917)	1,451,412
Non-controlling interest share of losses	(137,271)	-	(137,271)
	<hr/>		
Balance - December 31, 2005	1,903,058	(588,917)	1,314,141
Equity contributions	2,745,581	(1,755,581)	990,000
Non-controlling interest share of losses	(89,827)	-	(89,827)
	<hr/>		
Balance – June 30, 2006	<u>4,558,812</u>	<u>(2,344,498)</u>	<u>2,214,314</u>

The Company holds an 88% interest in the Orca Sand & Gravel Limited Partnership (the "Limited Partnership") formed to develop the Orca Quarry, with the remaining 12% interest held by the Namgis First Nation (the "Namgis"). Non-

controlling interest consists of the minority interest's share of the equity in the Limited Partnership offset by the capital contributions loaned to the minority interest by the Company. The principal terms of the loan agreement between the Company and the Namgis are as follows:

- At the request of the Namgis, the Company will make advances to the Namgis to enable them to make their required equity contributions to the Limited 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 Limited Partnership, after repayment of any approved third party who has loaned the Namgis funds for equity contributions. 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 on the Namgis loan. 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.

10 Commitments

a) The following minimum payments are required under operating leases as at June 30, 2006:

	\$
2006	62,052
2007	88,820
2008	21,863
2009	21,863
2010	10,931

b) As at June 30, 2006, the Company has entered into construction contracts and purchase orders totalling approximately \$20 million and made leasing commitments of \$4.4 million related to the Orca Quarry.

11 Segmented financial information

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

12 Related party transactions

During the six-month period ended June 30, 2006, an entity controlled by a director of the Company provided services to the Company in the United States in connection with its shipping, discharge terminals and marketing arrangements at a cost of \$126,937 (June 30, 2005 - \$116,375) which is included in marketing expenses.

13 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.

CORPORATE INFORMATION

DIRECTORS AND SENIOR OFFICERS

Marco A. Romero	President and Chief Executive Officer
Roman Shklanka	Chairman and Director
R. Stuart (Tookie) Angus	Director
Robert M. Edsel	Director
Terrence A. Lyons	Director
Gary D. Nordin	Director
John H. Purkis	Director
David F. Singleton	Director
Paul B. Sweeney	Director
Lisa Dea	Vice President Finance and Chief Financial Officer
Herbert G.A. Wilson	Senior Vice President and Chief Operating Officer

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