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**ANNUAL INFORMATION FORM**

**FOR THE FISCAL YEAR ENDED DECEMBER 31, 2011**

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**March 16, 2012**

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## PRELIMINARY NOTES

### Date of Information

All information in this Annual Information Form is as of March 16, 2012, unless otherwise indicated.

### Currency

Except where otherwise indicated, all references to currency in this Annual Information Form are to Canadian dollars ("CAD\$"). Effective January 1, 2007, Polaris Minerals Corporation (the "Company", "Polaris", or "we") changed the reporting currency of its annual and quarterly balance sheets and the related consolidated statements of operations and cash flows to the United States dollar ("US\$"). In making this change in reporting currency, the Company followed the recommendations of the Emerging Issues Committee ("EIC") of the Canadian Institute of Chartered Accountants, set out in EIC – 130, *Translation Method when the Reporting Currency Differs from the Measurement Currency or there is a Change in Reporting Currency*.

The following table sets forth, for the periods indicated, certain information concerning the number of CAN\$ for which one US\$ could be exchanged based on the quoted rate from the Bank of Canada. No representation is made that the CAN\$ amounts actually represent such US\$ amounts or could have been or could be converted into US\$ at the rate indicated, any other rate or at all. Quotations are based on Bank of Canada noon rate of exchange "nominal rates", which are neither buying nor selling rates. Rates available from financial institutions will likely differ.

Period	High	Low	Average rate
January 1 - December 31, 2004	US\$1.00 = CAD\$1.397	US\$1.00 = CAD\$1.177	US\$1.00 = CAD\$1.302
January 1 - December 31, 2005	US\$1.00 = CAD\$1.270	US\$1.00 = CAD\$1.151	US\$1.00 = CAD\$1.212
January 1 - December 31, 2006	US\$1.00 = CAD\$1.173	US\$1.00 = CAD\$1.099	US\$1.00 = CAD\$1.134
January 1 - December 31, 2007	US\$1.00 = CAD\$1.185	US\$1.00 = CAD\$0.917	US\$1.00 = CAD\$1.075
January 1 - December 31, 2008	US\$1.00 = CAD\$1.297	US\$1.00 = CAD\$0.972	US\$1.00 = CAD\$1.066
January 1 - December 31, 2009	US\$1.00 = CAD\$1.300	US\$1.00 = CAD\$1.029	US\$1.00 = CAD\$1.142
January 1 - December 31, 2010	US\$1.00 = CAD\$1.078	US\$1.00 = CAD\$0.995	US\$1.00 = CAD\$1.030
January 1 - December 31, 2011	US\$1.00 = CAD\$1.063	US\$1.00 = CAD\$0.938	US\$1.00 = CAD\$0.989

### Conversion Factors

Metric Unit	Imperial Measure	Imperial Measure	Metric Unit
1 hectare	2.471 acres	1 acre	0.4047 hectares
1 metre	3.281 feet	1 foot	0.3048 metres
1 kilometre	0.621 miles	1 mile	1.609 kilometres
1 kilogram	2.205 pounds	1 pound	0.454 kilograms
1 tonne	1.102 short tons	1 short ton	0.907 tonnes

### Forward-Looking Information

Certain statements in this Annual Information Form constitute "forward-looking information" within the meaning of applicable securities laws. Such forward-looking information includes, without limitation, statements evaluating the market and general economic conditions and discussing future-oriented costs, expenditures and other financial or operating performances. Often, but not always, forward-looking information can be identified by the use of words such as "plans", "expects" or "does not expect", "is expected", "budget", "scheduled", "estimates", "forecasts", "intends", "anticipates" or "does not anticipate", or "believes" or variations of such words and phrases or words and phrases that state or indicate that certain actions, events or results "may", "could", "would", "might" or "will" be taken, occur or be achieved. While the Company has based these statements on its current

expectations about future events, the statements are not guarantees of the Company's future performance and are subject to risks, uncertainties, assumptions and other factors which could cause actual results to differ materially from future results expressed or implied by such forward-looking information. Such factors include, amongst others, the effects of general economic conditions, changing foreign exchange rates and actions by government authorities, uncertainties associated with legal proceedings and negotiations, industry supply levels, competitive pricing pressures, mineral resource and reserve estimates and misjudgments in the course of preparing forward-looking information. Please refer to the heading "Risk Factors" herein and the risk factors in the Company's Management's Discussion and Analysis ("MD&A") for the year ended December 31, 2011 for a discussion of these and other factors underlying forward-looking information. In light of these factors, the forward-looking events discussed in this Annual Information Form might not occur. Further, although the Company has attempted to identify factors that could cause actual actions, events or results to differ materially from those described in forward-looking statements, there may be other factors that cause actions, events or results not to be as anticipated, estimated or intended. Subject to applicable law, the Company undertakes no obligation to publicly update or revise any forward-looking information, whether as a result of new information, future events or otherwise. As there can be no assurance that forward-looking information will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements, readers should not place undue reliance on forward-looking information.

### **Certain Other Information**

This Annual Information Form includes California construction aggregates market and California industry data that has been obtained from third party sources, including industry publications, as well as industry data prepared by management on the basis of its knowledge of and experience in these markets. Third party sources generally state that the information contained therein has been obtained from sources believed to be reliable, but there can be no assurance as to the accuracy or completeness of included information. Although believed to be reliable, none of management of the Company or the Company has independently verified any of the data from third party sources.

## **GLOSSARY OF TERMS**

The following is a glossary of certain terms used in this Annual Information Form:

<b><u>Term</u></b>	<b><u>Definition</u></b>
<b>Absorption Test</b>	A measure of the porosity of an aggregate and its ability to absorb water
<b>aggregates</b>	Naturally occurring sand and gravel, or crushed rock, used principally for construction purpose
<b>borehole</b>	A drill hole made for the purposes of evaluating a potential mineral resource
<b>Bulk Density Tests</b>	A measure of the weight of aggregate contained in a certain volume
<b>Bulk Dry Specific Gravity Test</b>	The ratio of the weight in air of a unit volume of aggregate at a stated temperature to the weight in air of an equal volume of gas-free distilled water at the stated temperature
<b>°C</b>	Degrees Celsius
<b>claims or quarrying claims</b>	The right to explore a property for mineralization, and, if warranted, to develop the property and exploit the minerals

<b><u>Term</u></b>	<b><u>Definition</u></b>
<b>Cretaceous</b>	Sub-division of the Mesozoic Era and refers to a geological period that began approximately 144 million years ago and ended approximately 65 million years ago
<b>Deposits</b>	A descriptive term used to characterize an accumulation of a given material above background level, such as sand, gravel, or, more commonly, metals
<b>dwt</b>	Deadweight tonnage (the carrying capacity of a cargo ship)
<b>fault or faulting</b>	A fracture in the Earth's crust accompanied by a displacement of one side of the fracture with respect to the other and in a direction parallel to the fracture
<b>feasibility study</b>	A comprehensive technical and economic study of the selected development option for a mineral project that includes appropriately detailed assessments of realistically assumed mining, processing, metallurgical, economic, marketing, legal, environmental, social and governmental considerations together with any other relevant operational factors and detailed financial analysis, that are necessary to demonstrate at the time of reporting that extraction is reasonably justified (economically mineable).
<b>ft</b>	Feet
<b>g</b>	Gram
<b>ha</b>	Hectare
<b>indicated mineral resource</b>	That part of a mineral resource for which quantity, grade or quality, densities, shape and physical characteristics can be estimated with a level of confidence sufficient to allow the appropriate application of technical and economic parameters, to support mine planning and evaluation of the economic viability of the deposit. The estimate is based on detailed and reliable exploration and testing information gathered through appropriate techniques from locations such as outcrops, trenches, pits, workings and drill holes that are spaced closely enough for geological and grade continuity to be reasonably assumed.
<b>inferred mineral resource</b>	That part of a mineral resource for which quantity and grade or quality can be estimated on the basis of geological evidence and limited sampling and reasonably assumed, but not verified, geological and grade continuity. The estimate is based on limited information and sampling gathered through appropriate techniques from locations such as outcrops, trenches, pits, workings and drill holes.
<b>kg</b>	Kilogram
<b>km</b>	Kilometre
<b>kV</b>	Kilovolts
<b>Los Angeles Abrasion Test</b>	A measure of an aggregate's resistance to wear through abrasion or mechanical degradation
<b>m</b>	Metre
<b>masl</b>	Metres above sea level

<b><u>Term</u></b>	<b><u>Definition</u></b>
<b>measured mineral resource</b>	That part of a mineral resource for which quantity, grade or quality, densities, shape and physical characteristics are so well established that they can be estimated with confidence sufficient to allow the appropriate application of technical and economic parameters, to support production planning and evaluation of the economic viability of the deposit. The estimate is based on detailed and reliable exploration, sampling and testing information gathered through appropriate techniques from locations such as outcrops, trenches, pits, workings and drill holes that are spaced closely enough to confirm both geological and grade continuity.
<b>mineral reserve</b>	The economically mineable part of a measured or indicated mineral resource demonstrated by at least a preliminary feasibility study. This study must include adequate information on quarrying, processing, metallurgical, economic and other relevant factors that demonstrate, at the time of reporting that economic extraction can be justified. A mineral reserve includes diluting materials and allowances for losses that may occur when the material is mined. Mineral reserves are subdivided in order of increasing confidence into probable mineral reserves and proven mineral reserves.
<b>mineral resource</b>	A concentration or occurrence of diamonds, natural solid inorganic material or natural solid fossilized organic material including base and precious metals, coal and industrial minerals in or on the Earth's crust in such form and quantity and of such a grade or quality that it has reasonable prospects for economic extraction. The location, quantity, grade, geological characteristics and continuity of a mineral resource are known, estimated or interpreted from specific geological evidence and knowledge.
<b>mm</b>	Millimeter
<b>NI 43-101</b>	National Instrument 43-101 entitled "Standards of Disclosure for Mineral Projects" issued by the Canadian Securities Administrators
<b>NI 52-110</b>	National Instrument 52-110 entitled "Audit Committees" issued by the Canadian Securities Administrators
<b>Point Load Strength Index Test</b>	A measure of the unconfined mechanical strength of a rock
<b>probable mineral reserve</b>	The economically mineable part of an indicated and, in some circumstances, a measured mineral resource demonstrated by at least a preliminary feasibility study. This study must include adequate information on quarrying, processing, metallurgical, economic and other relevant factors that demonstrate, at the time of reporting, that economic extraction can be justified.
<b>proven mineral reserve</b>	The economically mineable part of a measured mineral resource demonstrated by at least a preliminary feasibility study. This study must include adequate information on quarrying, processing, metallurgical, economic and other relevant factors that demonstrate, at the time of reporting, that economic extraction can be justified.
<b>Qualified Person</b>	An individual as such term is defined in NI 43-101
<b>Sulphate Soundness Test</b>	A measurement of an aggregate's resistance to freeze thaw cycles using either magnesium or sodium sulphate solutions
<b>Tertiary</b>	Sub-division of the Earth's history that started approximately 65 million years ago and ended approximately 2 million years ago
<b>trend</b>	The directional line of a rock bed or formation

This Annual Information Form uses the following units of weight:

**Metric tonne (“mt”) or tonne** 2,205 pounds, the unit of weight used in Canada and for international shipping

**Short ton (“st”) or ton** 2,000 pounds, the unit of weight commonly used in the United States



## CORPORATE STRUCTURE

### Name, Address and Incorporation

Polaris Minerals Corporation (the “Company”, “Polaris”, or “we”) is a public company that was incorporated on May 14, 1999, and is governed by the *Business Corporations Act* (British Columbia).

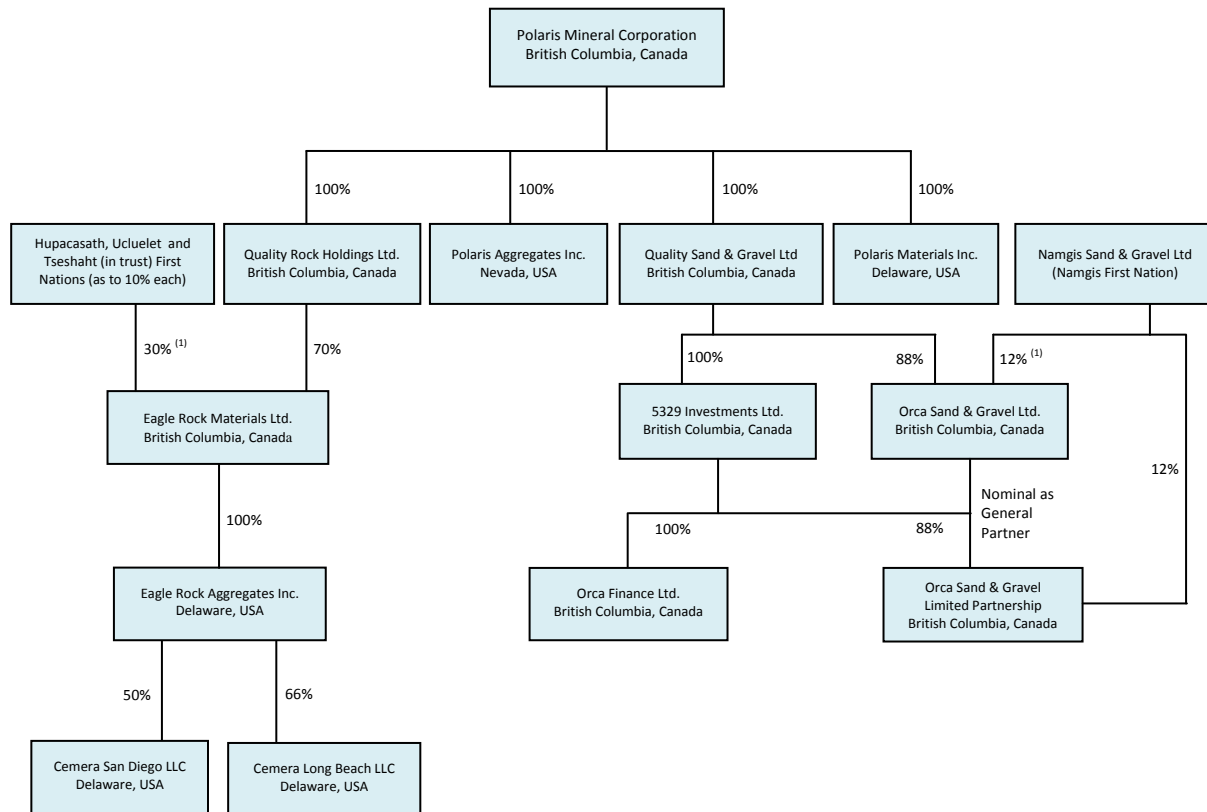
The Company’s head office is located at Suite 2740, 1055 West Georgia Street, Vancouver, British Columbia, Canada, V6E 3R5 and its registered and records office is located at Suite 2900, 550 Burrard Street, Vancouver, British Columbia, Canada, V6C 0A3.

Polaris became a public company in January 2006, following an Initial Public Offering of common shares (“Common Shares”) and is listed for trading on the Toronto Stock Exchange (“TSX”) under the symbol “PLS”. Between January 8, 2009 and January 10, 2011, certain of the Company’s common share purchase warrants were also listed for trading on the TSX under the symbol “PLS.WT” (see “Financings – 2009 Bought Deal Equity Financing”).

Polaris maintains an Internet web site at [www.polarmin.com](http://www.polarmin.com) where copies of statutory filings and new releases can be accessed, together with photographs and descriptions of the Company’s operations.

### Intercorporate Relationships

The following chart illustrates the Company’s corporate structure, including all subsidiaries, jurisdictions of incorporation, and the percentage of voting securities held in the subsidiaries:



(1) This interest is held indirectly by the Company’s First Nation partners.

## GENERAL DEVELOPMENT OF THE BUSINESS

### Company Overview

The Company was formed specifically to search for, and develop, 'greenfield' mineral resources suitable for producing high quality construction aggregates that could be economically shipped into major city markets on the west coast of North America where supply shortages were gradually emerging. The success of this complex strategy required the control of three elements: permitted mineral resources, shipping capacity, and access to port terminals within the target markets where cargos could be received, stored and distributed. The Company operates in a single segment: the development and operation of construction aggregate properties and projects in North America.

Polaris commenced trading in March 2007, through its subsidiaries, when it shipped the first marine exports of sand and gravel aggregates from the East Cluxewe Deposit, the associated process plant and ship loader (together, the "Orca Quarry"), located on the north east coast of Vancouver Island near Port McNeill, British Columbia, Canada. At the end of 2007, in order to facilitate entry into the San Francisco Bay markets, the Company completed construction of its own receiving and distribution terminal facility in the Port of Richmond, California (the "Richmond Terminal"). The Company is presently supplying sand and gravel into California, British Columbia and Hawaii, having commenced shipments to Vancouver and San Francisco customers in March and April 2007 respectively and to Hawaii in November 2007. The majority of products are sold under long-term sales contracts with customers who have also been granted marketing rights to sell the Orca Quarry products to third parties within agreed territories.

The Company's construction aggregate interests consist of an 88% ownership in the Orca Sand & Gravel project (the "Orca Sand & Gravel Project"), a 70% ownership in the Richmond Terminal and a 70% ownership in the Eagle Rock Quarry project (the "Eagle Rock Quarry Project"), a large, undeveloped, high quality granite resource located near Port Alberni, also on Vancouver Island. The development of new markets, and their associated port terminals, remains a priority for the Company which also continues to seek opportunities that will provide a basis for progressing with the Eagle Rock Quarry Project.

### *Construction Aggregates Overview*

Construction aggregates are granular materials sourced from either naturally occurring sand and gravel deposits or from a variety of quarried rock types including limestone, granite, and volcanic rocks. Natural sand and gravel aggregates are typically preferred for the manufacture of concrete whereas crushed rock is predominantly used for asphalt, road construction and railroad ballast although it is increasingly used in concrete applications as irreplaceable sand and gravel resources deplete. The production of aggregates involves a relatively simple process of surface mining, crushing, sizing and, frequently, washing which requires large volumes of fresh water. Chemicals are not used in the processing of aggregates although minor quantities of a flocculent, or similar agent, may be used in removing sediments from process wash water. Being a natural product, aggregates are non-toxic and benign to the environment.

All forms of concrete and asphalt are comprised mainly of aggregates and are used to build roads, bridges, buildings, sewers, sidewalks and other components of civilization's infrastructure. Aggregates are also used in their natural state for a wide range of other applications such as rock armour for coastal and river erosion protection, crushed rock and sand in road foundations, sand in mortars, stucco, and golf course bunkers. Their predominance in the composition of concrete and asphalt, and their wide range of applications, make construction aggregates a vital component in urban development and transportation infrastructure. The fundamental driver of demand for aggregates is population and particularly the growth in population.

Aggregates are sold and used relatively close to their source of production, generally within fifty miles. In a number of locations in North America, specific circumstances allow rail transportation or ships and barges to be utilized in order to access more distant sources. Construction aggregates are relatively heavy materials with low

intrinsic value and the costs of transportation are frequently one half, or more, of the selling price of the material. Thus, the market in North America is, in reality, a large number of local markets within which competitive and supply forces are quite different. The choice of aggregates used in any market is based upon the location, quality and availability of the aggregate sources together with the cost of transportation to the point of usage.

#### *Aggregate Resource Availability*

Local reserves of construction aggregates in the Company's target markets have been diminishing as operating quarries have become depleted and new resources are increasingly more difficult to permit unless they are located well outside of the market. The rate of depletion has slowed because the market demand for construction aggregates has declined from 2007, due to the severe economic recession in North America, which adversely affected the construction industry, particularly in California. Fortunately for the Company, its major market, the San Francisco Bay area, was experiencing an upward trend in demand by the end of 2011. As the markets return to growth, increasingly longer and more costly overland haulage will eventually be required to meet supply shortfalls when they arise. This is expected to have the effect of raising the delivered prices of aggregate products in markets such as the San Francisco Bay area, the Los Angeles Basin, and San Diego. In Hawaii, the historic main source of sand for concrete, on the island of Maui, no longer ships aggregate inter-island due to dwindling resources and environmental constraints. This loss of supply created the opportunity for the Company to commence shipments into Honolulu in large ocean-going bulk carriers chartered by the customers. Markets closer to the Orca Quarry, such as Vancouver, British Columbia, have also experienced shortages of construction aggregates and supplies into this market are made using barges provided by the customer. It is the closure of indigenous aggregate sources within markets that created the opportunity for Polaris to develop its business and, although the deep recession has temporarily removed some of the pressure for alternate supply sources, the Company does not believe that the underlying situation has materially changed other than in terms of timing.

#### **Sales Arrangements and Strategic Alliance with Cemex**

In September 2007, the Company and CEMEX, Inc. ("Cemex") entered into a strategic alliance agreement (the "SAA"), which establishes and governs the terms of a long-term relationship (the "Strategic Alliance") between the parties. Cemex, a Mexican company, is one of the largest international cement and construction materials groups and also one of the largest producers and consumers of aggregates in California. The SAA has a 10-year term, and sets out the exclusivity between the Company and Cemex for the purchase and distribution of marine supplied construction aggregates, sand, gravel and crushed rock on the west coast of the United States, along with terms for new terminal and quarry development related to these products. The SAA includes an option to extend the agreement for additional 10-year terms upon mutual agreement by the Company and Cemex. An alliance committee, comprised of two members from each company, oversees the ongoing operations of the Strategic Alliance. Included in the Strategic Alliance is an expectation that the Company will develop its 70% owned Eagle Rock Quarry Project at a time to be determined by market demand. The parties have agreed to cooperate in the pursuit of markets and terminal capacity for Eagle Rock crushed granite products.

Pursuant to the SAA, the Company, through its subsidiary Eagle Rock Aggregates, Inc., and Cemex, entered into a 20-year supply and distribution agreement for marine transported construction aggregates that provides for Cemex to be the exclusive marketer of the Company's sand and gravel and for the Company to be the exclusive supplier to Cemex for internal use and for sales to third parties in northern California (excluding the counties of Marin, Sonoma, Mendocino and Napa). The agreement provided for minimum annual tonnages to be supplied and purchased and also a market pricing mechanism which is adjusted annually. During 2009, the minimum tonnages were renegotiated to reflect the continuing deep recession in construction activity. This agreement automatically renews for two 10-year periods or as determined by the life of the Orca Quarry and includes a five-year termination notice provision.

In October 2005, the Company's subsidiary, Eagle Rock Aggregates, Inc., entered into a 20-year aggregates supply agreement, which commenced in September 2007, (the "ASA") with Shamrock Materials, Inc. ("Shamrock"), a long-established private company that is a large manufacturer of ready mixed concrete located in the north San

Francisco Bay area. The ASA may be further extended by three five-year periods, at the option of Shamrock. The ASA grants Shamrock the exclusive right to market the Company's sand and gravel within the California counties of Marin, Sonoma, Mendocino and Napa, and grants the Company the exclusive right to provide marine imported sand and gravel to Shamrock within the same territory. The ASA provides for the purchase and supply of minimum annual volumes of sand and gravel from the Orca Quarry for distribution within the defined area. During 2009, to reflect the economic recession, revised volume targets were agreed. Prices for sand and gravel are reviewed on an annual basis and adjusted to accommodate variations in the cost and changes in market prices for similar products within the San Francisco Bay area. The sand and gravel is unloaded directly from ships, while at anchor in the Bay, onto barges provided by Shamrock, or collected from the Richmond Terminal by truck.

In March 2007, the Company entered into a five-year sand and gravel products supply agreement with a ready-mix concrete manufacturer located in Greater Vancouver, British Columbia, the scope of which was also changed in 2009 to reflect the severe recession. In July 2008 the Company entered into a three-year supply agreement with a third party construction aggregates consumer in Hawaii under which shipments had commenced in January 2008. Supplies to this consumer have continued since the expiry of the original agreement in January 2011.

In 2011, California sales represented 87% of the Company's sales.

### **Shipping Arrangements**

Following extensive research into potential ship ownership, Polaris concluded that the most cost effective strategy for this vital element of its business development was to enter into secure contractual arrangements with CSL International, Inc., ("CSL") a U.S. based operator of a large fleet of highly efficient self-discharging bulk carriers. Shipments to California were initially made under a 10-year contract of affreightment ("CoA-1") that commenced on July 18, 2007. This contract incorporated fixed rates per tonne of product, subject to inflation and bunker fuel adjustments, for deliveries to locations in San Francisco Bay, and provided for up to 4.5 million tonnes of annual shipping capacity. Beginning in January 2008, the rates charged under this contract have been adjusted for inflation.

In December 2007, the Company executed a second contract of affreightment with CSL ("CoA-2"), with a term of 15 years, to commence in the fall of 2010. Minimum annual shipments under this contract were 2.25 million tonnes. This additional capacity was primarily secured to facilitate the development of the Eagle Rock Quarry Project, however, it also provided the Company with flexibility to increase shipments from the Orca Quarry should markets and timing dictate.

In March 2009, recognizing the constraints placed upon Polaris' developing business due to the deep recession, CSL and the Company mutually agreed to a number of changes to the contracts such that the term of CoA-1 was extended by five years and the start date of CoA-2 was deferred until January 2014.

In early 2010, in light of the ongoing and unprecedented decline in the California construction market, it became apparent that the Company was unlikely to meet its contractual shipping commitments for the third contract year ending July 17, 2010 and, as a result, the Company entered into negotiations with CSL to restructure its commitments. These negotiations were concluded in March 2010 with an agreement between the Company and CSL to amend and restate CoA-1 such that it became the sole contract between the parties. The amended and restated contract ("NCoA"), which consolidates both earlier contracts into a single document, became effective on January 1, 2010 with a term of 20 years. The commercial terms for shipping are unaltered. Commencing on January 1, 2010, NCoA requires the Company to ship minimum tonnages per year of 1,543,000 tons escalating to 5,787,000 tons over seven years. A charterer's option allows the Company in any given year to increase or decrease the annual commitment by 10% without penalty. As per the original contract, failure by the Company to ship its annual cargo commitment results in a dead-freight charge equal to 75% of the freight rate for the unshipped tons.

Pursuant to NCoA, the Company paid contract restructuring fees which comprised a cash payment upon signing of US\$500,000 and the issuance of US\$6,350,000 in 7.5% senior secured notes (the "Secured Debt Financing"). The

secured debt would have matured on December 31, 2017, however, on March 2, 2012, the Company repaid this debt, including accrued interest, from the proceeds of a \$15 million debt financing (see “2012 Debt Financing”). As a consequence of this early repayment in full, the Company and CSL agreed that for the period 2011 – 2016 the annual dead-freight charge rate would be reduced to 25% providing the Company achieves certain revised business targets.

The requirements of customers in Hawaii and Vancouver are sold on an “ex-quarry” basis loading ships and barges, provided by the customers, at the Orca Quarry.

#### *Lightering Vessels*

A major shipping constraint to supplying northern California is the relatively shallow water of San Francisco Bay, which prevents direct access by fully loaded bulk carriers to most land-based discharge berths. To overcome this constraint, the Company partly discharges and sells products from the fully loaded vessels while anchored in the Bay, a process known as “lightering”. Aggregates are discharged into third party barges and then the lightened vessel, which is now higher in the water, proceeds with the remaining products to the shallower ports. Lightering enables the Company to dispatch a fully laden vessel from the Orca Quarry, thus reducing the unit cost compared to the unit cost that would arise from dispatching a partially loaded vessel directly to the shallow terminal.

#### *Fuel Surcharges*

The Company’s shipping contract includes the cost of fuels within a certain pricing band referred to as the “free range”. For each shipment made CSL charges the Company for the actual fuel price at the time of the voyage in accordance with a formula included in the contract. Although the contract provides equally for a credit to be given, since commencing operations, the actual cost of fuels has been significantly higher than the values within the free range and, therefore, the Company has paid additional fuel surcharges per voyage. The contractual arrangements with the two major California customers originally provided for Polaris to absorb these fuel surcharges during a calendar year and then recover them from the customers through an increase to the sand and gravel selling price in the following year. During 2008, an extreme situation was encountered when the world prices for crude oil rose to record highs over a very short period with a consequent major increase in fuel costs and the surcharges absorbed by the Company. Through mutual agreement between Polaris and its California customers, beginning in the first quarter of 2009, fuel surcharges have been adjusted on a quarterly, rather than annual, basis. This has had the effect of reducing the lag in pricing increases or decreases that result from fuel adjustments.

### **Port Terminals and Development**

#### *Existing Terminals*

Opportunities to develop suitable aggregate terminals in the major ports, especially in California, are very limited and represent a crucial element of Polaris’ business and are, therefore, a priority for development resources.

The Company owns and operates the Richmond Terminal in northeast San Francisco Bay which receives, stores and distributes Orca Quarry construction aggregate products. The terminal site is held under a 40-year lease with Levin Enterprises Inc. (the “Richmond Terminal Lease”). In addition to the Richmond Terminal, Polaris supplies the Cemex-controlled Redwood City Terminal to serve markets to the south of San Francisco Bay and also serves the Cemex terminal at Pier 92, in the city of San Francisco, by barge. The Company supplies Landing Way Depot, a barge-served terminal utilized by Shamrock, located on the Petaluma River in the north San Francisco Bay area.

### *Terminal Developments*

In August 2008, the Company, through its subsidiary, Eagle Rock Aggregates, Inc., and Cemex formed Cembra Long Beach LLC (“Cembra Long Beach”), and purchased a 12.4 acre parcel of freehold land at Pier B in the Port of Long Beach, California (the “Pier B Land”) for the initial purpose of developing a sand and gravel terminal.

In April 2009, the Company, through its subsidiary, Eagle Rock Aggregates, Inc., and Cemex formed Cembra San Diego LLC (“Cembra San Diego”) with respect to a potential marine import terminal located at the Port of San Diego. On August 4, 2009, Cembra San Diego entered into an exclusive negotiating agreement with the Port of San Diego for the purpose of negotiating an option to lease and develop a sand and gravel terminal located in the Tenth Avenue Marine Terminal. This exclusive negotiating agreement expired on February 28, 2010 following which the Port of San Diego issued a comfort letter and the parties have continued to negotiate in good faith regarding the possibility of Cembra San Diego establishing an aggregate receiving terminal within the port. The Company expects to continue to working towards this opportunity subject to a number of conditions including land use and permitting considerations by the port, satisfactory market and feasibility studies and the availability of capital.

In July 2010, the Company entered into an operating lease with L.G. Everist, Inc. for an existing marine aggregate importing terminal at Berth D-44 in the Port of Long Beach (“Berth D-44”). This 8.3 acre, privately owned site has operated for many years receiving construction aggregates from barges and storing them in open stockpiles using mobile equipment. The site, which is already permitted to receive and distribute up to 3 million tons of construction aggregates per year, is located on a deepwater channel and is close to Interstate 710, which services the greater Los Angeles area. The Company is currently seeking variations to the existing permit to enable the site to receive Panamax self-discharging vessels, as opposed to previous barge deliveries. Subject to a satisfactory outcome and securing a product sales agreement, the Company believes that operations could commence in 2013. In July 2011, Cemex notified the Company that it was relinquishing its rights to be a partner in the development of the Berth D-44 terminal due to capital constraints.

As the Berth D-44 site can be developed sooner and with significant capital savings over the Pier B site, Cembra Long Beach commenced marketing the Pier B Land for sale. On November 8, 2010, Cembra Long Beach entered into a purchase and sale agreement with respect to the Pier B Land. Following the satisfactory completion of due diligence, the potential purchaser exercised a right to terminate the agreement due to economic reasons. Cembra Long Beach has received further expressions of interest in respect of the Pier B land but none has yet advanced to a sale contract and the property continues to be marketed.

Prior to the Strategic Alliance, the Company was in the process of permitting its own terminal site in the Port of Redwood City. In view of the long term relationship with Cemex, interest in this site was terminated and the Company now prefers to jointly expand and develop Cemex’s existing Redwood City Terminal which offers significantly greater benefits in terms of multi-product storage, increased sales potential and cost effectiveness through reduced capital requirements and shared infrastructure. Cemex and Polaris are also planning to eventually handle Eagle Rock Quarry products at Redwood City, when and if the quarry is developed, with a view to establishing a major construction materials park at this site. The timing of re-development of the Redwood City Terminal will be dependent upon market demand and availability of capital.

The Company has also expressed an interest in developing a future terminal at Hueneme in Ventura County, California, and maintains contact with the appropriate port authority. Under the auspices of the Strategic Alliance, the Company has reviewed certain terminal opportunities in the states of Washington and Oregon although further interest will depend upon market forces as certain anticipated changes in supply patterns have been delayed due to the recession.

#### *Investment in Tugboat and Associated Barge in San Francisco Bay*

During 2007, the Company loaned US\$5.5 million to a third party for the purchase of certain assets required to facilitate delivery of sand and gravel by lightering in San Francisco Bay area. The loan bore interest of 5.5% per annum, on the outstanding principal, with monthly payments and maturity dates ranging from 2013 to 2027. In June 2011, the Company accepted an offer of early repayment in full of the loan and released the security that had been granted over various assets of the third party.

#### *Investment in Berthing Tugboat at Orca Quarry*

In 2008, the Company formed a joint venture with two third parties to construct a tugboat to facilitate berthing at the Orca Quarry. The Company owns 33% of 0791304 B.C. Ltd. which owns the tugboat. During the year ended December 31, 2008, the Company had loaned the joint venture funds for the construction of the tugboat. In April 2010, the joint venture partners agreed to refinance their proportionate share of the tugboat, which enabled two-thirds of the Company's loan to be repaid. The Company's loan to the related party, in the amount of \$1.1 million, was unsecured and would have matured on December 1, 2018. In September 2011, the Company sold its interests in 0791304 B.C. Ltd. to the partners and the loan terminated.

#### **Employees**

As at December 31, 2010, the Company had 42 full time employees. The number of employees peaked in early 2010 at 56 before the continuing recession necessitated a reduction of shifts at the Orca Quarry at the year-end. The Company operated a single shift at the Orca Quarry during 2011 although additional production hours were being worked during the second half of the year in order to meet the growing demand from northern California.

#### **Financings**

Polaris has obtained funding for the development of its assets and business through a number of debt and equity issues as described below.

#### *2012 Debt Refinancing*

On March 2, 2012 the Company issued \$15 million of Senior Secured Notes (the "New Notes") that mature December 31, 2016 pursuant to the terms of a senior secured notes purchase agreement dated March 1, 2012 (the "New Notes Purchase Agreement"). The New Notes are senior secured obligations of the Company that have a first charge against the assets of the Company other than cash and accounts receivable, and a specific pledge of the limited partnership units held by the Company in the Orca Partnership. The New Notes bear interest at 12%, payable semi-annually, and may be redeemed by the Company at any time without penalty. In addition to the New Notes, the company issued warrants (the "2012 Warrants") exercisable into 13.2 million common shares at the following exercise prices: \$0.44 per share until December 31, 2012, \$0.50 up to December 31, 2013, \$0.55 up to December 31, 2014, \$0.60 up to December 31, 2015 and at \$0.65 per share up to December 31, 2016. The net proceeds from the issue of the New Notes were used to repay all existing indebtedness of the Company, including interest, under a US\$6.35 million credit facility with the Company's exclusive shipper and a \$5.0 million bridge loan secured in November 2010. The balance of the proceeds will be used for general working capital purposes.

#### *2010 Bridge Loan Financing*

On November 8, 2010, the Company obtained a subordinated, non-revolving credit facility from a group of individual lenders in the amount of \$5 million for working capital and general corporate purposes. The credit facility matures on November 8, 2011 and is repayable at maturity at a 15% premium. The Company has the right to repay the credit facility at any time prior to maturity by making a payment equal to the outstanding principal plus accrued interest and an amount equal to 5% of the principal. Additionally, the lenders have the right, upon sale of certain assets of the Company greater than \$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 assets and shares of certain of its subsidiaries. A condition of this facility, under an inter-creditor agreement with CSL, is that the Company will redeem \$1.0 million of the senior secured notes issued to CSL upon completion of the sale of the Pier B Land.

In accordance with this credit facility, the Company granted the individual lenders an aggregate of 625,000 common share purchase warrants, each warrant being exercisable for one Common Share at a price of \$1.50 per Common Share until November 17 or 19, 2015.

In November 2011, the Company and the lenders agreed to extend the maturity on the credit facility to February 29, 2012. The Company agreed to pay an additional 2% fee of the outstanding balance and the terms were unchanged until December 31, 2011. On January 1, 2012, the interest rate increased to 17.5% and on February 1, 2012, the interest rate increased to 20%. The net proceeds from the issue of the New Notes were used to repay the loan on March 2, 2012.

#### *2010 Secured Debt Financing*

In March 2010, the Company issued US\$6.35 million in senior secured debt to CSL which matures on December 31, 2017. See "Shipping Arrangements" for further details. The Company has mostly exercised its option each quarter to add the interest due to the principal amount rather than making a cash payment. As a result, the principal balance outstanding at December 31, 2011 was \$7.0 million. It was a condition of the credit agreement that should the Company raise new capital, either through equity or debt, this loan was to be repaid in full and the 2012 Debt Refinancing, completed to repay the 2012 Bridge Loan, triggered an early repayment. The net proceeds from the issue of the New Notes were used to repay the 2012 Secured Debt Financing and all interest thereon on March 2, 2012.

#### *2009 Sale of Asset Backed Commercial Paper*

In August 2009, the Company sold its holding of Asset Backed Commercial Paper for proceeds of \$2,943,791.

#### *2009 Bought Deal Equity Financing*

The Company completed an equity financing on January 8, 2009 (the "2009 Equity Financing"), and sold, on a bought deal basis, 15,625,000 units (the "Units") of the Company at a price of \$1.60 per Unit, for gross proceeds of \$25 million. Each Unit was comprised of one Common Share and one half of a common share purchase warrant (each full warrant a "Warrant") with each Warrant entitling the holder to purchase an additional Common Share at the exercise price of \$2.25 per share. The Warrants were listed for trading on the TSX under the symbol "PLS.WT" and expired unexercised on January 10, 2011. The net proceeds of this offering were used to retire the \$20 million Bridge Loan described below, as well as for working capital and general corporate purposes.

#### *2008 Bridge Financing*

To facilitate the purchase of the Pier B Land, the Company entered into a credit agreement for a \$20 million one-year bridge loan facility (the "Bridge Loan"). On January 8, 2009, the principal of \$20 million together with interest accrued thereon, was repaid using the net proceeds of the 2009 Equity Financing described above.

#### *2007 Bought Deal Equity Financing*

The Company completed an equity financing on March 15, 2007 and issued, on a bought deal basis, 6,000,000 Common Shares at a price of \$9.00 per share for gross proceeds to the Company of \$54 million. On March 26, 2007, Polaris closed the exercise of an over-allotment option by the underwriters for additional gross proceeds of \$8,100,000. The net proceeds of this financing were used to retire US\$31 million outstanding under the 2006 Debt



Facility described below, to advance the Company's other mineral properties and port terminal strategy, as well as for working capital and general corporate purposes.

#### *2006 Initial Public Offering*

The Company completed its initial public offering of Common Shares (the "IPO") on January 10, 2006 and issued 15,628,185 Common Shares at a price of \$4.80 per share for aggregate gross proceeds of \$75,015,288, including 2,086,185 Common Shares at the price of \$4.80 per share issued upon the exercise of an agents' option.

The agents for the IPO elected to purchase an additional 1,000,000 Common Shares at \$4.80 per share pursuant to the over-allotment option for additional gross proceeds to the Company of \$4.8 million. The exercise of this over-allotment option closed on February 2, 2006.

In connection with the IPO, the Company issued an aggregate of 2,750,000 Common Shares upon the deemed exercise of 2,500,000 previously issued Special Warrants. Each Special Warrant was automatically converted into 1.1 Common Shares.

#### *2006 Debt Facility*

The Company entered into a credit agreement, as amended, on January 9, 2006 (the "Credit Agreement"), arranged by Ingalls & Snyder LLC pursuant to which a credit facility was extended (the "Debt Facility") in the form of two term loans evidenced by a specified amount of secured notes to be issued to each lender, in an aggregate principal amount of up to US\$47 million. The Company subsequently elected to reduce the maximum amount available under the Debt Facility to US\$31 million.

In May 2007, in accordance with the Credit Agreement and in conjunction with the Company's first sale of construction aggregates in California, the Company granted Ingalls & Snyder LLC 2,153,846 common share purchase warrants, each warrant being exercisable for one Common Share at a price of \$4.80 per Common Share until November 30, 2010. These warrants expired unexercised on that date.

## **THE COMPANY'S MARKETS**

The Company currently supplies sand and gravel from the Orca Quarry to customers located in California, Hawaii and Vancouver and, in 2010, shipped into Alaska for the first time. These products are used exclusively for the production of concrete for building and construction purposes. The sand and gravel is high quality which makes it ideal for use in applications requiring high strength concrete, a key feature in major structures being designed for high earthquake seismic risk areas, particularly the greater San Francisco area.

In 2011, 1.73 million tons of sand and gravel were shipped from the Orca Quarry, of which 1.51 million tons were supplied to California.

### **Market Analysis**

Beginning in 2001, the Company retained David A. Holmes, R. Geo. of Holmes Reserves LLC in Colorado, USA ("Holmes") to prepare studies of targeted California markets. Holmes is a "Qualified Person" as defined under NI 43-101 and is a registered geologist in the states of California, Oregon and Washington. The studies focused on the supply and demand balance in those markets targeted by the Company and identified aggregate production sources, key consumers, and price trends. In March 2008, the Company requested an update from Holmes which was submitted in November 2008 (the "2008 Market Report") following certain revisions to reflect the deep and continuing recession in demand for aggregates. This independent market research and analysis has been used as a basis for determining the Company's market development strategy.

A brief description of each of the served markets is as follows:

### *California*

California has been facing increasing supply shortages of construction aggregates in certain markets although this situation has diminished significantly due to the recession in construction activity which has existed since 2007. However, California continues to represent the most important target market for the Company's construction aggregate products with sales under-pinned by the Company's long-term sales and marketing agreements.

Despite the abundance of sand and gravel available in the past, California's permitted sand and gravel resource base continues to decline and the proportion of crushed rock used in concrete manufacture is rising. Sand and gravel are the dominant materials used in California for which the concrete industry retains a strong preference, particularly natural concrete sand. The Company's current exportation of high quality sand and gravel from its Orca Quarry to California is helping meet the need for these materials in the northern California market. The Company believes that, in the fullness of time, the Eagle Rock Quarry Project will be a significant opportunity as a source of quality crushed granite aggregates for use in asphalt and to complement the sand-rich Orca Quarry deposit for use in concrete.

Since 2006, the demand for construction aggregates in California has experienced a significant and unprecedented decline commencing initially with the collapse of private house building and subsequently by the general economic recession and difficult credit markets. In 2005, the overall demand for construction aggregates, being the combination of sand, gravel and crushed rock, was approximately 241 million tons in California (*Source: USGS Mineral Industry Surveys*). Based on the USGS data for the third quarter of 2011, as extrapolated by the Company, demand in 2011 was approximately 133 million tons, a reduction of 45% over six years. This decline has had the effect of preventing the Company's previously anticipated rate of growth.

The 2008 Market Report, which re-examined the previous supply and demand relationships, among other findings, concluded that:

- The major ready-mix/asphalt suppliers and aggregate producers are hunkering down into a low-activity state and are confident that they can collectively weather the economic storm and emerge into a more regulated, moderate growth economy during the recovery in California expected to occur in 2010 - 2012.
- The relentless high population growth and rapidly depleting available reserves will continue to give the regional aggregate industry a strong economic future, in spite of housing industry economic cyclicality.
- Several study areas, such as western San Diego County, are on the verge of becoming so aggregate deficient that operations will remain in an aggregate shortfall despite the recession economy.
- The Company's supply strategy of import shipping of sand and gravel, and ultimately crushed rock, from British Columbia into California ports, remains sound as regional aggregate demand will again face wide shortfalls immediately after the current recessionary cycle.

In 2009, the *American Recovery and Reinvestment Act*, directed massive stimulus funds to increased public sector spending on infrastructure projects. However, there was no immediate net impact on the California market from the stimulus funds for two prime reasons: firstly the funds failed to replace significantly lower private housing and commercial developments and; secondly, California declared its intention to use a significant part of the stimulus funds for major projects that would increase the capacity of the State's infrastructure. Such projects require a relatively long lead time for permitting, design and planning and it was only towards the second half of 2011 that the Company's customers reported a significant increase in new infrastructure projects. At this same time, private commercial development also began to pick up, especially in the market area to the south of San Francisco Bay, largely the result of spending led by the very successful high-tech companies based in the 'silicon valley' corridor. The combination of these two market sector increases, which were specific to the San Francisco Bay area rather than representative of a nationwide trend, was the reason for the Company's sales volumes increasing by 35% in

2011 compared with the previous year. The markets supplied by Shamrock Materials in the north Bay area have a much greater component of private housing and as such experienced only a modest increase compared with last year.

The demand for construction aggregate is significantly higher per dollar of expenditure in infrastructure projects, which frequently demand a higher quality specification which Orca Quarry products comfortably meet.

Political discourse in the US appears once again to recognize that infrastructure investment can be a major component in job creation which is the principal requirement for economic recovery. The reauthorization of a multi-year highway appropriation bill continues to be debated in Congress and delays beyond March 31, 2012 will seriously impact the planning and execution of those major infrastructure projects currently in abeyance at the state level. Measures are being promulgated in the US in 2012 that are intended to accelerate the recovery of the private housing sector. Although the Company believes that growth in single-family housing will be only gradual between 2012 and 2014, it is noticeable that multi-family developments are recovering, albeit from a low level.

#### *Hawaii*

The Hawaiian Islands consumed approximately 11 million tons of construction aggregate in 2007, the last year for which the USGS reported the statistics. It is understood that consumption fell to approximately 7.7 million tons in 2010, although there is no longer any independent verification. The Company anticipates that the overall demand for construction aggregate in the Hawaiian Islands, particularly on Oahu, will increase slightly in 2012 as major infrastructure projects begin to impact demand and military spending on facilities continues.

#### *Vancouver*

There are no independent statistics that report demand for construction aggregate in this market. However, customer feedback confirmed that it remained depressed in 2011, reflecting not only the continuing economic recession but also the geographical location of the major infrastructure works, which were unfortunately located outside the market area served by the Company's customer. As a consequence the Vancouver market is not anticipated to be a significant outlet for the Company's products in the short term.

### **Target Markets**

The Company continues to pursue its objective to acquire and develop new terminals situated along the western seaboard of the United States. As part of the Strategic Alliance with Cemex, a joint cooperation and development agreement commits both companies to locate, negotiate and propose new marine terminals in California, Oregon and Washington State, with each party having the option to participate on a 50:50 basis in agreed new terminals. However, due to capital constraints, Cemex advised the Company in 2011 that it would be unable to participate in the development of the proposed Port of Long Beach Terminal in California, leaving the Company free to progress independently.

#### *Los Angeles*

With a population of approximately 18 million, the Los Angeles urban area is second only to New York in population in the United States and, as such, represents a substantial market for aggregate consumption. However, the recent deep decline in the demand for construction aggregate in southern California has extended the remaining life of the existing quarries within the Los Angeles Basin area. The Company believes that demand increased in 2011, although the increase was modest by comparison to the northern California market. The Company intends to continue the development phase of the Berth D-44 terminal (see "Terminal Developments") and seek to introduce marine imported aggregates into the Port of Long Beach where market demand is expected to be positively influenced by ambitious infrastructure developments for which the proposed terminal is ideally situated.

### *San Diego*

In view of the significant decline in aggregate supply sources within the San Diego region, the San Diego Association of Governments (SANDAG) and the California Department of Transportation (Caltrans District 11) commissioned the San Diego Region Aggregate Supply Study to define the extent of the problem and to summarize findings and recommendations.

Based on projections from the California Geologic Survey, an 83 percent shortfall in the region's supply of aggregate material (800 million tons) could be expected through 2055, with immediate deficits of around 7 million tons per annum. Included in the possible solutions to this significant supply deficit problem is the combination of the development of new quarrying sources, the continuation of long-hauled road deliveries and the importation of two million tons per annum by ship and one million tons per annum by rail. However, the concern being expressed in respect of declining local sources of construction aggregates has recently been justified by the refusal, after an appeal, of a permit application in respect of a proposed 'greenfield' quarry located at Temecula approximately 70 miles north of San Diego.

The Polaris interest in the Port of San Diego, in respect of the development of a new aggregate storage and distribution terminal within the Tenth Avenue Marine Terminal, offers a potential contributing source to meet the identified supply deficits.

Preconditions to such a development will be: that negotiations with the Port of San Diego are successful; that acceptable permits are forthcoming and; a feasibility study of the investment is positive. The Company now believes that the San Diego terminal could be in operation by 2016, assuming a satisfactory conclusion of the foregoing conditions.

### *Other Markets*

Elsewhere in California, the Company and its Strategic Alliance partner, Cemex, have focused attention on possible terminal developments at Port Hueneme in Oxnard County, north of Los Angeles, and in Sacramento in northern California. Consideration has also been given to the possibility of developing marine aggregate terminals in the States of Washington and Oregon, where local aggregate shortages in urban coastal markets are anticipated to create importation opportunities for sand and gravel. Unfortunately, the severity of the economic recession has made the timing for any of these terminal developments impossible to predict in the short term.

## **COMPETITIVE CONSIDERATIONS**

### **Overview**

The construction aggregates industry is characterized by the delivery of large volumes of materials which have a relatively low intrinsic value and for which the cost of transportation frequently represents more than half of the final cost to the purchaser. Accordingly, transportation, handling and distribution costs play a major role in assessing the viability of a new quarry.

Although the markets for aggregates are generally regarded as being relatively local to the sources of production, this is not always the case. Road deliveries dominate the distribution of aggregates overall and in many locations there are simply no alternatives. However, viable alternatives do exist in situations where the infrastructure is in place to accommodate alternative methods of transportation, specifically the existence of ports, or railroads, conveniently located within the markets to be served. In these situations, the aggregate source must also be either situated on navigable deep waters or adjacent to an appropriate rail line. When these alternatives for distribution are available, the physical location of the aggregate source has less significance. Both shipping and rail offer much lower haulage costs on a per ton-mile basis than trucks, with large self-discharging ships offering the lowest.

## **New Quarries**

The ongoing depletion of construction aggregate quarries in California will require the quarrying industry to invest significantly in geological evaluation, permitting, and quarry development if the industry is to simply maintain historic levels of indigenous production even before considering the expected increases in demand created by continuing population growth and infrastructure maintenance. However, there are a number of significant barriers to developing new resources into active quarries. Some barriers particularly prevalent in the current landscape are: issues of environmental protection; acceptability of the development to local communities; and impacts to local road networks from product shipments that utilize large numbers of trucks. In addition, issues of resource quality and quantity, climate, and the availability of water, labour, infrastructure, and power, may also influence whether or not a proposed operation is capable of being developed and is economically viable. The costs of identifying and securing the resources and obtaining permits and the required capital for development are substantial and success usually takes many years. The combination of these factors, and the scarcity of the opportunities for such developments, means that the barriers to entry are high and the costs can run to tens of millions of dollars. There is no certainty of success. See "Risk Factors".

## **Competitive Modes of Transport**

There are three modes of transportation for aggregate: road, rail, or sea. The viability of each transport system is determined by a number of factors, including the location of the resource, the availability of adequate road or rail systems, and the proximity of deep navigable waters.

In the case of rail and sea movements, receiving terminals are required, either within or near the market area, to serve as distribution points to customers. These terminals must have access to a good road system for final delivery.

Therefore, transportation decisions are site specific. Basic factors which influence decision making are as follows:

*Road* — The cost per ton-mile of road transportation for construction aggregate is significantly higher than by rail or sea and as the cost of diesel fuel increases, road transport becomes less competitive on a ton-mile basis. As highways become increasingly congested, the cost per ton-mile increases reflecting the longer time taken to complete a delivery. The effect of these transport logistics is to establish a zone around each source of supply within which that source is more competitive than alternatives. Generally, a supplier located near its customer base can expect to enjoy a competitive advantage over a more remote supplier.

*Rail* — The movement of construction aggregate by rail in the United States is well established in many regions, particularly the east coast and south eastern regions. The Company believes that the recent boom in container imports, particularly from Asia, and the increasing demand for coal and grain exports, has largely absorbed existing rolling stock and line capacity primarily in coastal city locations. The large container ports on the west coast, Oakland, Long Beach and Los Angeles, make extensive use of the rail system for distribution.

Rail operators have, over time, closed many tracks, especially in rural areas. Gaining access from a new resource to a rail service, and permitting land within the major market areas for a rail receiving terminal development, are very difficult. The cost of transporting aggregate by unit trains may depend on whether or not the rail cars must be switched between one rail operator and another. Switching costs between lines can add significantly to the cost of any particular movement and, therefore, a further constraint on a rail dependent development may be the need to find resources and terminals connected by a single operator. Rail policies that favour passenger traffic, rather than freight, together with timing limitations on rail freight movements may negatively affect the transport of aggregates by rail.

There is a relatively small number of existing rail reception depots for construction aggregates south of the San Francisco Bay area and in the greater Los Angeles area. The Company believes that significant further growth of rail competition is unlikely.

*Sea* — The seaborne importation of aggregate from coastal quarries into the United States has increased significantly during the last two decades. The growing availability of large vessels that offer cost-effective, long-distance haulage through efficient self-discharge systems has greatly reduced the cost per ton-mile for aggregate shipping. When using seaborne distribution, the mineral resource should be located next to suitably deep, navigable water where loading can take place directly from the quarry without the need to truck materials to a receiving port. This is the case at the Orca Quarry. Logistical and environmental advantages, such as the proximity of ports to urban markets and established road networks, are other essential requirements for economic seaborne distribution. Quarries located in British Columbia, Nova Scotia, New Brunswick, the Bahamas, the Yucatan Peninsula and California Baja of Mexico now supply many coastal U.S. markets. Further development of seaborne aggregate supplies can be anticipated from Caribbean islands to south east coastal markets in the U.S.

## **Competition**

Two existing British Columbia aggregate operations presently supply seaborne materials to California and Hawaii in addition to the Orca Quarry. The Lafarge Group, a French-owned international building materials company, supplies crushed rock from its quarrying operation on Texada Island. This includes larger sizes of rock for coastal and river erosion protection in California and aggregate sized material for asphalt manufacture in Hawaii. Heidelberg Cement, a German group, operates the Sechelt sand and gravel quarry in British Columbia and a receiving terminal in the city of San Francisco through its North America subsidiary Lehigh Hanson. Additionally, Hanson purchased Mission Valley Rock Company in 2005, which operates a two million ton per annum sand and gravel pit in the San Francisco Bay area. Sechelt is the one competitor that also supplies the San Francisco area with sand and gravel of a comparable quality to that of the Orca Quarry. In addition to the Texada and Sechelt quarries, there are a number of smaller operations that use barges to supply the greater Vancouver market with both sand and gravel and crushed rock aggregates.

In 2007, Lehigh Hanson closed its Producers Pit, a sand and gravel quarry which produced approximately two million tons per year, located near Victoria, British Columbia, due to exhaustion of reserves. This operation had shipped materials by barge to west coast locations, as well as serving the Victoria area by truck. At the end of 2011, Hanson suspended the production of construction aggregates at its Cupertino limestone quarry near San Jose, which served customers in the south San Francisco Bay markets. The closure was stated to be for a period of two years. The Company believes that this closure removed over one million tons per year of coarse aggregate production and in part the increase in demand for Polaris' products during 2011 is a result of this closure. It is further understood that the recommencement of production is subject to new permits being obtained and therefore there might be uncertainty to the stated two year closure period.

Other seaborne competition may come from the coasts of Alaska, British Columbia, or Mexico. However, during the period from 2000 to 2002, the Company carried out a search on the west coast of North America, from Alaska to Mexico, seeking to identify suitable deposits capable of shipping aggregates to California. In Alaska, the climate and remoteness, a lack of infrastructure, longer distances to markets, and the U.S. *Jones Act* (which increases shipping freight costs for aggregate deposits located in the United States) were all negative factors. Mexico's potential was found to be limited by poor quality material, a lack of infrastructure, and limited fresh water available for processing and washing. In 2010, however, a new sand and gravel processing plant was installed in Tijuana, Mexico which receives raw materials from diverse riverbed sources. Products from this facility are currently being exported into the San Diego market, although the Company believes that there may be quality issues with these aggregates and therefore this source is unlikely to present a challenge to the Company's plans to import marine aggregates into the Port of San Diego.

A significant number of sites were examined in British Columbia following which the Company concluded that the Orca Project offered a cost-effective source of high quality sand and gravel that could be shipped from coastal British Columbia. Although a number of other coastal sand and gravel deposits are being investigated by others, who could become future competitors, none have yet to be developed and Polaris now has a significant advantage through its long-term customer supply contracts and secured receiving terminals. See "Risk Factors" for further details.

## Prices

The Company has enjoyed relatively stable pricing for its products since commencing shipments in 2007. However, as a result of the severe recession, the price growth anticipated at the time of the IPO (see “Financings”) has yet to be realized but can be expected once significant growth in demand becomes evident and the industry as a whole enters a period of recovery. The downturn in the demand for construction aggregates created pricing pressure in certain market areas in California and Polaris experienced some minor reduction in average selling prices during 2011, principally the result of incentive pricing offered to contracted customers to encourage volume growth. Price increases, that should at least keep pace with the rate of inflation, have been negotiated at the beginning of 2012.

## Social Responsibility and First Nation Relationships

Land in British Columbia is either owned privately by fee simple owners or publicly by either the Federal Government of Canada or by the Provincial Government of British Columbia, both commonly referred to as the Crown. In addition, while minerals are generally excluded from fee simple ownership of land in British Columbia, the *Mineral Tenure Act* (British Columbia) specifically excludes sand, gravel and rock or a natural substance used for construction purpose, from the definition of mineral. Accordingly, in British Columbia, the right of a land owner to remove sand, gravel and rock for construction purposes is a right connected to fee simple ownership. First Nations in British Columbia have made claims of aboriginal and treaty rights and title (collectively “Aboriginal Rights”) to substantial portions of land and water in the Province, including areas where the Company’s properties are situated, creating uncertainty as to the status of other public and private property rights. In the last decade, there have been numerous judgments by both the Supreme Court of Canada and the British Columbia Supreme Court regarding Aboriginal Rights and the duties of government and individuals to consult with First Nations groups, creating a constantly evolving legal environment.

To deal with this uncertainty, Polaris adopted a guiding principal: to seek to work cooperatively with those First Nations that have asserted traditional territory claims over the Company’s search areas with a view to developing the projects for mutual benefit. The Company sought and respected the guidance from the relevant First Nations groups which allowed the Company to avoid searching in areas of spiritual or other sensitive uses by the First Nations, thereby avoiding conflict from the outset. Once project areas had been identified as suitable mineral resource areas, the Company undertook an exceptionally detailed and inclusive consultation process that involved not only all those First Nations with overlapping traditional territory claims over the various project lands but also involved every community group and potential stakeholder.

The First Nations asserting aboriginal rights and title over the Company’s proposed project lands were offered participating interests in the projects. Thereafter, the First Nations worked closely with the Company during the environmental assessment process and planning in addressing ecological, cultural, and socio-economic interests. This co-operative and consultative process resulted in the issuance of environmental and other project permits and Crown tenures by the provincial and federal agencies, and has also provided the surface rights owners of private project lands with assurances that the First Nations are in agreement with the arrangements that have been put in place in connection with those privately-held lands. Post-development, the Company is working closely with the First Nations in connection with the operation of the Orca Quarry. See “History of the Orca Project” and the “History of the Eagle Rock Quarry Project”.

The Company is in good standing under all operating permits and leases at each property and maintains good relationships with the local communities in which it operates.

## Financing and Management of the Company’s United States Operations

Eagle Rock Aggregates, Inc., one of the Company’s U.S. subsidiaries, holds the Richmond Terminal Lease and corresponding easement and facilities use agreements, as well as the Company’s other potential California port interests. It also holds the Company’s marketing interests in California, including the initial aggregates supply and distribution agreement with Cemex pursuant to the Strategic Alliance, and manages the Company’s operations in

California, including the shipment and sale of construction aggregates from the Orca Quarry. The parties to the Eagle Rock Shareholders Agreement (as later defined), being the Company and the Hupacasath and Ucluelet First Nations, began discussions in 2008 regarding a potential renegotiation of the terms of the arrangement with Eagle Rock Aggregates, Inc. for the financing, construction, and operation of the Richmond Terminal and other California port terminals, and for the purchase, shipping, distribution and sales of construction aggregates from the Orca Sand & Gravel Ltd. Partnership (the "Orca Partnership"). The original concept of the agreement was to ensure that the First Nations involved in the Eagle Rock Quarry Project were protected in the future from economic risk caused by the arbitrary setting of transfer prices between quarry and terminal. However, in practice the transfer pricing has been set independently by the Canada Revenue Agency under an advanced transfer price ruling that was finalized in February 2011. Through market forces that changed the originally anticipated timing of the quarry developments, this agreement is no longer practical in respect of terminal development and the Company does not wish these First Nations to be locked into an agreement that would be greatly to their disadvantage going forward. However, there is no assurance that a new agreement will be reached on terms satisfactory to the Company. The failure to enter into such agreement may have a material adverse effect on the Company (see "Risk Factors"). See "Port Terminals and Development – Existing Terminals" for further details regarding the Richmond Terminal.

Future terminal interests outside the state of California will be held by Polaris Materials Inc., a 100% owned U.S. subsidiary of the Company that is responsible for sales in Hawaii.

## **ORCA SAND & GRAVEL PROJECT**

### **History of the Orca Project**

The Orca Project was originally comprised of three large, high quality, sand and gravel deposits - the East Cluxewe, West Cluxewe and Bear Creek Deposits. The Company began development of the East Cluxewe Deposit, the associated process plant and shiploader (together the "Orca Quarry") in March 2006 with land clearing and site preparation for the construction of the ship load-out conveyors and the sand and gravel processing plant. The quarry commenced production in February 2007. On June 15, 2008, the Company received a ten-year Licence of Occupation from the Province of British Columbia covering an area of Crown land referred to as the East Cluxewe Extension Deposit, which is contiguous with the East Cluxewe Deposit. In the longer term, subject to further studies and permitting, the Company expects to quarry the East Cluxewe Extension and West Cluxewe Deposits and ship those products to markets, using the process plant and shiploader located at the Orca Quarry site. A comprehensive geological evaluation and drilling program was completed on these two deposits during the summer of 2008 in order to quantify potential additional resources. Until March 31, 2009, the Orca Partnership held the exclusive rights to negotiate a lease to obtain rights to the Bear Creek Deposit located on fee simple private land owned by Island Timberlands LP. However, following consideration of the results of a detailed geological evaluation and the economic requirements of the owner, interests in the Bear Creek Deposit were allowed to lapse during 2009 and, therefore, it is no longer considered a future resource. During 2007, Polaris received a Licence of Occupation from the Province over a potential sand and gravel deposit located 19 kilometres from the Orca Quarry and referred to as the Cougar Deposit. Results of a limited quantity of drilling on the Cougar Deposit in 2008 were not encouraging and, as a consequence, the Company relinquished the Licence of Occupation for this site.

The East Cluxewe and West Cluxewe Deposits are situated on fee simple, private lands owned by Western Forest Products Inc. ("WFP"). The East Cluxewe Extension Deposit is located on Crown land over which the Company has access rights through a ten-year Licence of Occupation with the Province of British Columbia. The Orca Project lands, together with the East Cluxewe Deposit and the East Cluxewe Extension Deposit, all lie within the asserted traditional territories of the Kwakiutl Band (the "Kwakiutl") and the Namgis First Nation (the "Namgis"), whereas the West Cluxewe Deposit is located in traditional territory asserted exclusively by the Kwakiutl.



The rights to the East Cluxewe Deposit, East Cluxewe Extension Deposit, and West Cluxewe Deposit are held by the Orca Partnership pursuant to a limited partnership agreement (the "Partnership Agreement") dated March 1, 2005, amended and restated April 1, 2005, among the Namgis (as to 12%) and the Company (as to 88%), both as limited partners, and Orca Sand & Gravel Ltd., as the general partner (the "Orca General Partner"). See "Corporate Structure – Intercorporate Relationships". The Orca Quarry was originally designed and permitted to produce up to 6.0 million metric tonnes per year working on a two-shift basis. During 2008, the NI 43-101 technical report on the Orca Quarry was updated and concluded that, subject to obtaining a revised mine permit, the quarry could produce approximately 8.7 million metric tonnes per year on a 24/7 operation.

The Orca Partnership entered into an impact and benefits agreement dated April 1, 2005, with the Namgis, which grants certain preferential opportunities to the Namgis for business development, employment, and training within its community. Contributions based on volumes of construction aggregates sold by the Orca Partnership will be made by the Orca Partnership to foundations that will benefit communities located within the asserted traditional territories of the Kwakiutl and Namgis. In the event that treaties are settled over the Orca Project area granting the Namgis the authority to impose taxes or royalties over the Orca Project, 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 a one-time right to increase their ownership in the Orca Partnership by up to 50%, by purchasing Orca Partnership units from the Company for cash at fair market value.

The Orca Partnership has also entered into an impact and benefits agreement, dated March 9, 2005, with the Kwakiutl. This agreement applies only to the Orca Quarry development and operations. It provides the Kwakiutl with a gross royalty based on volumes of construction aggregates sold from the East Cluxewe Deposit. This royalty rate increased over four years and, commencing in the fifth year, is adjusted annually with reference to a price index. Also, certain preferential opportunities have been granted to the Kwakiutl for business development, employment, and training within its community. In the event that treaties are settled granting the Kwakiutl jurisdiction over the Orca Project 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.

#### *Namgis Funding*

In April 2005, the Company and the Namgis entered into a loan agreement whereby, at the request of the Namgis, the Company would make advances to the Namgis to enable them to meet their required equity contributions to the Orca Partnership. Advances made by the Company to the Namgis following the construction decision bore substantial interest rates. The Company's sole recourse for repayment of the advances is the distributions receivable by the Namgis from the Orca Partnership and the advances cannot be prepaid. The Company does not record interest receivable on the Namgis loan in its financial statements. In light of significant changes in the credit markets since the loan agreement was originally executed, together with the impact of the severe economic recession since the construction decision was made, several terms of the original loan agreement were amended in March 2010 whereby interest payable on the loan was frozen at the amount payable as of September 30, 2009; changes were made to the rate of interest such that they are more reflective of current market conditions; and the terms of the cash distributions and recourse for repayment were adjusted to be less restrictive. As at December 31, 2011, the Company had advanced \$8,032,337 to the Namgis.

#### *Tenure*

The Orca General Partner, on behalf of the Orca Partnership, has executed a *profit à prendre* lease with WFP over its freehold land lying to the south and west of Port McNeill, which includes the East and West Cluxewe Deposits. The *profit à prendre* has been registered against title to the subject lands.

A *profit à prendre* is an agreement made by a landowner granting the right to the holder to enter the land of the grantor and to sever, take away and convert to the holder's own use a product of the land. The holder does not

obtain any right or interest in the subject product until it is severed from the land. A *profit à prendre* usually includes compensation payable to the grantor, a right of entry to the holder, and the right of the holder to use such surface land as is necessary and convenient to exercise the rights of access and removal.

In the case of the *profit à prendre* in respect of the East and West Cluxewe Deposits, the designated products are rock, stone and sand, and it provides the Orca Partnership with the right to access the deposits and remove rock, stone and sand therefrom. The term of the *profit à prendre* in respect of the East and West Cluxewe Deposits is for 10 years commencing March 1, 2005, with four separate consecutive options, exercisable by the Orca Partnership, to extend the term for further periods of 10 years each for a total of 50 years. This *profit à prendre* includes a right of entry and use of the necessary area of the surface land.

The East Cluxewe Deposit is subject to royalties payable by the Orca Partnership to WFP and the Kwakiutl together with a local community philanthropic fund beginning in 2012. Royalties totaled \$0.81 per tonne of construction aggregates sold upon commencement of operations in 2007 and are subject to certain inflation indexation provisions.

Title to the shiploader site is held under a 30-year foreshore lease with the Province of British Columbia entered into on May 1, 2006.

#### *Permitting*

Rights to operate the Orca Quarry are granted by Environmental Assessment Certificate M05-01 and Mine Permit G-225, both issued to Orca Sand & Gravel Ltd. by the Province of British Columbia in July 2005.

#### **Information from the Orca Report**

In 2008, the Company engaged Greg Kulla, P. Geo., Ryan Ulansky, P. Eng., and Vladimir Solodkin, P. Eng., of AMEC (each a "Qualified Person" as such term is defined in NI 43-101 and independent of the Company) to prepare an updated NI 43-101 compliant technical report on the Orca Project with an effective date of November 27, 2008 and revised on December 23, 2008 (together, the "Orca Report").

Unless stated otherwise, the information in this section is summarized, derived or extracted from the Orca Report.

Certain information under this heading "Orca Sand & Gravel Project" is based on assumptions, qualifications and procedures that are set out only in the Orca Report. For a complete description of assumptions, qualifications and procedures associated with the information in the Orca Report, reference should be made to the full text of the report that is available for review on the Company's website or under the Company's profile on the System for Electronic Document Analysis and Retrieval (SEDAR) located at the website [www.sedar.com](http://www.sedar.com).

#### **Property Description and Location**

The Orca Quarry produces high-quality construction aggregates from a large sand and gravel resource for export to the coastal city markets of North America, particularly California, Vancouver and Hawaii. A production capacity of approximately six million metric tonnes per annum is presently permitted, with all products leaving the site in large ocean-going bulk carriers (Panamax class or similar) or barges that are loaded at a dedicated facility constructed on the adjacent foreshore.

The Orca Quarry site is approximately 4 km west of Port McNeill, Vancouver Island, British Columbia, and covers approximately 350 ha of land that was clear-cut logged 45 to 65 years ago. Construction aggregate produced from sand and gravel is a natural material benign to the environment. The production process of construction aggregates utilizes only physical processes, principally crushing, sizing, and washing, although small quantities of flocculants may be used to remove sediments from process wash water. Aggregates are the principal constituents of all forms of concrete and asphalt, and their wide range of applications makes them fundamental to providing

homes, highways, schools, hospitals, and virtually all the facilities and infrastructure necessary to support modern society.

### **Accessibility, Climate, Local Resources and Physiography**

The project pit at the East Cluxewe Deposit is located northwest of Port McNeill, British Columbia, on northern Vancouver Island, British Columbia. Port McNeill is accessible from Vancouver via scheduled daily flights by Pacific Coastal Airlines to Port Hardy, 40 km northwest of Port McNeill, or via ferry to Nanaimo, British Columbia and a 3.5-hour drive north on Island Highway 19. The pit is approximately 4 km from Port McNeill and is accessible from both Highway 19 and a network of logging roads maintained by Island Timberlands and WFP. Port McNeill experiences cool, moist weather typical of northern Vancouver Island. Annual rainfall in neighbouring Port Hardy averages 1,766 mm per year, with the majority falling during the winter months from September to April. Annual temperatures at Port Hardy average 8° C. July and August are the warmest months, averaging 17° C highs. Winter lows average 0.2° C. Temperatures occasionally fall below freezing during winter, but not for prolonged periods. The quarry operates year round.

Traditionally, logging has provided the economic base of Port McNeill, but tourism and sport fishing are becoming larger employers to the community. These resources are supported by a diversity of other businesses such as restaurants, grocery, and general stores. The community has a population of 3,000 people that includes an existing, skilled resource-based industrial workforce. Power supply for the processing and shiploading facilities is provided from an existing power grid that borders the project on its north and eastern boundaries. This power line supplied power to the now-closed Island Copper mining operation, which was located in the Port Hardy area. No upgrading was required to supply power to the project.

Water for product washing and domestic use (non-potable) is obtained from wells drilled on the property.

Northern Vancouver Island consists of three major physiographic units: the Nahwitti Lowland, the Susquash Basin, and the Vancouver Island Mountains immediately to the south. The Nahwitti Plateau dominates the northern tip of Vancouver Island, principally to the west of the coastal area. It is characterized by low relief and a smoothed upland, remnants of a dissected Tertiary erosional surface that slopes northward towards Cape Scott.

The Susquash Basin is a triangular-shaped area along the eastern margin of the Nahwitti Lowland extending between Port Hardy and Port McNeill. It is characterized by gentle, rolling to level topography below 300 m elevation, with scattered uplands or hillocks. The lowlands are underlain by gently dipping Cretaceous-Age sedimentary rocks of the Nanaimo Group; the hillocks are made up of Triassic-Age sediments volcanics of the Vancouver Group. Erosion and glaciation of the soft Cretaceous sediments in the basin have produced the lowland topography. The uplands are mantled by colluvial and glacial moraine deposits. Thick Quaternary glacial fluvial and lacustrine deposits consisting of fluvial and glacial-fluvial sand and gravel and marine lacustrine clay mantle the eastern lowlands in the Port McNeill area. The glacial-fluvial sand and gravel deposits formed 9,000 to 12,000 years ago from the melting of the mountain glaciers to the south. The alluvial and glacial-fluvial sand and gravel deposits are up to 100 m thick in the Cluxewe River area and are the principal targets in the project area.

### **History**

The Orca pit and surrounding area have provided local resources of sand and gravel from several extraction operations. Within the proposed extraction boundary was the Hartford Pit which had been used as a sand and gravel resource by WFP. Quarry Lease No. 1407109, operated by the BC Ministry of Transportation, lies on the southern border of the Orca pit. On the western border is the OK Paving pit which processes sand and gravel as feedstock for an on-site asphalt plant. The historical production from these pits is not known, but all are under active use.

## **Geological Setting**

### *Regional Bedrock Geology*

In late Middle Triassic time a few hundred feet of black argillite and siltstone were deposited (Parson Bay Formation). Basaltic lava welled up, forming a diabase sill and dyke-complex between the older Paleozoic rocks and the recently deposited Middle Triassic siltstones. Basalt was also sub-aqueously extruded in large quantities forming pillow-lavas. As the water dropped and the area became shallow and subject to wave action, close packed pillow-lavas were replaced by pillow-breccias and sub-aqueous tuffs. Eventually the volcanic shield rose above the water and basaltic flows, with vesicular tops and bottoms, erupted and reached a maximum thickness of about 3,000 m (Karmutsen Formation). In early Jurassic time, renewed island arc-type volcanism occurred and formed the Bonanza Volcanics. Volcanism was confined mainly to the southwestern part of the basin and/or to the outer arc where andesitic to rhyodacitic lava, tuff and breccia erupted, and intercalated with marine clastic sediments. Volcanism was coupled with major plutonic activity. Plutonism ceased in middle to late Jurassic time. Uplift and erosion followed in late Jurassic time and clastic wedges were laid down on the outer shelf. Farther ocean-ward, flysch-type sedimentation occurred on the continental slope, or slope of the outer island arc and in a trench west of the arc. Successively overlapping sediments show the eastward transgression of shelf sedimentation in early Cretaceous time. By late Cretaceous time the outer shelf emerged and sedimentation shifted to a northeasterly inner basin with varying marine, delta and lagoon conditions. Bedrock outcrops with and without colluvial veneers are common in the high relief areas south of Port Hardy and in the northwest and southwest corners of the project region, respectively. Scattered outcrops also occur in the highland area south of Port McNeill. The structure of the project region is dominated by block faults and exhibits a medial north northwest trending arch, flanked by fault blocks with outward dipping strata. The entire region is crisscrossed by irregular sets of steep to vertical faults of normal or strikeslip, but largely unknown, displacements. These blocks are divided by the Brooks Fault Zone into southeastern and northwestern groups.

### *Local Geology*

The Susquash Basin borders these blocks on the northeast, and the Pacific Rim block forms the continental slope on the southwest. The Orca Quarry is located at the convergence of several major faults and fault zones. It is underlain by Upper Cretaceous Nanaimo Group sediments, overlying Karmutsen lavas and is pierced by several later Tertiary volcanic structures. The local area is chiefly underlain by the Vancouver Group, consisting of a basal Middle Triassic sediment-sill unit, a thick pile of Triassic basaltic volcanics (Karmutsen Formation), Upper Triassic carbonate, pelitic and volcanoclastic sediments (Quatsino and Parson Bay Formations), and a Lower Jurassic sequence of basaltic to dacitic effusive and pyroclastic volcanics with minor intercalated sediments (Bonanza Subgroup).

### *Property Geology*

The East Cluxewe Deposit rests on flat-lying bedrock of Cretaceous-Age sediments of the Nanaimo Group. The sedimentary bedrock consists principally of coarse sandstone grit with minor inter-bedded shales and coal horizons. The sediments have been intruded by a small andesite body which is exposed in a rock quarry on the east side of the Cluxewe River. It was also intercepted at the bottom of two drill holes. This intrusive body is one of a series of Tertiary-Age intrusives that were emplaced along a northeast structural trend through the northcentral part of Vancouver Island.

The sand and gravel deposit is overlain by overburden material consisting of Podzolic soils that are formed under cold and temperate coniferous forests from the degradation of needles. Overburden material thickness is in the order of 1 m to 2.5 m. The sand and gravel deposit consists of two clearly definable horizons labeled Stratum A (upper) and Stratum B (lower). Material in Stratum A is a mixture of coarse aggregate with fine aggregate in the interstitial spaces. Stratum B is represented by fine to medium sand. The sand and gravel deposit is well exposed in 12 pits and road cuts along its 11,000 m length. A third horizon labeled Stratum C (lowest) was identified which consisted of a very fine sand and silt. This stratum contains silt or fines in excess of 40% and is considered to have

no economic value and therefore does not form part of the resource. The sand and gravel is composed predominantly of volcanic material with minor granitic material, dark dyke rock, limestone, and metamorphic material.

### *Deposit Types*

The East Cluxewe Deposit is a well-sorted, fluvio-glacial sand and gravel deposit that reflects a regressive depositional environment. The upper layers consist of approximately 40 m of coarse sands and gravels. This is followed by a layer of predominantly medium and fine-grained sands with minor coarse sand and silts. This middle layer ranges from 22 m thick on the eastern edge of the deposit to almost no thickness at all on the west side near local bedrock highs. Below this is a lower layer of very fine sands and silts.

### **Mineralization**

The East Cluxewe Deposit is situated between the Cluxewe River to the west and Highway 19 to the east and a British Columbia government quarry to the south. The deposit trends northwest and is approximately 3,000 m long and 1,000 m wide and has an average thickness of 60 m. Extensions of the deposit to the northwest and to the southeast are evidence in existing pits and exploration drill holes.

Two reasonably contiguous and homogenous economic horizons have been identified within the East Cluxewe deposits. Stratum A, material in the upper horizon, is approximately 40 m thick and is a mixture of coarse aggregate with fine aggregate in the interstitial spaces. Stratum B, the lower horizon, ranges from 22 m thick on the eastern edge of the deposit to almost no thickness at all on the west side near local bedrock highs and is a mixture of fine to medium sand. The sand and gravel are composed predominantly of volcanic material comprised of approximately 70% granite and 30% metamorphic material. Stratum C, a third and the lowest horizon identified consists of a very fine sand and silt. Stratum C contains silt or fines in excess of 40% and is considered to have no economic value.

### **Exploration and Drilling**

From May to October 2003, a detailed program of road building, line cutting, mapping, surface sampling, and shallow seismic was carried out. The seismic program was undertaken by Frontier Geosciences Inc. ("Frontier"), of North Vancouver, British Columbia. Frontier was also responsible for the interpretation of the results. During May and June 2003, Frontier completed a total of approximately 10 km of seismic refraction survey involving 15 separate seismic lines. On the East Cluxewe Deposit, 11 seismic lines were laid out in an east-west, sub-parallel arrangement at approximate spacing of 250 to 300 m apart. Three lines were run on the smaller West Cluxewe Deposit. One line was run near a gravel pit approximately 1.5 km east of the main East Cluxewe area.

Polaris conducted a drilling program on the Orca Quarry from September 19 to 29, 2003. Polaris established the hole locations after consultation with Beck & Associates Geo-consultants Inc. and a review of the exploration seismic data. The goal was to improve upon the geological interpretation of the deposit and obtain representative samples for quality analysis.

In 2008, a 24-line kilometer high resolution resistivity survey was completed by Golder and Associates in the East Cluxewe Extension areas southeast of the East Cluxewe pit. Confirmation and exploration drilling was also completed in 2008 within the East Cluxewe pit, at the West Cluxewe target to the northwest and the East Cluxewe Extension lands to the south. This geophysical program and new drilling within the West Cluxewe and East Cluxewe Extension areas were not reviewed by AMEC and were considered to have no impact on the East Cluxewe resources.

In 2008, Orca completed 969.4 m of reverse circulation drilling in 35 holes. Seven holes were drilled as infill holes along the western flank of the East Cluxewe resource area. Analytical results from the 2008 drill program were completed at the writing of the Orca Report but have not been reviewed. AMEC examined drill logs and sample

material from these holes and concludes that the 2008 drilling in the East Cluxewe resource area has confirmed the interpretation as presented in the geologic model. If included in an updated mineral resources estimate these holes would likely allow reclassification of some Indicated material to Measured but will not result in a reduction or addition to the resource tonnage estimated in 2005. Ten exploration holes were drilled at the West Cluxewe area, 14 were drilled in the East Cluxewe Extension area and four were drilled in the Cougar area. All holes were vertical. These holes will not impact the East Cluxewe resource estimate.

## **Sampling, Analysis and Data Verification**

### *Sampling*

Samples used for deposit evaluation include surface grab samples and reverse circulation drill hole samples. Surface grab sampling was primarily used for reconnaissance mapping purposes to focus the search to a specific gravel and sand deposit in the area. This was followed up by the detailed sampling from the reverse circulation drill holes on the East Cluxewe Deposit. Polaris established a standardized procedure for recovering, collecting, logging (recording), and representatively sampling the material from the reverse circulation drilling program.

One set of 3.1 m (10 ft) individual samples and the 16.8 m (60 ft) composite samples were shipped to laboratories in Burnaby and Surrey, British Columbia for analysis work. The other sets were retained at a warehouse in Port McNeill. No special security measures were taken for loading and transporting the samples to the laboratories other than those for normal freight transport. Samples were transported from the Port McNeill warehouse to the laboratories in Vancouver by a contracted highway trucking firm.

### *Analysis*

All of the 3.1 m (10 ft) individual samples and the 16.8 m (60 ft) composite samples were sent to AMEC Earth and Environment's geotechnical testing laboratory in Burnaby, British Columbia. Additional testing on the composite samples were performed at Golder Associates' material laboratory in Surrey, British Columbia. All tests performed are standard tests of the American Society for the Testing of Materials ("ASTM") or the California Department of Transportation ("Caltrans").

During 2007, Caltrans submitted samples of Orca aggregates to Kleinfelder Laboratories in Pleasanton, California, for testing by the ASTM C-1260 method, Potential Alkali Reactivity of Aggregates. Kleinfelder Laboratories reported the results for both coarse and fine aggregates were "innocuous". These results formed the basis for Orca aggregates being approved for use in reduced mineral admixture concrete in California.

### *Data Verification*

AMEC technical staff visited the Port McNeill office/warehouse and the East Cluxewe Deposit site on August 11, 2005 and August 21, 2008. During the 2008 visit, the processing facilities, stockpiles and Cluxewe pit excavation site and drill sites were reviewed. Old and new drill sites were accessed to confirm activity had taken place. The reported locations of the 2008 holes were determined by handheld GPS and have been re-surveyed by a professional land surveyor in September 2008. In general, the holes were determined to be situated as reported on drill plans. In addition, the access road cuts were examined to confirm the generally thin cover of soils above the gravel deposit.

In 2005 and in 2008, AMEC opened several of the five gallon retained sample and composite pails. Material was checked for mineralogy, and the size distribution was noted and compared to the sample interval reported on drill logs. This helped verify the premise that the coarser gravel material was at shallower depths than the finer sand material. Also, the sample tag information was compared to the information written on the outside of each pail. This information matched for all pails examined.

## **Security of Samples**

No special security measures were taken for loading and transporting the samples to the laboratories other than those for normal freight transport. Samples were transported from the Port McNeill warehouse to the laboratories in Vancouver by a contracted highway trucking firm, Overland Freight Lines Ltd. of Victoria, British Columbia. All sampling was carried out by the Company's staff.

The sampling, sample preparation, security and analytical procedures meet industry standards and sample results are considered suitable for use in resource estimation. In addition, production since February 2007 has met expectations as modeled in the 2005 resource estimate and further validates the sampling.

## **Mineral Resources and Mineral Reserves Estimates**

### *Mineral Resources*

In 2005, AMEC prepared a feasibility study outlining the mineral resource and reserve estimate at the East Cluxewe Deposit. Since 2005, the Company has completed construction of the processing and shiploading facilities and has begun production. In 2008, AMEC prepared an updated feasibility study as part of the Orca Report. Supporting documentation on market, supply contracts, receipts for product sales and operating costs demonstrate the mineral resources outlined in the 2005 feasibility study are economically mineable, which is a requirement to meet the definition of mineral reserve as stated under CIM Definition Standards for Mineral Resources and Mineral Reserves, and which are incorporated by reference in NI 43-101. After conversion of resources to reserves, the remaining resources are zero.

### *Mineral Reserves*

The reserves represent sand and gravel aggregate of a quality suitable for concrete applications. The following factors were used in determining reserves for the East Cluxewe Deposit:

- 2.01 In Situ Specific Gravity;
- 2% loss at the contact with the soils and subsoils; and
- 3% loss of fine material (silt) as determined from the mine scheduling material balance. The AMEC process plant feasibility study, April 2005, estimated 4% silt material.

Volumes were constrained within a conceptual pit above the water table and classification was established by distance from nearest data point. Material lying within 300 m of a drill hole data point and within the pit boundary is classified as Proven. All other material within the pit boundary is classified as Probable.

The reserves figures of the Orca Quarry are set out in the table below. For a complete description of assumptions, qualifications and procedures associated with the information in the Orca AMEC Report, reference should be made to the full text of the report that is available for review on the Company's website and on SEDAR at [www.sedar.com](http://www.sedar.com).

<u>Name</u>	<u>Tonnage (mt)</u>		
	<u>Probable Reserves</u>	<u>Proven Reserves<sup>(1)</sup></u>	<u>Proven &amp; Probable Reserves</u>
East Cluxewe Deposit			
Stratum A (Coarse Aggregate).....	16.6	78	94.6 <sup>(2)</sup>
Stratum B (Fine Aggregate).....	6.5	20.5	27 <sup>(3)</sup>
Total.....	23.1	98.5	121.6

**Notes:**

- (1) The mineral reserves have been categorized in accordance with the classifications defined by CIM. Mineral reserves are a subset of the mineral resource numbers. The two quantities cannot be added together or combined in any way and do not take into consideration depletion due to production at the Orca Quarry in 2007 and 2008.
- (2) Represents 77.8% of the total.
- (3) Represents 22.2% of the total.

Since production began, the East Cluxewe reserves have been depleted by mining by 7.89 million tonnes. After processing, the amount of saleable product is calculated at 6.10 million tonnes. A summary of the production from East Cluxewe as of December 31, 2011 is as follows:

<u>Material Processed</u>	<u>Sand Produced</u>	<u>Small Gravel Produced</u>	<u>Large Gravel Produced</u>	<u>Total Production</u>	<u>Percentage Sand</u>	<u>Percentage Small Gravel</u>	<u>Percentage Large Gravel</u>	<u>Percentage Process Loss</u>
7,894,140	4,406,901	1,630,260	1,633,173	7,670,333	58%	21%	21%	3%

**Note:**

Sand, small gravel and large gravel percentages measured relative to total production. Process loss measured relative to material processed.

**Mining Operations**

Construction of the Orca Quarry was completed in February 2007 for an overall budget of US\$53 million, including the marine shiploading terminal, and production began that same month. Three 24 cubic metre tandem-powered self-loading scrapers excavate run-of-pit materials. A single tracked dozer supports the scrapers by developing the initial access across and down the production face for each phase of extraction which are approximately 30 m wide established on a downward gradient traversing the production face. To maintain a balanced production face, access to sequenced phases alternate between the established return routes located on the east and west extraction limits of the pit. A front-end loader is used to recover bench remnants and clean up spilled materials.

*Material Processing*

The materials handling portion of the project consists of a receiving hopper equipped with a grizzly screen to prevent large boulders from passing onto the field-collecting conveyor. This hopper receives “as-dug” sand and gravel excavated from the working face by the scrapers. In later years, the receiving hopper will be relocated, and additional collecting conveyors will be installed to suit the mine plan. The field conveyor system transports the sand and gravel from the hopper onto a surge storage stockpile ready for processing.

The processing of the sand and gravel is relatively simple. It consists of screening to separate the individual particle sizes, crushing of oversize gravel that is larger than 25 mm, followed by washing of the products. Material is reclaimed from the run-of-pit storage stockpile by feeders and conveyors mounted in a multi-plate reclaim tunnel to feed the necessary screens, crusher, and sand washing system. Fine material (silt), which is removed during the washing process, is sent to a thickener tank and filter press system where it is collected and eventually used in the site reclamation.



The various products are loaded aboard a ship at a maximum rate of 4,500 tonnes per hour. The products, ready for shipment, are stacked in four stockpiles, one for large gravel (25 mm x 12.5 mm), one for small gravel (12.5 mm x 4.75 mm), and two for concrete sand (minus 4.75 mm). Each stockpile has an estimated live capacity of 30,000 tonnes with a total capacity of approximately 120,000 tonnes per pile. Three belt or gravity gate feeders under each stockpile withdraw the gravel and sand and feed a common reclaim conveyor running through a multi-plate reclaim tunnel beneath the product stockpiles. Any one of the belt or gate feeders under each stockpile can deliver 1,000 tonnes or more per hour. The reclaim conveyor carries the products from the reclaim tunnel onto the overland conveyor system that terminates at the shiploader. A service road runs along the length of the surface-mounted conveyors from the end of the reclaim tunnel to the shore.

#### *Reclamation*

Reclamation of the pit will be progressive, and has commenced with the first portion of the ultimate pit wall being reclaimed. As progressive reclamation continues, the soils salvaged ahead of the mining advance will be hauled directly to areas ready for reclamation. Progressive reclamation will keep the total area under disturbance to a minimum.

#### *Production Forecasts*

The Orca Quarry was designed and permitted to produce up to six million tonnes of sand and gravel per year, operating on a two-shift basis, with an operating life of approximately 25 years. However, the 2008 Orca AMEC Report confirmed that if operations are extended to a 24/7 basis, the capacity of the existing processing plant should be 8.7 million metric tonnes per annum. To achieve this increased production, the Company will need to obtain a revised mine permit, however, management believes that changing the permit will not be unduly difficult. Production will be entirely dependent upon the demand for the Company's products.

#### *Financial Analysis*

AMEC reviewed the Orca Project cash flow forecasts at the time of the AMEC Report, details of which are set out in the AMEC Report.

The results of the AMEC financial analysis of the Orca Project are based on certain underlying assumptions made when the report was prepared in 2008. Such underlying assumptions may no longer be reasonable and, therefore, undue reliance should not be placed on the results of the AMEC financial review. See "Risk Factors".

### **Environmental and Mine Permits**

#### *Environment*

The Canadian Environmental Assessment Agency's Comprehensive Study Report, dated June 30, 2005, concluded that "Based on the information contained in the Application; communications with agencies and First Nations, and the public; and the Proponent's responses and commitments, the responsible authorities concluded that the Project is not likely to cause any significant adverse environmental effects." On October 5, 2005, the Federal Minister of the Environment issued his Decision Statement concluding "No additional information is necessary and that there are no public concerns that need to be further addressed."

The British Columbia Environmental Assessment Office issued Environmental Assessment Certificate M05-1 on July 14, 2005. Schedule B of this certificate, the Compendium of Proponent Commitments, outlines proponent requirements during construction, operation, and closure of the project, addressing: project design, vegetation, reclamation, wildlife, groundwater, rivers and creeks, marine water quality, marine fish habitat, marine species, air quality, viewshed, noise, employment, archaeology, First Nations, and safety. See "Risk Factors".

### *Mine Permit*

The BC Mines Permit G-225, issued July 28, 2005, outlines the conditions for the reclamation program. A security bond totaling \$1 million was required which the Company has paid.

### **Production Tonnage**

The Orca Report stated that as at August 25, 2008, a total of 2.88 million tonnes of saleable sand and gravel products had been produced. Subsequent to the Orca Report annual productions are verified by the Company's Vice President of Operations (formerly the Vice President of Technical Services) who is considered to be a Qualified Person for this purpose. At December 31, 2011 the total of saleable products produced from the East Cluxewe Deposit, since operations began, was 7.89 million tonnes.

## **EAGLE ROCK QUARRY PROJECT**

### **History of the Eagle Rock Quarry Project**

The Eagle Rock Quarry Project is comprised of a large granite deposit located on deep tidewater south of Port Alberni on Vancouver Island, British Columbia. It is located on land held by the Crown within the asserted traditional territories of the Hupacasath, Tseshaht, and Ucluelet First Nations.

In the fall of 2001, the Company entered into cooperation agreements with each of the Hupacasath First Nation (the "Hupacasath") and the Ucluelet First Nation (the "Ucluelet") and, in July 2002, the three parties entered into an unincorporated joint venture. In October 2002, the Company, the Hupacasath and the Ucluelet formed Eagle Rock Materials Ltd. ("Eagle Rock"), which holds all the interests in the Eagle Rock Quarry Project. In 2001, the Company also invited the Tseshaht First Nation (the "Tseshaht") to participate in the Eagle Rock Quarry Project, but was unable to reach an agreement with them on the terms of a potential participation. The Company has kept its invitation open as it wishes the Tseshaht community to share in the socio-economic benefits of the project. The Company owns 70% of Eagle Rock, the Hupacasath and Ucluelet each indirectly own 10% and the remaining 10% is held in trust, and available for the Tseshaht, pursuant to the Eagle Rock Shareholders Agreement as defined below. The Hupacasath and Ucluelet assert shared aboriginal rights to the Eagle Rock Quarry Project site, while the Tseshaht assert exclusive aboriginal rights and title to the Eagle Rock Quarry Project site. The Company has adopted a neutral position electing to deal equally with all three First Nations.

In October 2002, Polaris, through its subsidiary Quality Rock Holdings Ltd., and subsidiaries of the Hupacasath and the Ucluelet, executed a shareholders' agreement (the "Eagle Rock Shareholders Agreement") governing the affairs of Eagle Rock. Also, Eagle Rock, the Hupacasath and the Ucluelet entered into an impact and benefits agreement. These agreements provide that Eagle Rock will seek to arrange the preparation of a feasibility study of the Eagle Rock Quarry Project. The Hupacasath and the Ucluelet have the right to each acquire half of the 10% interest held in trust for the Tseshaht if, after a certain time period after the feasibility study is approved by Eagle Rock, the Tseshaht choose not to participate in Eagle Rock. On the 25th anniversary of their equity contributions to the Eagle Rock Quarry Project development financing, each First Nation will have the one-time right to increase their ownership in Eagle Rock by 50%, by purchasing Eagle Rock shares from the Company for cash at fair market value.

### **Overview**

In 2003, the Company, through its subsidiary Eagle Rock Materials Ltd., received an Environmental Assessment Certificate and Mine Permit for a crushed granite aggregate quarry, located on deep tide water, with a permitted output of 6 million tonnes per year. The Company has continued to seek market outlets that would support the development of the facility to produce crushed rock construction aggregate products on site. Products would be

shipped in bulk carriers to coastal urban markets in the Pacific. The Company believes that demand for those products will develop in time but it is unlikely to be before there is a clear and sustained recovery in the industry in US coastal markets, particularly in California.

Eagle Rock holds a 50-year Crown lease for the quarrying of crushed rock and sand and gravel resources that covers 339 hectares. Eagle Rock has also applied for a foreshore lease from the Port Alberni Port Authority over a portion of the adjacent foreshore where the ship loading facility would be developed. The directors of the Port Alberni Port Authority have approved the lease, in principle, and the Port Authority, in turn, is in communication with its lessor, the Province of British Columbia, regarding the Company's foreshore lease application. Although the Company anticipates that it will enter into such foreshore lease, no definitive agreement has been reached in this regard and accordingly no assurance can be given that such agreement will be reached.

## **RISK FACTORS**

Investment in the securities of the Company involves a high degree of risk and should be regarded as speculative due to the nature of the Company's business. The Company has incurred losses and expects to incur further losses. Prior to making an investment in the Company's securities, prospective investors should carefully consider the information described in this Annual Information Form and documents incorporated by reference, including the risk factors set out below. Such risk factors could have a material adverse effect on, among other things, the operating results, earnings, properties, business and condition (financial or otherwise) of the Company.

### **The Company's operations will require further capital**

The quarrying, processing and development of the Company's properties and terminals, including the property at Berth D-44 in the Port of Long Beach and any future terminals which may be acquired and developed by the Company, will require substantial additional financing. Failure to obtain sufficient financing may result in delaying or indefinite postponement of development or production of the Company's properties and terminals or even a loss of those property interests. There can be no assurance that additional capital or other types of financing will be available if needed or that, if available, the terms of such financing will be favourable to the Company. Any future financing may be dilutive to existing shareholders.

### **Liquidity Risk, Going Concern and Financing**

Current global financial conditions have been subject to increased volatility and access to financial markets has been severely restricted. These factors may impact the ability of the Company to obtain equity or debt financing in the future and, if obtained, on terms favourable to the Company. If these increased levels of volatility and market turmoil continue, the Company's operations could be adversely impacted and the value and the price of the Common Shares could continue to be adversely affected.

During the year ended December 31, 2011, the Company incurred a net loss attributable to shareholders of \$17.8 million (2010 - \$13.1 million), had a negative cash flow from operations of \$6.7 (2010 - \$6.9 million), and as at December 31, 2011, has a deficit of \$101.0 million (2010 - \$83.2 million). At December 31, 2011 the Company had a working capital deficit of \$4.4 million. 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 lend 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 economic factors beyond the Company's control. These include: improvement in the general economic outlook; the recovery of demand for the Company's products, particularly in California; and access to capital markets. The previously expected recovery of demand in

the California market has not yet materialized. These market conditions continue to result in reduced revenue levels, 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 the Company's NCoA.

#### **Reliance on Certain Customers**

The Company generates the major proportion of its revenue, approximately 87% in 2011, from sales to two customers, Cemex and Shamrock. The ability of these customers to continue in business could have a material effect on the Company and no assurance can be given in that respect.

#### **The Company may not secure additional construction aggregates sales volumes and prices projected for the Orca Quarry**

The value and price of the Common Shares, the Company's financial results, and the Company's development and quarrying activities may be significantly adversely affected if the Company does not secure the sales volumes and prices of construction aggregates intended for the Orca Quarry. Demand for construction aggregates products in the Company's target markets fluctuates and is affected by numerous factors beyond the Company's control such as private sector residential and commercial construction, and public sector construction, including roads, bridges, services, and other infrastructure. The supply of construction aggregates to the Company's target markets may also fluctuate and may be affected by new or expanded local production, or supplies of construction aggregates brought into the target markets by road, rail or vessel. Depending on the sales volumes and prices of construction aggregates, cash flow from quarrying operations may not be sufficient and the Company could be forced to discontinue production and may lose its interest in, or may be forced to sell, some or all of its properties. Future production from the Company's Orca Quarry is dependent on applicable construction aggregates sales volumes and prices being sufficient to make materials extraction from the Orca Quarry economic.

In addition to adversely affecting the Company's financial condition, declining construction aggregates sales volumes and prices can impact operations by requiring a reassessment of the feasibility of the Orca Quarry. Such a reassessment may be the result of a management decision or may be required under financing arrangements related to the Orca Quarry. The need to conduct such a reassessment may cause substantial delays or may interrupt operations until the reassessment can be completed.

#### **The assumptions made in AMEC's financial analysis of the Orca Project may no longer be reasonable**

The financial analysis completed by AMEC of the Orca Project detailed in the AMEC Report relies on certain underlying assumptions which may no longer be reasonable as a result of the global economic recession since 2008. The analysis undertaken by AMEC was completed in 2008. The cash flow projections were based on various assumptions including assumptions on the capital costs, operating costs, production and sales volumes and sales revenues over the life of the project which were reasonable at the time the financial analysis was completed. Since 2008, the actual sales values suggest that these assumptions made may no longer be reasonable. Therefore, undue reliance should not be given to AMEC's financial analysis of the Orca Project.

#### **The Company must secure access to discharge points and additional shipping volumes for its products**

The Company's business plan includes discharges of Orca Quarry construction aggregates to barges, the Richmond Terminal and to Cemex through its Strategic Alliance with Cemex. Although the Company has access to certain terminals through its Strategic Alliance, there is no certainty that its strategic alliance will secure further joint terminals to meet the increasing deliveries and sales incorporated by the Company in its business plan. If the Company is unable to continue to secure access to additional discharge terminals, or acquire its own discharge terminals, its revenues, operations and financial condition could be materially adversely affected.

When the Eagle Rock Shareholders Agreement was entered into in 2002, it did not contemplate the construction or use of the Richmond Terminal or other terminals by third parties (including the Orca Partnership) prior to the

construction of the Eagle Rock Quarry Project. In addition, the Eagle Rock Shareholders Agreement did not contemplate the marketing, shipment and sale of construction aggregates from other projects prior to the commencement of operations at the Eagle Rock Quarry Project. Eagle Rock Aggregates, Inc., a subsidiary of Eagle Rock Materials Ltd., holds the Richmond Terminal Lease, the corresponding easement and facilities use agreements, and the Company's other potential port interests. Eagle Rock Aggregates, Inc. also holds the marketing interests of the Company and it is expected that it will continue to manage the Company's operations in the United States, including the shipment and sale of construction aggregates from the Orca Quarry.

The parties to the Eagle Rock Shareholders Agreement have been negotiating, and will continue to negotiate, the terms and conditions of an arrangement with respect to Eagle Rock Aggregates, Inc. and the financing, construction, and operation of the Richmond Terminal, and the purchase, shipping, distribution and sales of construction aggregates from the Orca Partnership. There is no certainty when or if an agreement will be reached.

The Company's NCoA has sufficient volume capacity to transport approximately 5.787 million short tons of construction aggregates per annum by 2017. To achieve the anticipated sales from the Orca Quarry and the Eagle Rock Quarry Project, the Company will have to secure additional shipping capacity. If the Company is unable to secure the additional shipping volumes, or fails to meet the contracted annual minimum volumes, its revenues, operations and financial condition could be materially adversely affected.

#### **The quarrying industry is competitive**

The quarrying industry is competitive and the Company faces strong competition from other quarrying companies, or prospective quarrying companies, in connection with the supply of construction aggregates to the Company's target markets. A number of these companies may have greater financial resources, operational experience and technical capabilities than the Company. As a result of this competition, the Company may be unable to maintain quarrying operations on terms it considers acceptable or at all. Consequently, the Company's revenues, operations and financial condition could be materially adversely affected.

#### **Government regulation and assessments may adversely affect the Company**

The Company's construction aggregates quarrying, processing, and development activities are subject to extensive laws governing prospecting, quarrying, development, production, taxes, labour standards and occupational health, quarry safety, waste disposal, toxic substances, land use, environmental protection and remediation, endangered and protected species, water use, aboriginal rights, land claims of First Nations and local people and other matters. No assurance can be given that new rules and regulations will not be enacted or that existing rules and regulations will not be applied in a manner which could limit, curtail or prevent production, development or exploration. Amendments to current laws, regulations and permits governing operations and activities of quarrying and exploration companies, or more stringent implementation thereof, could have a material adverse impact on the Company and cause increases in exploration expenses, capital expenditures or production costs or reduction in levels of production at producing properties or require abandonment or delays in development of new quarrying properties. Failure to comply with the conditions set out in any permit or failure to comply with the applicable statutes and regulations may result in orders to cease or curtail production, development or exploration.

During 2008, the Company and its subsidiaries were audited by the Consumer Taxation Branch of British Columbia. The focus of the audit was in relation to provincial sales tax on the Orca Project's construction costs. As a result, the Company incurred a British Columbia social services tax assessment, for the period May 2004 to December 2008, in the amount of \$659,616, which was partially offset by a refund of \$84,333. The Company disputed this assessment, the basis for which is the eligibility of the shiploading installation for the production machinery and equipment exemption available to mining companies such as the Company. In order to mitigate additional interest, the Company has paid the net amount due of \$575,283. During 2011 the Company received a further refund of \$94,638 that reduced the net amount to \$480,645 but the Company's appeal to the Provincial Ministry of Finance was denied. On June 3rd, 2011, the Company filed a petition in the BC Supreme Court seeking a judgment to have the funds returned and to recover its costs of process. Although the Company believes that it

has properly accounted for its tax liabilities, there are no assurances that the outcome of the court case will be in the Company's favour.

### **The Company's title to its properties may be subject to disputes or other claims including land title claims of First Nations**

Although the Company has exercised the usual due diligence with respect to determining title to properties in which it has a material interest, there is no guarantee that title to such properties will not be challenged or impugned. Title to and the area of resource claims may be disputed. The Company's construction aggregates property interests may be subject to prior unregistered agreements or transfers, aboriginal rights, or, in the case of the Orca Quarry, treaty rights, and title may be affected by undetected defects. There may be valid challenges to the title of the Company's properties, which, if successful, could impair their development and/or operations.

First Nations in British Columbia have made claims of aboriginal rights and title to substantial portions of land and water in the Province including areas where the Company's operations are situated, creating uncertainty as to the status of competing property rights. The Supreme Court of Canada has held that aboriginal groups may have a spectrum of aboriginal rights in lands that have been traditionally used or occupied by their ancestors; however, such aboriginal rights or title are not absolute and may be infringed by government in furtherance of a legislative objective, subject to meeting a justification test. However, a decision of the Supreme Court of Canada casts doubt on the Provincial Government's ability to justify infringements of treaty rights. Additionally, a case from the British Columbia Supreme Court calls into question whether the Province can justify an infringement of aboriginal title. The effect on any particular lands will not be determinable until the exact nature of historical use, occupancy and rights in any particular piece of property have been clarified. First Nations are seeking settlements including compensation from governments with respect to these claims, and the effect of these claims cannot be estimated at this time. The Federal Government and Provincial Government have been seeking to negotiate settlements with aboriginal groups throughout British Columbia in order to resolve many of these claims. Any settlements that may result from these negotiations may involve a combination of cash, resources, grants of conditional rights to gather food on public lands, and some rights of self-government. The issues surrounding aboriginal title and rights are not likely to be resolved by the Federal Government or Provincial Government in the near future.

In a landmark decision in 2004, the Supreme Court of Canada determined that there is a duty on government to consult with and, where appropriate, accommodate First Nations where government decisions may impact on claimed, but as yet unproven, aboriginal rights or title. This decision also provided much needed clarification of the duties of consultation and accommodation. The Court found that third parties are not responsible for consultation or accommodation of aboriginal interests and that this responsibility lies with government. However, government permits, including environmental and mine permits, will not be granted by provincial and federal agencies unless they are satisfied that the duty to consult and accommodate has been fully met. In 2005, the Supreme Court of Canada confirmed this duty exists with respect to claimed treaty rights. A decision of the Supreme Court of Canada casts doubt on the Provincial Government's ability to justify infringements of treaty rights.

The Tseshaht First Nation has asserted traditional rights and title over the Eagle Rock Quarry Project site. The Hupacasath First Nation and the Ucluelet First Nation, who are shareholders of Eagle Rock Materials Ltd., have also asserted traditional rights and title over the Eagle Rock Quarry Project site. The Company has agreed, pursuant to the Eagle Rock Shareholders Agreement, to seek the participation of the Tseshaht in the Eagle Rock Quarry Project. The Company has been engaged in negotiations with the Tseshaht, however, to date there has been no agreement with respect to any participation. The terms of any participation have not been agreed upon, and the Tseshaht may, therefore, seek to dispute the Company's title in the Eagle Rock Quarry Project, despite the fact that the Company has received the environmental assessment certificate for the Eagle Rock Quarry Project. Any such dispute could delay or, if resolved in a manner adverse to the Company, impair the development and operation of the Eagle Rock Quarry Project.

### **Quarrying involves a high degree of risk**

Quarrying operations involve a degree of risk. The Company's operations will be subject to all the hazards and risks normally encountered in the development and production of construction aggregates, including, without limitation, unusual and unexpected geologic formations, seismic activity, pit-wall failures, cave-ins, flooding and other conditions involved in the drilling and removal of material, any of which could result in damage to, or destruction of, quarries and other producing facilities, damage to life or property, environmental damage and legal liability. In addition to these risks stated above, processing operations are subject to various hazards, including, without limitation, equipment failure, labour disputes and industrial accidents. Should any of these risks occur, it may result in increased cost of production, delays, write-down of an industrial property, work stoppages, legal liability or injury or death to personnel, all of which may have an adverse effect on the Company's operations and financial condition.

### **Construction aggregates resources are estimates only**

There is no certainty that the construction aggregates resource represented at the Company's properties will be realized or that such resource can be economically quarried. Mineral resources, which are not mineral reserves, do not have demonstrated economic viability. Until a deposit is actually mined and processed, the quantity of construction aggregates resources must be considered as estimates only. There is a risk that the actual deposits encountered and the economic viability of the deposits may differ materially from the resource estimates. Any material change in quantity of construction aggregates resources may affect the economic viability of the Company's properties.

The volume of construction aggregates quarried and processed may not be the same as currently anticipated in the Company's resource estimates. Any material reductions in estimates of construction aggregates resources, or of the Company's ability to extract these construction aggregates, could have a material adverse effect on the Company's results of operations and financial condition.

### **Currency fluctuations may adversely affect the Company's revenues**

The effects on operating revenues and, hence, on cash flows, of the foreign exchange rate and the escalation of the Canadian dollar against the U.S. dollar are significant. The Company does not currently have any intention to enter into hedging contracts in connection with foreign currencies. The appreciation of the Canadian dollar against the U.S. dollar would increase Canadian dollar costs, due to stronger Canadian dollars being converted into U.S. dollars, and could materially and adversely affect the Company's U.S. dollar-reported operational profitability and financial condition.

### **The Company currently depends on a single property**

The Company's only material mineral producing property is the East Cluxewe Deposit. Unless the Company acquires or develops additional material properties or projects, the Company will be solely dependent upon the operation of the Orca Quarry for its revenue and profits, if any.

### **The actual costs of reclamation are uncertain**

The actual costs of reclamation included in the Company's plan for the Orca Quarry are estimates only and may not represent the actual amounts required to complete all reclamation activity. It is not possible to determine the exact amount that will be required, and the amount that the Company is required to spend could be materially different than current estimates. Reclamation bonds or other forms of financial assurance represent only a portion of the total amount of money that will be spent on reclamation over the life of the operation of the Orca Quarry. Although the Company has included estimated reclamation amounts in its plan for the Orca Quarry, it may be necessary to revise the planned expenditures, and the operating plan for the Orca Quarry, in order to fund

required reclamation activities. Any additional amounts required to be spent on reclamation may have a material adverse affect on the Company's financial condition and results of operations.

#### **The Company will require other construction aggregates resources in the future**

According to the Orca Report, the Orca Quarry has an estimated quarry life of 17 years, which may not prove to be accurate. Because quarries have limited lives based on proven and probable construction aggregates reserves, in the longer term, the Company will have to replace and expand its construction aggregates resources as the Orca Quarry depletes. The Company's ability to maintain or increase its annual production of construction aggregates will be dependent almost entirely on its ability to bring new quarries into production.

There is, however, a risk that depletion of reserves will not be offset by future discoveries of mineral reserves. Exploration for minerals is highly speculative in nature and the projects involve many risks. Many projects are unsuccessful and there are no assurances that current or future exploration programs will be successful. Further, significant costs are incurred to establish mineral reserves and to construct mining and processing facilities. Development projects have no operating history upon which to base estimates of future cash flow and are subject to the successful completion of feasibility studies, obtaining necessary government permits, obtaining title or other land rights and availability of financing. In addition, assuming discovery of an economic reserve, depending on the type of mining operation involved, many years may elapse from the initial phases of drilling until commercial operations are commenced. Accordingly, there can be no assurances that the Company's current work programs will result in any new commercial mining operations or yield new reserves to replace and/or expand current reserves.

#### **The Company's operations are subject to environmental risks**

All phases of the Company's operations are subject to Federal, Provincial and local environmental regulation in the various jurisdictions in which it operates which could potentially make operations expensive or prohibit them all together. These regulations mandate, among other things, the maintenance of air and water quality standards and land reclamation. They also set forth limitations on the generation, transportation, storage and disposal of solid and hazardous waste. Environmental legislation is evolving in a manner which will require stricter standards and enforcement, increased fines and penalties for non-compliance, more stringent environmental assessments of proposed projects and a heightened degree of responsibility for companies and their officers, directors and employees. There is no assurance that future changes in environmental regulation, if any, will not adversely affect the Company's operations or prevent operations all together. Environmental hazards may exist on the properties on which the Company holds and will hold interests which are unknown to the Company at present and which have been caused by previous or existing owners or operators of the properties.

Government approvals and permits are currently, and may in the future be, required in connection with the Company's operations, which could potentially make operations expensive or prohibit them altogether. To the extent such future approvals are required and not obtained, the Company may be curtailed or prohibited from restarting or continuing its quarrying operations or from proceeding with planned exploration or development of construction aggregates properties.

Failure to comply with applicable laws, regulations and permitting requirements may result in enforcement actions thereunder, including orders issued by regulatory or judicial authorities causing operations to cease or be curtailed, and may include corrective measures requiring capital expenditures, installation of additional equipment, or remedial actions. Parties engaged in quarrying operations or in the development of construction aggregates properties may be required to compensate those suffering loss or damage by reason of the quarrying activities and may have civil or criminal fines or penalties imposed for violations of applicable laws or regulations.



### **The Company does not insure against all risks**

The Company's insurance will not cover all the potential risks associated with a quarrying company's operations. The Company may also be unable to maintain insurance to cover these risks at economically feasible premiums. Insurance coverage may not continue to be available or may not be adequate to cover any resulting liability. Moreover, insurance against risks such as environmental pollution or other hazards as a result of exploration and production is not generally available to the Company or to other companies in the quarrying industry on acceptable terms. The Company might also become subject to liability for environmental occurrences pollution or other hazards which may not be insured against or which the Company may elect not to insure against because of premium costs or other reasons. Losses from these events may cause the Company to incur significant costs that could have a material adverse effect upon its financial condition and results of operations.

### **Certain groups are opposed to quarrying**

In North America there are organizations opposed to quarrying, particularly open pit quarries such as the Orca Quarry and the Eagle Rock Quarry Project. The Company believes it has the support of representatives from the community and First Nation groups nearest these quarries and from various levels of government in British Columbia having jurisdiction over these quarries. Although the Company believes that it is complying with all environmental laws and permitting obligations in conducting its business, there is a risk that those opposed to its operation at these quarries will attempt to interfere with the Company's operations, whether by legal process, regulatory process or otherwise. Such interference could have an impact on the Company's ability to operate its properties in the manner that is most efficient or appropriate, if at all, and any such impact could materially adversely affect the financial condition and results of operations of the Company.

### **The Company is dependent on its key personnel**

The Company is dependent upon certain of its executive management team. The loss of the services of its executive officers could have a material adverse effect on the Company. The Company's ability to manage its development and operating activities, and hence its success, will depend in large part on the efforts of its executive officers and other members of management of the Company. The Company faces intense competition for qualified personnel, and there can be no assurance that it will be able to attract and retain such personnel. The Company does not yet have in place formal programs for succession or training of management.

### **The Company's growth will require new personnel**

The Company initially experienced significant growth in its number of employees as a result of the development of its construction aggregate production and marine export business and may experience significant growth in the future as the Company develops its aggregate resource. The Company's ability to assimilate this new personnel will be critical to its performance. The Company will be required to recruit additional personnel and to train, motivate and manage its employees. The Company may also have to adopt and implement new systems in all aspects of its operations. There can be no assurance that the Company will be able to recruit or retain personnel required to execute its programs or to manage these changes successfully.

### **The Company may not meet minimum freight contract volumes**

The Company's freight contract, which was amended and restated in March 2010, provides for minimum annual volumes of construction aggregates that increase during the years of the contract. Subsequent to the restated contract, the parties agreed to certain further revised targets for the period 2011 – 2016, however, if the Company is unable to secure sufficient sales volumes to meet contracted or targeted minimum freight volumes, its revenues, operations and financial condition could be materially adversely affected.

### **The Company's directors and officers may have conflicts of interest**

Certain of the directors and officers of the Company also serve as directors, officers and/or significant shareholders of other companies involved in natural resource exploration and development and consequently there exists the possibility for such directors and officers to be in a position of conflict.

## **DIVIDENDS AND DISTRIBUTIONS**

The Company has never declared any cash dividends or distributions and does not have a dividend or distribution policy. The Company intends to retain all available funds, if any, for use in our business and does not anticipate declaring any dividends or distributions in the foreseeable future.

## **CAPITAL STRUCTURE**

The Company's authorized share capital consists of an unlimited number of Common Shares without par value as well as warrants as described below.

### **Common Shares**

The holders of Common Shares are entitled to one vote per share at all meetings of shareholders of the Company except for meetings at which only the holders of shares of another class or of a particular series are entitled to vote separately as a class or series. The holders of Common Shares are entitled to receive dividends if, as and when declared by the Company's Board of Directors. In the event of the dissolution, liquidation, winding-up or other distribution of our assets, such holders are entitled to receive on a pro-rata basis all of our assets remaining after payment of all of our liabilities. The Common Shares carry no pre-emptive or conversion rights. As of the date hereof, 53,397,102 Common Shares were issued and outstanding.

### **Warrants**

On November 17 and 19, 2010, in accordance the 2010 Bridge Loan Financing described previously, the Company issued to the lenders 625,000 common share purchase warrants, each warrant entitling the holder to purchase one Common Share for a five-year term and an exercise price of \$1.50 per warrant until November 17 or 19, 2015.

On March 3rd, 2012, in accordance with the 2012 Debt Refinancing described previously, the Company issued to subscribers of the New Notes, 13,200,000 2012 Warrants each exercisable at a price of \$0.44 until December 31, 2012, at \$0.50 per share until December 31, 2013, at \$0.55 per share until December 31, 2014, at \$0.60 per share until December 31, 2015 and at \$0.65 per share until December 31, 2016. Holders of the 2012 Warrants are not entitled to exercise any of the 2012 Warrants that would cause the holder to own in excess of 9.99% of the voting securities of the Company, taking into account the holder's direct and indirect ownership interest in the Company. The 2012 Warrants may be transferred by the holder in whole or in part under the terms of the 2012 Warrant certificate and in compliance with all applicable securities laws. The 2012 Warrants are subject to a hold period under securities laws until July 2, 2012.

### **Incentive Stock Option Plan**

The Company's Incentive Stock Option Plan (the "Option Plan"), which is summarized below, was last amended and restated as of May 16, 2006 and was reconfirmed by shareholders, in accordance with the policies of the TSX, at the 2009 Annual General Meeting of the Company which took place on June 4, 2009.

The purpose of the Option Plan is to attract and retain superior directors, officers, advisors, employees and other persons or companies engaged to provide ongoing services to the Company as incentive for such persons to put forth maximum effort for the continued success and growth of the Company and, in combination with these goals, to encourage their participation in the performance of the Company.

The Option Plan reserves a maximum of to 10% of the issued and outstanding common shares for issuance on the exercise of options granted under the Option Plan. As of the date hereof, 3,776,709 options have been granted under the Option Plan to purchase 3,776,709 Common Shares (representing approximately 7.1% of the issued and outstanding Common Shares as of the date hereof). Options which have expired, were cancelled or otherwise terminated without having been exercised, and those which have been exercised are available for subsequent grants under the Option Plan.

The Option Plan provides that the Board of Directors may from time to time grant options to acquire all or part of the Common Shares subject to the Option Plan to directors, officers, advisors, employees and other persons or companies engaged to provide ongoing services to the Company. The options are non-assignable and non-transferable otherwise than by will or by laws governing the devolution of property in the event of death. Each option entitles the holder to one Common Share. The exercise price for options granted pursuant to the Option Plan is determined by the Board of Directors on the date of the grant, which price may not be less than the market value. Market value is defined under the Option Plan as the closing price of the Common Shares on the TSX on the trading day immediately preceding the grant day and if there is no closing price, the last sale prior thereto. The term of the options granted is determined by the Board of Directors, which term may not exceed a maximum of ten years from the date of the grant. The Board also has the authority to determine the vesting conditions of the options, and certain other terms and conditions of the options. Options granted under the Option Plan may be exercised as soon as they have vested. The Option Plan does not contemplate that the Company will provide financial assistance to any optionee in connection with the exercise of options.

In accordance with the rules of the Option Plan and the TSX, options granted under the Option Plan are subject to certain restrictions which include:

1. the number of Common Shares which may be issued pursuant to the Option Plan (or any other employee related plan or options for services) to any one person in any one year may not exceed 5% of the Common Shares issued and outstanding on a non-diluted basis from time to time;
2. the number of Common Shares which may be reserved for issuance pursuant to the Option Plan (or any other employee-related plan or options for services) to all insiders of the Company may not exceed 10% of the issued and outstanding Common Shares on a non-diluted basis from time to time; and
3. the number of Common Shares which may be issued pursuant to the Option Plan (or any other employee related plan or options for services) to all insiders of the Company within a one-year period may not exceed 10% of the issued and outstanding Common Shares on a non-diluted basis from time to time.

An optionee whose employment with the Company is terminated as a result of retirement, disability or redundancy will have 60 days from the date of termination to exercise any options that had vested as of the termination date. An optionee whose employment with the Company is terminated, other than for cause, at any time in the six months following a change of control of the Company shall have 90 days from the date of termination to exercise any option granted, and all options granted will immediately vest on the date of the termination. In the event of the death of an optionee, either prior to termination or after retirement or disability, the optionee's legal representative will have one year from the date of the optionee's death to exercise any options that had vested on the date of the optionee's death. In the event of any other termination, the optionee

shall have 30 days from the date of termination to exercise any options that had vested on the termination date. In the event that an optionee is terminated for cause, any options not exercised prior to the termination shall lapse.

In the event that we:

- a. subdivide, consolidate, or reclassify our outstanding Common Shares, or make another capital adjustment or pay a stock dividend, the number of Common Shares receivable under the Option Plan will be increased or decreased proportionately; and
- b. amalgamate, consolidate with or merge with or into another body corporate, holders of options under the Option Plan will, upon exercise thereafter of such option, be entitled to receive and compelled to accept, in lieu of Common Shares, such other securities, property or cash which the holder would have received upon such amalgamation, consolidation or merger if the option was exercised immediately prior to the effective date of such amalgamation, consolidation or merger.

Subject, where required, to the approval of the TSX, and/or applicable securities regulatory authorities, the Board may from time to time, amend, suspend or terminate the Option Plan in whole or in part.

In addition, the Option Plan and any outstanding options may be amended or terminated by the Board if the amendment or termination is required by any securities regulatory authority, a stock exchange or a market as a condition of approval to a distribution to the public of the common shares or to obtain or maintain a listing or quotation of the common shares.

The Board may also amend or terminate any outstanding options, including, but not limited to, substituting another award of the same or of a different type or changing the date of exercise; provided, however, that the holder of the Option must consent to such action if it would materially and adversely affect the holder.

A copy of the Option Plan may be obtained by any shareholder by request to the Secretary of the Company at Suite 2740, PO Box 11175, 1055 West Georgia Street, Vancouver, BC, V6E 3R5, telephone number (604) 915-5000.

#### **Shareholder Rights Plan**

The Company does not have a shareholder rights plan.

## MARKET FOR SECURITIES

### *Trading Price and Volume*

As of the date hereof, the Common Shares are listed and posted for trading on the TSX under the symbol "PLS". The following sets out the price range and volumes traded or quoted on the TSX on a monthly basis for each month since the beginning of the Company's last completed financial year:

Month	High (\$)	Low (\$)	Close (\$)	Volume
<b><u>2012</u></b>				
February	0.59	0.50	0.52	942,722
January	0.63	0.26	0.58	810,191
<b><u>2011</u></b>				
December	0.35	0.23	0.27	974,090
November	0.48	0.20	0.35	7,088,619
October	0.50	0.31	0.31	3,955,667
September	0.83	0.50	0.50	374,113
August	0.98	0.76	0.80	187,405
July	0.89	0.81	0.85	153,688
June	1.00	0.77	0.85	470,110
May	1.15	0.85	0.94	528,527
April	1.24	1.10	1.15	230,120
March	1.45	1.16	1.20	465,850
February	1.53	1.12	1.35	713,658
January	1.61	1.17	1.20	499,701

Until their expiry on January 10, 2011, the Warrants were listed and posted for trading on the TSX under the symbol "PLS.WT".

### *Prior sales*

During the most recently completed financial year, being the year ended December 31, 2011, a total of 1,015,000 incentive stock options were granted on June 17, 2011, under the Option Plan, as described previously, with an exercise price of \$0.94 per share and an expiry date of June 17, 2027.

On March 2, 2012 the Company issued 13,200,000 2012 Warrants in connection with the issuance of the New Notes under the terms of the New Notes Purchase Agreement exercisable at a price of \$0.44 per share until December 31, 2012, at \$0.50 per share until December 31, 2013, at \$0.55 per share until December 31, 2014, at \$0.60 per share until December 31, 2015 and at \$0.65 per share until December 31, 2016.

## DIRECTORS AND OFFICERS

The Company's directors are elected by the shareholders at each annual meeting and typically hold office until the next annual meeting at which time they may be re-elected or replaced. Casual vacancies on the Board are filled by the remaining directors and the persons filling those vacancies hold office until the next annual general meeting at which time they may be re-elected or replaced. The officers are appointed by the Board and hold office at the pleasure of the Board.

The following table sets forth the names and municipality, province and country of residence of all executive officers and directors, the positions and offices held by such persons, their principal occupations, together with the number of Common Shares held, directly or indirectly or over which control or discretion is exercised. Collectively, as of the date hereof the directors and executive officers of the Company, as a group, own 624,875 Common Shares (3,197,917 on a fully diluted basis), representing approximately 1.2% (6.0% on a fully diluted basis) of the issued and outstanding Common Shares.

<b>Name, Municipality of Residence and Present Position with the Company</b>	<b>Date Became a Director/Officer</b>	<b>Principal Occupation</b>	<b>Common Shares Held</b>
HERBERT G.A. WILSON Vancouver, B.C. Director, President & Chief Executive Officer	July 13, 2002	President & Chief Executive Officer of the Company since January 1, 2009; Previously Senior Vice President & Chief Operating Office from July 13, 2002 to December 31, 2008; General Manager, Project Development of the Company from July 10, 2001 to July 12, 2002	304,825
TERRENCE A. LYONS <sup>(1), (2)</sup> Vancouver, B.C. Director and Chairman with effect from June 3, 2011	April 22, 2004	Corporate Director	25,000
EUGENE P. MARTINEAU <sup>(1), (2)</sup> Ponte Vedra Beach, Florida Director	March 18, 2010	Principal, Martineau and Associates Consulting	Nil
MARCO A. ROMERO West Vancouver, B.C. Director	May 14, 1999	President & CEO of Delta Gold Corporation, a mineral exploration and development company; President and CEO of the Company from 1999 to 2008	79,255
PAUL B. SWEENEY <sup>(1), (2)</sup> Surrey, B.C. Director	April 22, 2004	Independent Business Consultant	11,150

Name, Municipality of Residence and Present Position with the Company	Date Became a Director/Officer	Principal Occupation	Common Shares Held
DARREN K. McDONALD North Vancouver, B.C. Vice President, Finance	May 2, 2011	Vice President, Finance since May 2, 2011. Controller of the Company since January 2010	Nil
KENNETH M. PALKO North Vancouver, B.C. Vice President, Operations	February 18, 2008	Vice President, Operations from June, 2011; Vice President, Technical Services of the Company since February 2008	10,400
DAVID F. SINGLETON Roswell, Georgia President, Eagle Rock Aggregates, Inc.	October 5, 2001	President of Proconsult UK Ltd., a consulting company to the construction aggregates industry	167,245
WILLIAM B. TERRY Vallejo, California Chief Executive Officer, Eagle Rock Aggregates, Inc.	July 1, 2006	Chief Executive Officer of Eagle Rock Aggregates, Inc., a subsidiary of the Company, since January 2009; Previously General Manager, California Operations of Eagle Rock Aggregates, Inc. from July 2006 to January 2009	27,000

**Notes:**

- (1) Member of the Audit Committee.
- (2) Member of the Governance, Compensation and Nominating Committee.

The following are brief biographies of our directors and senior management team:

**Herbert G. A. Wilson, age 61, Director, President & Chief Executive Officer** — Mr. Wilson has over 35 years of experience in the development and operation of construction materials and industrial minerals operations. Mr. Wilson joined Polaris Minerals Corporation in 2001, prior to which he was President of United States Lime & Minerals Inc., a NASDAQ-listed public company producing lime products and construction materials from limestone quarries located in the south-central states. From 1992 to 1998, he was a founding director and Executive Vice-President and Chief Operating Officer of Global Stone Corporation, a Toronto-listed public company producing construction aggregates and lime products.

**Terrence A. Lyons, age 62, Chairman and Director** — Mr. Lyons was appointed Chairman of the Company in June, 2011. His business background includes natural resources, manufacturing, real estate, merchant banking and corporate restructuring activities. Mr. Lyons is a director and officer of several public and private corporations including Lead Director and Chairman of the audit committee of Canaccord Financial Inc., and a director of Aurico Gold Inc., Diamonds North Resources Ltd., Sprott Resources Corp., Reliable Energy Ltd., Eacom Timber Corporation, and TTM Resources Inc. Mr. Lyons was formerly President and Managing Partner of B.C. Pacific Capital Corporation and a Managing Partner of Brookfield Asset Management for 18 years. He is past Chairman of Versatile Pacific Shipyards, Westmin Resources and the Mining Association of British Columbia and past Vice Chairman of Battle Mountain Gold. Mr. Lyons' community activities include serving as a director of the BC Pavilion Corporation and several charitable organizations.

**Eugene P. Martineau, age 71, Director** – Mr. Martineau was the founder and first president and CEO of U.S. Concrete Inc., which, under his guidance, became one of the largest concrete producers in the United States. In 2007, he left U.S. Concrete Inc. to found Martineau and Associates Consulting. He has served as a director and member of the Executive Committee of the National Ready Mixed Concrete Association (NRMCA) and has been elected as a lifetime honorary director. He served as the National Director of RMC 2000 from 1993 to 1997. RMC 2000 was a grass roots industry movement which facilitated monumental changes in the industry. He has served as a member of the Board of Trustees for the RMC Research & Education Foundation since its creation and served as chairman in 2004. Mr. Martineau was one of the founders, and served as the chairman, of the National Steering Committee for Concrete Industry Management (CIM). The CIM Program is now installed in five universities across the U.S. and is providing the industry with its future leaders. He currently serves as its Executive Director. In 2007, Mr. Martineau was selected by *Concrete Producer* magazine as one of the top influencers in the concrete industry. Mr. Martineau is the 2010 recipient of NRMCA's Lifetime Achievement Award for Promotion which is awarded to a ready-mix concrete industry professional whose career has demonstrated outstanding leadership, dedication and achievement in support of concrete promotion and industry advancement.

**Marco A. Romero, age 49, Director**— Mr. Romero is an entrepreneur with more than 30 years of diversified international experience in the mining and construction materials industries and is President of Delta Minerals Corporation and Delta Gold Corporation two privately held companies engaged in natural resource development. He has held senior roles in exploration, environmental permitting, project development and mining operations, as well as mergers, acquisitions and corporate finance. Mr. Romero was co-founder of Polaris Minerals Corporation and served as its President and CEO from 1999 to 2008. He was Senior Vice President, Corporate Development for Ivanhoe Mines Ltd. from 1998 to 2000 and was a co-founder and Executive Director of Eldorado Gold Corporation from 1991 to 1998. He was also the founder and president of a Canadian mineral exploration services firm from 1983 to 1991.

**Paul B. Sweeney, age 62, Director** — Mr. Sweeney has fulfilled a number of roles as an advisor to companies, primarily those engaged in natural resource development. During 2011 he was a consultant to Keegan Resources, a junior gold mining company, and prior to that a commercial advisor for Plutonic Power Corporation, an independent power producer. From January 2007 through December 2010 he was a senior executive for Plutonic before reducing his duties in January 2011. He was an independent business and financial consultant from 2005 to 2007, after having served, among other roles, as Chief Financial Officer for both Canico Resource Corp. (acquired by Vale) and Sutton Resources (acquired by Barrick Gold). Mr. Sweeney has more than 30 years' experience in financial management of mining and renewable energy companies. Mr. Sweeney is also on the Boards of Alterra Power Corp., Tahoe Resources Inc and Mongolia Growth Group, Inc.

**Darren K. McDonald, age 45, Vice President, Finance** - Mr. McDonald was appointed Corporate Controller for the Company in January 2009 and was appointed Vice President, Finance in June 2011. He is a Certified Management Accountant with the Certified Management Accountants Society of British Columbia. He began his accounting career in public practice, including 3 years with Grant Thornton LLP, and has held a number of accounting and finance positions, including corporate controller positions at producing diamond mining and open pit copper mining companies, prior to joining Polaris.

**Kenneth M. Palko, age 41, Vice President Operations,** — Mr. Palko joined Polaris Minerals Corporation in February 2008. He has over ten years of experience in the Ontario aggregate industry in various operational, marketing and project management roles with Holcim and Lafarge. Mr. Palko has a B.Sc. (Honours) in Civil Engineering from Queens University in Kingston, Ontario and a B.A. in Psychology from the University of Western Ontario in London, Ontario. He is a Professional Engineer (Civil) in good standing in the Province of British Columbia. Mr. Palko's initial role was as Vice President, Technical Services, however, during 2011 his role was expanded to include direct authority over the operations of the Orca Quarry.

**David F. Singleton, age 72, President, Eagle Rock Aggregates, Inc.** — Mr. Singleton has been the President of Eagle Rock Aggregates, Inc. since 2002. He has over 40 years' experience in the industrial minerals sector and has been President of Proconsult UK Ltd. (since 1990). Mr. Singleton was the Managing Director of ARC Aggregates Limited,



from 1987 to 1989, a large aggregates producer in Europe which was acquired by Hanson Plc in 1989. Mr. Singleton was involved in the creation in 1982 of BACMI (British Aggregates Construction Materials Industries) and acted as Chairman of the Economic and Public Affairs Committee from 1984 to 1987. Mr. Singleton formed Global Stone Corporation, a lime and limestone company. He took the company public on the Toronto Stock Exchange in 1993. Mr. Singleton was the past President and Chief Executive Officer of Global Clay Products LLC from 1999 to 2001, a company in the North American clay brick industry. He was also the former International Director of the National Stone Association from 1994 to 1998. Mr. Singleton was a director of the Company from October 2001 to June 2009.

**William B. Terry, age 64, Chief Executive Officer, Eagle Rock Aggregates, Inc.** — Mr. Terry joined Eagle Rock Aggregates, Inc. in 2006 with 38 years of experience in public and private businesses and government. He served in South East Asia, Europe, and the Middle East as a US Army officer. Mr. Terry was Deputy Director of Streets and Sanitation for the City of Dallas, Texas. With Waste Management, Inc., he was General Manager for New Mexico, Vice President-Indiana, Vice President for Human Resources, and Vice President for Landfill Operations and Facilities Development. He has been Chief Operating Office for Rumpke Consolidated Companies and Northern California Area President for Republic Services, Inc.

### **Cease Trade Orders or Bankruptcies**

Except as described below in respect of Terrence A. Lyons, no director or executive officer of the Company is, or within ten years prior to the date hereof has been, a director, chief executive officer or chief financial officer of any company (including the Company) that (i) was subject to a cease trade order, an order similar to a cease trade order or an order that denied the relevant company access to any exemption under securities legislation, that was in effect for a period of more than 30 consecutive days, that was issued while the director or executive officer was acting in the capacity as director, chief executive officer or chief financial officer; or (ii) was subject to a cease trade order, an order similar to a cease trade order or an order that denied the relevant company access to any exemption under securities legislation, that was in effect for a period of more than 30 consecutive days, that was issued after the director or executive officer ceased to be a director, chief executive officer or chief financial officer and which resulted from an event that occurred while that person was acting in the capacity as director, chief executive officer or chief financial officer.

Except as described below in respect of Terrence A. Lyons, no director or executive officer of the Company, or a shareholder holding a sufficient number of securities of the Company to affect materially control of the Company (i) is, or within ten years prior to the date hereof has been, a director or executive officer of any company (including the Company) that, while that person was acting in that capacity, or within a year of that person ceasing to act in that capacity, became bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or was subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold its assets; or (ii) has, within ten years prior to the date hereof, become bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency, or become subject to or instituted any proceedings, arrangement or compromise with creditors, or had a receiver, receiver manager or trustee appointed to hold the assets of the director, executive officer or shareholder.

Terrence A. Lyons was a director and executive officer of FT Capital Ltd. which was subject to cease trade orders in each of the provinces of British Columbia, Alberta, Manitoba and Ontario due to the failure of FT Capital Ltd. to file financial statements since the financial year ended December 31, 2001. FT Capital Ltd. was liquidated in June 2009 and Mr. Lyons ceased to be a director. Mr. Lyons is also a director of Royal Oak Ventures Inc. ("Royal Oak") which is currently subject to cease trade orders in each of the provinces of British Columbia, Alberta, Ontario and Quebec due to the failure of Royal Oak to file financial statements since the financial year ended December 31, 2003. Royal Oak's financial restructuring is ongoing. Mr. Lyons was a director of International Utility Structure Inc. ("IUSI") which, on October 17, 2003, was granted creditor protection by the Court of Queen's Branch of Alberta under the *Companies' Creditors Agreement Act* (Canada) ("CCAA"). On March 31, 2005, an order was granted approving the final IUSI restructuring plan under the CCAA at which time Mr. Lyons resigned as a director. Mr.

Lyons was elected to the board of directors of each of FT Capital Ltd., Royal Oak, and IUSI largely because of the valuable experience and expertise in financial restructurings in the insolvency context.

### **Penalties or Sanctions**

No director or executive officer of the Company, or a shareholder holding a sufficient number of securities of the Company to affect materially the control of the Company, has been subject to (i) any penalties or sanctions imposed by a court relating to securities legislation or by a securities regulatory authority or has entered into a settlement agreement with a securities regulatory authority; or (ii) any other penalties or sanctions imposed by a court or regulatory body that would likely be considered important to a reasonable investor in making an investment decision.

### **Conflicts of Interest**

To the Company's knowledge, and other than as disclosed in this Annual Information Form, there are no known existing or potential conflicts of interest among the Company, its directors and executive officers, or other members of management, or of any proposed director, officer or other member of management as a result of their outside business interests except that certain of the directors and officers serve as directors and officers of other companies, and therefore it is possible that a conflict may arise between their duties to the Company and their duties as a director or officer of such other companies. See "Interest of Management and Others in Material Transactions" and "Risk Factors".

The directors of the Company are required by law to act honestly and in good faith with a view to the best interests of the Company and to disclose any interests that they may have in any material contract or material transaction. If a conflict of interest arises at a meeting of the Board of Directors, any director in a conflict is required to disclose his interest and abstain from voting on such matter. The directors and officers of the Company are aware of the existence of laws governing accountability of directors and officers for corporate opportunity and requiring disclosures by directors of conflicts of interest in respect of the Company and are required to comply with such laws in respect of any directors' and officers' conflicts of interest or in respect of any breaches of duty by any of its directors or officers.

## **CORPORATE GOVERNANCE AND BOARD COMMITTEES**

### **Board of Directors**

The Board of Directors functions in accordance with its written board mandate and terms of reference, available for viewing on the Company's website. The Board of Directors is responsible for overseeing the management of the business and affairs of the Company, including the approval of major transactions such as strategic alliances, acquisitions and financings. The Board establishes the overall policies and standards for the Company and monitors and evaluates the Company's strategic direction and retains plenary power for those functions not specifically delegated by it to management. The directors are kept informed of the Company's operations at meetings of the Board and its committees and through reports and analyses by management. In addition, informal communications between management and directors occur apart from regularly scheduled Board and committee meetings. Certain of the directors are also directors or managers of investment funds that are shareholders of the Company, which could create the possibility for such person to be in a position of conflict of interest. However, these persons have a duty to deal fairly and in good faith with the Company and such other organizations in making any decision or recommendation involving the Company. In addition, as applicable, such directors and officers will refrain from voting on any matter in which they have a conflict of interest.

## Committees of the Board of Directors

The Company's Board of Directors has a governance, compensation and nominating committee and an audit committee.

### *Governance, Compensation and Nominating Committee*

The Governance, Compensation and Nominating Committee assists the Board of Directors in fulfilling its oversight responsibilities relating to the governance of the Company, its relationship with senior management, and compensation. The committee's role includes developing and monitoring the effectiveness of the Company's system of corporate governance, assessing the effectiveness of individual directors, the Board of Directors and various board committees, and is responsible for appropriate corporate governance and proper delineation of the roles, duties and responsibilities of management, the Board of Directors and its committees. The committee's role includes establishing a remuneration and benefits plan for directors, executives and other key employees and reviewing the adequacy and form of compensation of directors and senior management in order to support the Company's business objectives and attract and retain key executives. The committee also reviews and makes recommendations to the Company's Board of Directors regarding the Company's incentive compensation equity-based plans. The current members of the Governance, Compensation and Nominating Committee are Terrence Lyons (Chairman), Eugene Martineau and Paul Sweeney, all independent directors.

### *Audit Committee*

The Audit Committee assists the Board of Directors in fulfilling its responsibilities for oversight of financial and accounting matters. In addition to recommending the auditors to be nominated and reviewing the compensation of the auditors, the committee is responsible for overseeing the work of the auditors, and pre-approving non-audit services. The committee also reviews the Company's annual and interim financial statements and releases containing information taken from the Company's financial statements prior to their release. The committee is responsible for reviewing the acceptability and quality of the Company's financial reporting and accounting standards and principles and any proposed material changes to them or their application. The current members of the Audit Committee are Terrence Lyons, Eugene Martineau and Paul Sweeney (Chairman), all independent directors.

### *Education and Experience of Members of the Audit Committee*

All members of the Audit Committee are independent and financially literate, based on either their experience as senior executives of a public and/or private company or their experience in the mining industry.

<i>Paul B. Sweeney (Chair)</i>	a former chief financial officer of a number of public companies chiefly engaged in the mining sector;
<i>Terrence A. Lyons</i>	presently the Chair of the audit committee of Canaccord Financial Inc. a leading independent, full-service financial services company;
<i>Eugene P. Martineau</i>	has served as a senior executive and chief executive officer of a number of public companies in the United States.

### *Audit Committee Mandate*

The Company has adopted a mandate to guide the Audit Committee in the fulfillment of its purpose. The mandate is reviewed by the Board of Directors on a periodic basis. The mandate, as most recently approved by the Board of Directors, is attached as appendix A to this Annual Information Form.

*Reliance on Certain Exemptions*

At no time since the commencement of the Company's most recently completed financial year has the Company relied on the exemptions in Section 2.4 of NI 52-110 (De Minimis Non-audit Services), Section 3.2 of NI 52-110 (Initial Public Offerings), Section 3.4 of NI 52-110 (Events Outside of Control of Member), Section 3.5 of NI 52-110 (Death, Disability or Resignation of Audit Committee Member), Section 3.3(2) of NI 52-110 (Controlled Companies), Section 3.6 (Temporary Exemption for Limited and Exceptional Circumstances), Section 3.8 (Acquisition of Financial Literacy) or an exemption from NI 52-110, in whole or in part, granted under Part 8 of NI 52-110.

*Audit Committee Oversight*

At no time since the commencement of the Company's most recently completed financial year was a recommendation of the Audit Committee to nominate or compensate an external auditor not adopted by the Board of Directors.

*Pre-Approval Policies and Procedures of Non-Audit Services*

In May 2006, the Audit Committee approved pre-approval policies and procedures for non-audit services to be provided by the Company's auditors, PricewaterhouseCoopers LLP ("PwC"). The Audit Committee has the sole authority to review in advance and grant any appropriate approvals of all auditing services to be provided by PwC and any non-audit services to be provided by PwC as permitted by applicable securities laws. The Audit Committee has adopted policies and procedures for the engagement of non-audit services by the Company's external auditors. Each year the Audit Committee reviews a list of audit, audit-related, tax and other non audit services and recommend pre-approval of these services for the upcoming year. Any additional requests will be addressed on a case-by-case specific engagement basis as described below. The Audit Committee is informed quarterly of the services on the pre-approved list for which the auditor has been engaged.

*External Auditor Service Fees*

The aggregate fees billed for professional services rendered by PwC, the Company's external auditor, for the years ended December 31, 2011, and 2010 were as follows:

<b>Fiscal year ended December 31,</b>	<b>2011</b>	<b>2010</b>
Audit Fees (for audit of the Company's annual financial statements for the respective year and reviews of the Company's quarterly financial statements)	\$315,206	\$202,296
Audit-Related Fees (for accounting consultation)	\$99,000	\$106,770
<b>Total audit and audit-related fees</b>	<b>\$414,206</b>	<b>\$309,066</b>
Tax Fees	\$176,415	\$139,294
All Other Fees, (valuation)	42,800	-
<b>Total Fees</b>	<b>\$633,421</b>	<b>\$448,360</b>

The Audit Committee considered and concluded that the provision by PwC of such audit, audit-related, tax and other services as were provided to the Company in fiscal 2011, is compatible with maintaining the independence of PwC.

## LEGAL PROCEEDINGS AND REGULATORY ACTIONS

There are no material legal proceedings against the Company or affecting any of its properties as of the date of this Annual Information Form, however, the Company is the litigant in a petition filed in the BC Supreme Court seeking to recover certain taxes paid in 2009.

Furthermore, there are no (a) penalties or sanctions imposed against the Company by a court relating to securities legislation or by a securities regulatory authority during its most recently completed financial year; (b) other penalties or sanctions imposed by a court or regulatory body against the Company that would likely be considered important to a reasonable investor in making an investment decision in the Company; and (c) settlement agreements the Company entered into before a court relating to securities legislation or with a securities regulatory authority during its most recently completed financial year.

On June 3, 2011 the Orca Sand & Gravel Limited Partnership filed a petition against Her Majesty the Queen in right of the Province of British Columbia in the Vancouver Registry of the Supreme Court of British Columbia. The petition seeks to overturn a decision of the Provincial Minister of Finance in March, 2011, that denied a refund of \$480,645 of Provincial Sales Tax to the limited partnership. A court date for hearing the petition has been set for May 2012.

## INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS

No director, senior officer or principal shareholder of the Company and no associate or affiliate of the foregoing have had a material interest, direct or indirect, in any transaction in which the Company has participated within the three year period prior to the date of this Annual Information Form, or will have any material interest in any proposed transaction, which has materially affected or will materially affect the Company, except as follows:

On May 12, 2004, Polaris Aggregates Inc. ("PAI"), a subsidiary of the Company, entered into a services agreement (the "Services Agreement") with Proconsult UK Ltd. ("Proconsult"). Proconsult is controlled by David F. Singleton, an officer and director of several of the Company's subsidiary companies. The Services Agreement provides that Proconsult will provide management services, including the identification and securement of aggregates discharge, storage and distribution sites at certain California ports, the development of suitable arrangements for the distribution and sale of aggregates from those sites, and the management of related engineering, environmental, marketing and financial research, studies and evaluations. The agreement has a five-year term commencing July 1, 2004 and was renewed for a subsequent three-year term on July 1, 2009. Pursuant to the terms of this agreement, Proconsult will receive an annual fee of US\$200,000, subject to annual adjustments and is eligible for the following performance bonuses: US\$200,000 upon the first shipment of construction aggregates from the Company's Eagle Rock Quarry Project or the Orca Project (the "Projects") (this bonus was paid in 2007); and US\$300,000 upon first achieving the sale of 4 million tonnes of construction aggregates from the Projects within a calendar year. Proconsult is also eligible for the following termination bonuses: if Proconsult terminates the agreement after earning the US\$200,000 first shipment bonus but before earning the 4 million tonnes bonus, it will be entitled to US\$150,000 upon the Company first achieving the sale of 4 million tonnes of construction aggregates from the Projects within a calendar year provided that the end of such calendar year occurs within 2 years of the termination; and if the Company terminates the agreement without just cause after Proconsult earns the US\$200,000 first shipment bonus but before it earns the 4 million tonnes bonus, it will be entitled to US\$300,000 upon the Company first achieving the sale of 4 million tonnes of construction aggregates from the Projects within a calendar year provided that the end of such calendar year occurs within 2 years of the termination. Pursuant to the terms of this agreement, bonuses would have been cancelled if the first shipment of construction aggregates from a Project had not been achieved by June 30, 2009. Proconsult may terminate the agreement by giving three months' notice to PAI. If PAI terminates Proconsult's engagement without just cause, it will be entitled to a sum equal to one year of the then current annual fee. If PAI terminates Proconsult's engagement without just cause after a change of control and prior to the termination date of the agreement, it will be entitled to a sum equal to

two years of the then current annual fee plus bonuses otherwise payable. During the years ended December 31, 2010 and 2011, PAI paid fees of US\$280,160 and US\$290,444 respectively, to Proconsult.

On July 14, 2008, the Company entered into a consulting agreement with Marco A. Romero, a director, and former President and CEO, of the Company. This agreement has a nine year term commencing on January 1, 2009, and provides that Mr. Romero will provide strategic advice and perform liaison functions. Pursuant to the terms of this agreement, Mr. Romero will receive an annual fee of \$10.00 per year plus \$150.00 per hour, with a minimum of 20 hours per month for the first 36 months of the agreement. During the years ended December 31, 2010 and 2011, the Company paid fees of \$36,000 and \$36,468 respectively to Navigator Management Ltd., a company controlled by Mr. Romero.

On June 7, 2010, the Company entered into a consulting agreement with Martineau & Associates, a company controlled by Eugene P. Martineau, a director of the Company. This agreement does not have a fixed term and provides that Mr. Martineau will provide commercial and marketing activities for the Company. Pursuant to the terms of this agreement, Mr. Martineau will receive a fee of US\$1,000 per day. During the year ended December 31, 2011, the Company paid fees of US\$9,000 to Martineau & Associates.

### **TRANSFER AGENTS AND REGISTRARS**

The transfer agent and registrar for the Common Shares is Computershare Investor Services Inc., and the register of transfers for the Common Shares is held at its principal offices in Vancouver, British Columbia and Toronto, Ontario.

### **MATERIAL CONTRACTS**

Except for contracts made in the ordinary course of business, the following are the only material contracts entered into by the Company within the most recently completed financial year or before the most recently completed financial year (but after January 1, 2002) and still in effect:

1. The Strategic Alliance Agreement. See “General Development of the Business – Sales Arrangements and Strategic Alliance with Cemex”.
2. The Partnership Agreement. See “Orca Sand & Gravel Project — History of the Orca Project”.
3. The *profit à prendre* agreement dated March 1, 2005 between WFP and the Company in respect of the East and West Cluxewe Deposits. See “Narrative Description of the Business – History of the Orca Project — Tenure”.
4. The Services Agreement. See “Interest of Management and Others in Material Transactions”.
5. The New Notes Purchase Agreement. See “General Development of the Business – 2012 Debt Financing”.

### **NAMES AND INTERESTS OF EXPERTS**

Certain information of an economic, scientific or technical nature regarding the Orca Project is included in this Annual Information Form based upon the Orca Report. The Orca Report provides independent technical reviews

of the mineral resources and mineral reserves, operations, and development of the Orca Project. The authors of the Orca Report being Greg Kulla, P.Geo., Ryan Ulansky, P.Eng. and Vladimir Solodkin, P.Eng. of AMEC are "Qualified Persons" as such term is defined in NI 43-101 and all are independent of the Company within the meaning of NI 43-101.

Information regarding the Company's industry target markets, competition, supply and demand, present and future, included in this Annual Information Form is based upon the 2005 Market Report and the 2008 Market Report. The author of the 2005 Market Report and the 2008 Market Report is David A. Holmes, R. Geo. of Holmes Reserves LLC. Mr. Holmes is a "Qualified Person" as such term is defined in NI 43-101.

To the knowledge of the Company, none of the qualified persons named above beneficially owns, directly or indirectly, or exercises control or direction over more than one percent of the issued and outstanding Common Shares in the capital of the Company.

None of the aforementioned qualified persons are currently expected to be elected, appointed or employed as a director, officer or employee of the Company or of any associate or affiliate of the Company.

The Company's auditors, PwC, have prepared the audit report attached to the Company's audited consolidated financial statements for the most recent year end. The Company's auditors have reported that they are independent of the Company in accordance with the rules of professional conduct of the Institute of Chartered Accountants of British Columbia.

#### **ADDITIONAL INFORMATION**

Additional information, including directors' and officers' remuneration and indebtedness, principal holders of our securities, securities authorized for issuance under equity compensation plans and a statement as to the interest of insiders in material transactions, was contained in the management proxy circular for the annual meeting of shareholders held on June 3, 2011, and will also be contained in the management proxy circular for the annual meeting of shareholders to be held on June 6, 2012. Additional financial information is provided in the audited financial statements and management discussion and analysis ("MD&A") for our most recent year-end. The foregoing additional information is available on SEDAR at [www.sedar.com](http://www.sedar.com) under the Company name.

**Appendix A**

**CHARTER**

**OF**

**THE AUDIT COMMITTEE**

**OF**

**POLARIS MINERALS CORPORATION**

As Approved by the Board of  
Directors on December 20, 2005,  
as amended as of March 18, 2008



**POLARIS MINERALS CORPORATION**  
**(the “Company”)**

**AUDIT COMMITTEE CHARTER**

The Audit Committee (the “Committee”) is a committee of the board of directors (the “Board”) of the Company. The role of the Committee is to provide oversight of the Company’s financial management and of the design and implementation of an effective system of internal financial controls as well as to review and report to the Board on the integrity of the financial statements of the Company, its subsidiaries and associated companies. This includes helping directors meet their responsibilities, facilitating better communication between directors and the external auditor, enhancing the independence of the external auditor, increasing the credibility and objectivity of financial reports and strengthening the role of the directors by facilitating in-depth discussions among directors, management and the external auditor. Management is responsible for establishing and maintaining those controls, procedures and processes and the Committee is appointed by the Board to review and monitor them. The Company’s external auditor is ultimately accountable to the Board and the Committee as representatives of the Company’s shareholders.

**Duties and Responsibilities**

*External Auditor*

- To recommend to the Board, for shareholder approval, an external auditor to examine the Company’s accounts, controls and financial statements on the basis that the external auditor is accountable to the Board and the Committee as representatives of the shareholders of the Company.
- To oversee the work of the external auditor engaged for the purpose of preparing or issuing an auditor’s report or performing other audit, review or attest services for the Company, including the resolution of disagreements between management and the external auditor regarding financial reporting.
- To evaluate the audit services provided by the external auditor, pre-approve all audit fees and recommend to the Board, if necessary, the replacement of the external auditor.
- To pre-approve any non-audit services to be provided to the Company by the external auditor and the fees for those services.
- To obtain and review, at least annually, a written report by the external auditor setting out the auditor’s internal quality-control procedures, any material issues raised by the auditor’s internal quality-control reviews and the steps taken to resolve those issues.
- To review and approve the Company’s hiring policies regarding partners, employees and former partners and employees of the present and former external auditor of the Company. The Committee has adopted the following guidelines regarding the hiring of any partner, employee, reviewing tax professional or other person providing audit assurance to the external auditor of the Company on any aspect of its certification of the Company’s financial statements:
  - c. No member of the audit team that is auditing a business of the Company can be hired into that business or into a position to which that business reports for a period of three years after the audit;
  - d. No former partner or employee of the external auditor may be made an officer of the Company or any of its subsidiaries for three years following the end of the individual’s association with the external auditor;
  - e. The CFO must approve all office hires from the external auditor; and,

- f. The CFO must report annually to the Committee on any hires within these guidelines during the preceding year.
- To ensure that the head audit partner assigned by the external auditor to the Company, as well as the audit partner charged with reviewing the audit of the Company, are changed at least every five years.
- To review, at least annually, the relationships between the Company and the external auditor in order to establish the independence of the external auditor.

#### *Financial Information and Reporting*

- To review the Company's annual audited financial statements with the CEO and CFO and then the full Board. The Committee will review the interim financial statements with the CEO and CFO and, if delegated the power by the Board, approve the interim financial statements.
- To review and discuss with management and the external auditor, as appropriate:
  - a. The annual audited financial statements and the interim financial statements, including the accompanying management discussion and analysis; and,
  - b. Earnings guidance and other releases containing information taken from the Company's financial statements prior to their release.
- To review the quality and not just the acceptability of the Company's financial reporting and accounting standards and principles and any proposed material changes to them or their application.
- To review with the CFO any earnings guidance to be issued by the Company and any news release containing financial information taken from the Company's financial statements prior to the release of the financial statements to the public. In addition, the CFO must review with the Committee the substance of any presentations to analysts or rating agencies that contain a change in strategy or outlook.

#### *Oversight*

- To review the internal audit staff functions, including:
  - c. The purpose, authority and organizational reporting lines;
  - d. The annual audit plan, budget and staffing; and
  - e. The appointment and compensation of the controller, if any.
- To review, with the CFO and others, as appropriate, the Company's internal system of audit controls and the results of internal audits.
- To review and monitor the Company's major financial risks and risk management policies and the steps taken by management to mitigate those risks.
- To meet at least annually with management (including the CFO), the internal audit staff, and the external auditor in separate executive sessions and review issues and matters of concern respecting audits and financial reporting.
- In connection with its review of the annual audited financial statements and interim financial statements, the Committee will also review the process for the CEO and CFO certifications (if required by law or regulation) with respect to the financial statements and the Company's disclosure and internal controls, including any material deficiencies or changes in those controls.

### **Membership**

- The Committee shall consist solely of three or more members of the Board, each of whom the Board has determined has no material relationship with the Company and is otherwise “unrelated” or “independent” as required under applicable securities rules or applicable stock exchange rules.
- Any member may be removed from office or replaced at any time by the Board and shall cease to be a member upon ceasing to be a director. Each member of the Committee shall hold office until the close of the next annual meeting of shareholders of the Company or until the member ceases to be a director, resigns or is replaced, whichever first occurs.
- The members of the Committee shall be entitled to receive such remuneration for acting as members of the Committee as the Board may from time to time determine.
- All members of the Committee must be “financially literate” (i.e., have the ability to read and understand a set of financial statements such as a balance sheet, an income statement and a cash flow statement).

### **Procedures**

- The Board shall appoint one of the directors elected to the Committee as the Chair of the Committee (the “Chair”). In the absence of the appointed Chair from any meeting of the Committee, the members shall elect a Chair from those in attendance to act as Chair of the meeting.
- The Chair will appoint a secretary (the “Secretary”) who will keep minutes of all meetings. The Secretary does not have to be a member of the Committee or a director and can be changed by simple notice from the Chair.
- No business may be transacted by the Committee except at a meeting of its members at which a quorum of the Committee is present or by resolution in writing signed by all the members of the Committee. A majority of the members of the Committee shall constitute a quorum, provided that if the number of members of the Committee is an even number, one-half of the number of members plus one shall constitute a quorum.
- The Committee will meet as many times as is necessary to carry out its responsibilities. Any member of the Committee or the external auditor may call meetings.
- The time and place of the meetings of the Committee, the calling of meetings and the procedure in all respects of such meetings shall be determined by the Committee, unless otherwise provided for in the bylaws of the Company or otherwise determined by resolution of the Board.
- The Committee shall have the resources and authority necessary to discharge its duties and responsibilities, including the authority to select, retain, terminate, and approve the fees and other retention terms (including termination) of special counsel, advisors or other experts or consultants, as it deems appropriate.
- The Committee shall have access to any and all books and records of the Company necessary for the execution of the Committee’s obligations and shall discuss with the CEO or the CFO such records and other matters considered appropriate.
- The Committee has the authority to communicate directly with the internal and external auditors.

### **Reports**

- The Committee shall produce the following reports and provide them to the Board:
  - f. An annual performance evaluation of the Committee, which evaluation must compare the performance of the Committee with the requirements of this Charter. The performance evaluation should also recommend to the Board any improvements to this Charter deemed necessary or desirable by the Committee. The performance evaluation by the Committee shall be conducted in such manner as the Committee deems appropriate. The report to the Board may take the form of an oral report by the Chair or any other member of the Committee designated by the Committee to make this report; and

- g. A summary of the actions taken at each Committee meeting, which shall be presented to the Board at the next Board meeting.