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OPERATOR: Ladies and gentlemen, thank you for standing by. Welcome to the Polaris Minerals Corporation third quarter conference call. During today's presentation, all parties will be in a listen-only mode. Following the presentation, the conference will be opened for questions. If you have a question, please press the star, followed by the one on your touch tone phone. If you'd like to withdraw your question, please press the star, followed by the two. If you're using speaker equipment, please lift the handset before making your selection.

This conference is being recorded today, Tuesday, November 10, 2009.

And I would now like to turn the conference over to Mr. Herb Wilson, President and CEO. Please go ahead.

HERB WILSON (President and Chief Executive Officer, Polaris Minerals Corporation): Thank you, Operator. Good morning, and welcome to the Polaris Minerals conference call to discuss the third quarter results for 2009. I am Herb Wilson, President and CEO, and I am joined this morning by my colleagues, Lisa Dea, Chief Financial Officer, and David Singleton, the President of Eagle Rock Aggregates, our US subsidiary. We hope you will find our comments interesting and helpful.

Before beginning with the details, we must advise you that during the course of the conference call, there may be forward-looking statements which involve risks and uncertainties that may cause actual results or performance of the company or the industry to be materially different from those expressed or implied by such forward-looking statements. We also encourage you to review the company's annual and quarterly public filings on SEDAR. These are also available on the company's website. As a reminder, all currencies are in US dollars, unless otherwise stated.

Sales this quarter continued to reflect the recessionary conditions in our North American markets and especially in California, where the state's budget problems continue to exacerbate the situation.

Sales of sand and gravel from the Orca quarry in the quarter were 336,000 tons; well below last year's level. But a better measure of the market this year is the total sales figure for the first nine months, which was 1,029,000 tons, a reduction of 40 percent from the same period last year. While this number is yet again an unprecedented annual decline for this industry, government statistics and the performance recently recorded by the major US aggregate producers, all suggest that it is simply in line with the general market. On a brighter note, prices for our products continue to remain stable after fuel surcharge adjustments.

Revenue for the quarter decreased by 50 percent to 4.52 million compared with 2008, while revenue for the first nine months fell 38 percent compared to last year.

The loss from operations, net of stock-based compensation, was 4.23 million in the third quarter compared with 2.21 million recorded last year. This quarter's loss includes a provision of $1 million against shipping contract annual minimum volume penalties that could potentially arise in 2010 if current discussions with CSL prove unsuccessful. A further consequence of making this provision was a write-down of inventory by an additional $592,000, and I will return to this matter later.

For the first nine months of the year, the loss from operations, net of stock-based compensation, was 7.66 million compared with a loss of 5.06 million recorded in 2008.

The company's net loss for the quarter was 5.23 million, or a loss of $0.10 per share, compared with a net loss of 3.24 million, or a loss of $0.09 per share, in the comparable period.

For the nine months, the net loss was 9.66 million, or a loss of $0.19 per share, compared with a net loss of 7.63 million, or $0.20 per share, in the same period last year.

To conclude the review of the numbers, the gross margin in the second quarter was a loss of 2.92 million compared to a positive margin of $44,000 in the comparable 2008 quarter.

The gross margin was impacted by $1.6 million related to the possible shipping penalties arising in 2010 and also by the payments of 366,000 of dead freight charges, as maximized shipping efficiency was not possible at the lower demand level.

The gross margin for the first nine months was a loss of 3.66 million, including dead freight charges of 607,000. This compared with a positive margin of 664,000 in 2008.

We have taken action to manage our variable costs to the maximum practical extent possible, given that we do not have the flexibility that the mature multi-location producer has.

Selling, general, and administrative costs were reduced by 42.2 percent and 30.3 percent for the three and nine month periods when compared with last year. And the quarry headcount has been reduced by one third.

Capital spending is tailing off to minimal levels as we complete the second truckload out of Richmond terminal.

The dead freight charges arose because of our advanced booking of ships based on market expectations at the time, and these did not anticipate the full extent and speed of the market decline. Consequently, inventories at (inaudible) locations remain too high to accommodate a full shipment. We have now implemented better scheduling and inventory control to avoid a repetition of this situation, and fourth quarter shipments to date have been maximized.

Polaris Minerals is both an operating and development company and is still at an early stage of growth. Although our original plans have been significantly delayed by this pronounced recession, they have not been derailed. We have developed high-quality assets and are debt free. Despite this immensely difficult market period, we are determined to remain focused on the steps needed to reach a performance level that optimizes economies of scale and, therefore, profitability.

In this context, we have recently achieved two important steps for terminal developments in Southern California.

Firstly, we are pleased to have secured an option to lease an existing marine aggregate terminal in the Port of Long Beach and have commenced due diligence investigations. This facility is permitted (phon) for a through-put of three million tons per year and potentially offers an early and much lower cost of entry into the greater Los Angeles market. Following successful completion of due diligence, the company's Freehold land on Pier B will be sold with a significant cash benefit to treasury.

Secondly, after a number of years spent seeking an opportunity in the Port of San Diego, we have entered into an exclusive negotiating agreement with the Port that provides a period of exclusivity while an option to lease a terminal site is negotiated. It has been a long road to this point and all necessary permits will still have to be acquired, but the market potential for a terminal in this location warrants the effort.

Back to the present. The market improvement that we had hoped this quarter driven by infrastructure stimulus spending programs simply did not happen. In fact, the reverse occurred. In California, reductions in state-funded contracts appeared to have more than offset the benefits of Recovery Act funding for infrastructure. The important private commercial sector declined steeply, particularly around San Francisco Bay, where the credit squeeze is particularly severe, thanks to the under-capitalized banking system.

Looking forward, our customers continue to report an increased level of contract bidding on infrastructure projects, which will particularly influence the demand for our products. Governor Schwarzenegger has recently reported several spending initiatives intended to drive the recovery in California. These include $2 billion of Recovery Act funding obligated to 620 highway transportation infrastructure projects, $13.1 billion of bond funds from the 2006 Proposition 1B authorization committed to 1,492 projects for high-priority transportation corridor improvements and, and I quote “to improve California’s aging infrastructure.” And a further $4.7 billion of Recovery Act funding is expected to be approved for high-speed rail projects.

We have noted before that major contracts of this nature have a significant lead time for design, permitting, fitting, and mobilization, which makes it difficult to predict exactly when the benefits will appear in terms of aggregate demand.

The general consensus in the industry appears to be that a gradual recovery will commence in 2010, weighted most in the second half of the year, and thereafter accelerating through 2011 and 2012. There are also statistics suggesting that the housing market has bottomed and some modest improvement could be underway sponsored by the recently-announced extension of the first-time buyer tax credit. Unfortunately, in the private commercial sector, a further decline is expected in 2010 as planned projects remain unable to attract debt finance.

Funding for infrastructure work in the US comes from a variety of sources, one of the most important being the multi-year highway funding appropriation known by the acronym SAFETEA-LU. The previously anticipated renewal of this federal commitment is presently stalled in Congress, thus delaying the largest-ever expenditure program for highways of $450 billion over a six-year period with an additional $50 billion in high-speed rail initiatives. Industry observers believe that this is now a priority issue in Congress, as it certainly is for the various state Departments of Transportation, who will derive most of their spending authorities for next year and beyond from its reauthorization.

Polaris' long term strategy remains unaltered. The impact of the economic recession has been a significant delay in timing. However, we cannot stall at a point where volumes are not profitable and we do not achieve the business's potential.

The terminal outlets already developed in the San Francisco Bay area have proven to be the backbone of our operation, and we must maintain momentum on the Southern California terminal prospects. San Diego and Long Beach are key to our growth plans and offer potential incremental volumes that would each make a substantial contribution to the profitability levels we seek, as well as contributing to the market justification for construction of the Eagle Rock quarry in due course.

We continue to supply to our customers in Hawaii and British Columbia, although both markets are exhibiting the same frailty as California.

In the continuing recessionary environment, we are not achieving the positive cash flows expected at this stage in our development and have taken steps to reduce the cash burn rate going forward.

At the end of the third quarter, the company had working capital of $11.2 million, which included $5.9 million of cash. This is an increase in cash on hand of 1.2 million compared with the end of the second quarter, thanks to the sale of our asset-backed commercial paper investment.

The refinancing of the birthing tub used at Orca quarry is still in prospect. However, it is temporarily on hold as we deal with the issue of restructuring our shipping contract.

The eventual sale of the Long Beach Pier B land would provide significant additional cash, although it is too early to anticipate the timing.

The second truck load-out system at Richmond terminal is being commissioned this month. We now have minimal capital expenditure requirements other than those necessary to permit the new terminal opportunities, the cost of which will be shared with our strategic alliance partner.

Let me conclude with a review of the significant outstanding corporate issue, which is the need to restructure the shipping contract with CSL International. The minimum annual volumes contained in the contract were set back in 2005 when the world was a very different place. Construction aggregates were in seriously short supply throughout much of the west coast of North America, and world shipping capacity was in equally short supply. The shipping minimums reflected the volume expectations of our two contracted California customers at that time. By the end of 2009, demand in California will have fallen by approximately 50 percent from the point at which construction of the Orca quarry began, and it is going to take time for the market and our own sales to recover to originally projected levels. In the interim, there is the potential for significant annual minimum volume penalties, the first of which could become due in the third quarter of 2010.

In complying with Canadian GAAP, the losses reported this quarter were impacted by $1.6 million to reflect the potential adverse effect of the shipping contract issue. Therefore, it is vital that a mutually acceptable solution is found before the end of the year which may allow these provisions to be reversed.

Polaris has always enjoyed an excellent and supportive relationship with CSL, and management believes that negotiations presently taking place will lead to a resolution which will enable us to ultimately achieve our potential for aggregate shipments of several million tons per year.

In conclusion, we expect the market to remain flat as we pass through the winter period and then to offer a gradual recovery, commencing in the second quarter of 2010. Our total focus is to stay the course and to be ready to take advantage of market conditions as they return to more normal levels of activity.

We very much appreciate your interest in Polaris and thank you for listening. David, Lisa, and I would now be pleased to answer your questions. So I'd like to turn it back to the Operator.

OPERATOR: Thank you. We will now begin the question–and-answer session. As a reminder, if you have a question, please press the star, followed by the one on your touchtone phone. If you would like to withdraw your question, please press the star, followed by the two. If you're using speaker equipment, you will lift the handset before making your selection.

One moment, please, for our first question.

And our first question comes from the line of David Charles with GMP Securities. Please go ahead.

DAVID CHARLES: Yes, good morning everyone, hope you're all well. I was just wondering, Herb, how far along are you in these negotiations with CSL, and can you maybe describe how they are. Are they difficult? Are they—do they look like they—I mean do you think that you might come to a favorable conclusion? And maybe just could you maybe just let me understand how this would actually work? I mean what levels of shipments would you have to make next year or, you know, that you wouldn't trigger it so that we'd have an idea what levels that you—if when you made them, that would maybe trigger some of these extra costs.

HERB WILSON: Well, good morning to you, David, I will respond and hope you're well, as well. The team is in good shape over here, although somewhat weary of the battle against this market of ours.

Yes, you're asking the number one question, and it's why we've focused a lot of the comments on it. And it's very difficult for me to be too precise, because the negotiations haven't really reached that point.

One of the issues in the speed of this thing is that CSL are, in fact, the managers for a pool of shippers. Our contract is with CSL International in Boston, who manage this pool of something like 42 vessels of which they own just over a quarter. So, they have partners on their side to carry along in the discussions of what they regard as an important issue.

We have swapped a number of ideas, and they focus on not doing anything that impacts our ability to improve our gross margins in the short term. But I really, at this moment, can't offer any views on where the settlement will finally fall. There's a lot on the table. We have involved an investment banker, a very experienced investment banker, on our side to help us think our way through this thing.

And CSL makes it very clear that they do recognize just how well Polaris has performed up to now. Up to the end of 2008, we had achieved every milestone in our contract and had more than exceeded expectations in our ability to load and handle these cargos, and we have just run into the wall of this collapsing market.

So we have got a lot in front of us with these negotiations that have been held in good spirits. They're just moving awfully slowly. And until we get closer to the detail, and this is why, of course, we had to make this provision of the Canadian GAAP, because we weren't close enough for our auditors to take a firm view on what the impact would be on the company, so it's merely a provision at this stage. And I'm sorry it's no more distinct than that. We do have a clear agreement with the principals at CSL that we want this thing done before we all go home for Christmas, so it may be another four or five weeks before we put out an announcement of the detail.

DAVID CHARLES: Is there any potential that if there was, for some reason, you couldn't reach agreement that CSL could force Polaris somehow into bankruptcy or into a very difficult financial situation?

HERB WILSON: Well, you can always find a worst-case scenario, and that's certainly the worst-case scenario. Why that would have any merit for CSL, I really don't know. I mean I think they have to view this business the same way we view our relationship with the customers in California. You know, of course, we're disappointed that a customer in California isn't taking two million tons as he thought he would nearly five years ago. But we'd much rather they continued taking 8 or 900,000 tons. And the business moves on, because it will at some point return.

And it's very much the same with the shipping contract. Yes, we're missing a number. It's just a number on a piece of paper. We're still shipping millions of tons of material. And therefore, you know, it's in everybody's best interest that the business continues, and I believe CSL are seeing it the same way. So, you know, as you well know, we've got a very professional Board, we've got a lot of experience on the Board, and we've looked at every possible scenario of what we might have to do, and they're all just sat on the back burner because negotiations are moving along. It's just a pity that this quarter didn't fall another four weeks later, because we may have had it all sewn up by then.

DAVID CHARLES: Okay, maybe just then one quick question because I'm sure other people have questions. I'm just wondering, on Pier B, if you were to sell the land, the free holding that you have there; what type of—you know, could you give us some indication or some guidance as to what the impact would be on your cash balance?

HERB WILSON: Yes. Well, our share of the purchase of that land was just over 15 million, close to 15.5 million US We've had quite a number of interesting suggestions of interest since we made the announcement that we'd optioned this alternative site, and we have no doubt there's going to be some serious interest in it.

We're not at the stage yet of wanting to receive or encourage firm proposals but, you know, if we did have to take a haircut on the selling price, it wouldn't be very much, we're feeling, and we're very hopeful we won't have to. So, you know, perhaps the bottom end is—the benefit on our treasury is, let's say $12 million and at the high end it's probably $15.5

million. But we're certainly encouraged by the interest we've received unsolicited since making that phone call and the fact that a number of people put two and two together and deduced we would be interested in a sale.

DAVID CHARLES: Excellent. And I'll let other people have questions now.

HERB WILSON: Thank you, David.

OPERATOR: Thank you. Our next question comes from the line of John Hughes with Desjardins Security. Please go ahead.

JOHN HUGHES: Thank you, Operator. Gentlemen, just a couple quick ones. The 1.6 million, Herb, that was noted in the quarter as the charge relative to CSL, is that the typical quarterly charge going forward in the event that you don't sort of reach an agreement with CSL?

HERB WILSON: Yes, good morning, John. That's a very fair question. And these are, of course, all very much estimates, because the contract year that's affected doesn't conclude until July the 17th of next year. So we wouldn't actually be able to measure any deficit and put a dollar value on it until end of July/August of next year. But the accounting rules state that when you have a, what's termed an onerous contract, you should start recognizing it when it becomes apparent that there's a potential for this problem.

So, the million dollars is approximately the penalty payment as we could best guess it today divided over the four quarters until we get to the point where it would actually be paid. We thought—you know, I'm a simple engineer, so these accounting rules continue to mystify me on occasions, but we thought the million dollars was the extent of the provision until the final detail was looked at. And then, the view is that had that million dollars been paid, it would have increased the shipping costs and therefore reduced the realizable value on the product, which is what led to the associated nearly $600,000 of inventory write-down. So both those can be reversed, depending on the form of the settlement. So yes, in essence, that's a measure of the quarterly impact.

JOHN HUGHES: Okay, good. Now just in the fourth quarter, is there any material sort of change on shipment size from say, an average quarter on volume you've experienced so far in 2009?

HERB WILSON: I don't think there's any material change. It's coming into the winter period. One of the things we've been very anxious to do is something that we weren't truly cognizant of last year in that in 2008, we had a pretty maximum shipping schedule in December. In fact, December was a very busy month for us. And what happened in that event was that we entered this year with absolute maximum inventories in the bay. One of the advantages of this business of ours is that by shipping just a very limited number of products, three of them only, we've actually got three or four inventory points around the bay that if we were to have a deficiency at one of them, we can always supply the same material from somewhere else. And to the ultimate customer, there is no impact. But when those inventories are full everywhere and you've got ships booked because they're booked in advance, that's what arise—leads to the dead freight.

So, I think David Singleton would say that our shipments in 2008 were really something like 200,000 tons more than they would have ideally been, which has made some of the comparisons with this year a little harder.

Unfortunately, we haven't had enough fourth quarters to have a long-term trend. But we've eliminated the dead freight problem this quarter; everything has been full. The final volume tally is going to be probably just a little bit shy of where we've been in the third quarter. But we have made big inroads into the cost, and very sadly. And it is sad for me. We've had to terminate a third of our employees at the quarry into whom we've put an immense amount of effort in training and bringing their skill level up, and you know, we just have to hope and believe that those folks will be available to come back when we need them.

JOHN HUGHES: Okay. Yes, it's always a sad sort of—a sad event when it happens, for sure. Last question, when I look at your balance sheet, there's really two numbers on it; one is the asset, second one is net worth. And I'm just wondering, given the state of events and where your share price may be today, do you feel somewhat vulnerable in terms of the long-life asset that you have there in the two major assets on Vancouver Island? Do you feel somewhat vulnerable for anyone who's in the aggregate business, whether it be consumer or otherwise, with regards to being acquired?

HERB WILSON: Very good point, John. I think we've stopped worrying about vulnerability. We can actually remember a point when we had our $20 million of bridge debt just before Christmas, and my goodness, it's almost hard to remember how bad things were in the financing climate just before last Christmas. But at that point, our stock price bounced around $1.25 for a period, and we felt even more vulnerable.

I think there's a couple of points behind this. At the moment, all the majors are reeling with their own difficulties. You know, everybody is putting up a brave spin on their results, but they're paying down debt, dealing with very high debt levels, and probably just don't need another deal at this moment.

And I think secondly, our relationship with CEMEX is probably regarded as a little deeper than it is. It is very much a cooperative market development arrangement. It doesn't provide CEMEX with any benefit at a corporate level, and there might be a perception that it's a little more than it is.

If you attract a bid, as long as it's a good one, you have to take it as a compliment that you've created something of real value, which we truly have. And I think in a very different overall market, we may well have seen somebody knocking on the door. But right now, there's still a lot of licking of wounds going on.

JOHN HUGHES: Right, well thank you very much, Herb.

HERB WILSON: Thanks, John.

OPERATOR: Thank you. Our next question comes from the line of Gary Lampard with Canaccord. Please go ahead.

GARY LAMPARD: Oh, good morning, and thanks for taking my question. Because of the influence of the bunker fuel charges moving in and out, it's still difficult to actually determine the true nature of your cash margins. But just to give us a rough idea, at what production, or I guess what styles volumes do you think that you could break even on a cash level?

HERB WILSON: Good morning, Gary, and thanks for your question. It's a little difficult for us, as well. We do maintain a schedule here, which is what we use to measure my good colleague, Mr. Singleton, with us, an underlying aggregate price. Because then over and above that, you've got this bouncing element of shipping fuel charges. And, of course, we—in creating our own budget for next year, it gives us the chance to look at where the breakeven might be and, you know, with all the appropriate government health warnings on a comment like this one, we're probably cash breakeven at around two million tons of products sold and shipped in this market.

GARY LAMPARD: Okay, that's perfect. Thanks. And in your current production rates, 259 in Q3, will it be about the same as that during Q4, do you think?

HERB WILSON: Yes, it will, yes.

GARY LAMPARD: Okay. Thanks very much, Herb.

HERB WILSON: Okay. Thanks, Gary.

OPERATOR: Thank you. As a reminder, ladies and gentleman, if you would like to ask a question, please press star, one at this time. If you would like to withdraw your question, please press star, two. If you're using speaker equipment, please lift the handset before making your selection.

Once again, if you would like to ask a question, please press star, one.

And I show no further questions at this time. I would now like to turn it over to management. Please go ahead.

HERB WILSON: Well, thank you, Operator. I would just like to close in thanking everybody for your interest and for your good questions. This is a very tough time in the market, but we genuinely feel for many good reasons that it's now at the bottom. And I can only say we are all looking forward very much to having a time next year when we can start reporting numbers which are an increase from the previous quarter rather than the reverse. So thanks again, and have a good Christmas.

OPERATOR: Thank you. Ladies and gentlemen, that does conclude our conference for today. Thank you for your participation. You may now disconnect.

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