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California chasing true grit in B.C.

Golden State sand and gravel shortage proving to be a construction supplies bonanza for local companies

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A looming sand and gravel shortage in California has spawned a potentially lucrative new market opportunity for B.C. companies.

The state's dearth of construction aggregates coupled with its plans to embark on highway, government building and other multibillion-dollar public works projects has drawn Vancouver-based **Polaris Minerals Corp.** (TSX:PLS) into the U.S. market.

Buoyed by proceeds of almost \$80 million from a recent initial public offering, Polaris expects to begin work on its Vancouver Island quarry next week. Construction on a \$23 million discharge terminal in San Francisco is scheduled to begin in the spring and is expected to receive its first sand and gravel shipment in early 2007.

Polaris has signed a 10-year contract with **CSL International**, a division of **CSL (Canada Steamship Lines) Group Inc.** – owned until 2003 by former Prime Minister Paul Martin – to transport the aggregates in self-discharging vessels.

Richmond's **Seabulk Systems Inc.** has won the contract to build a ship-loading facility at Polaris's quarry site.

Another B.C. company, Sechelt's **Construction Aggregates Ltd.**, has ramped up production to meet the increased demand in California. Construction Aggregates is part of **Lehigh Northwest Materials Ltd.**, a division of German cement giant **Heidelberg Cement**.

Some sand and gravel producers in California have shut down because they either can't get new permits or the materials have been exhausted, said Polaris senior vice-president and CEO **Herbert Wilson**.

"There's just nothing more left in the ground where there are."

Another potential new player for the U.S. market is **Pan Pacific Aggregates Ltd.**, a subsidiary of U.K.-registered **Pan Pacific Aggregates plc.**, said **Paul Allard**, executive director of the 45-member **Aggregate Producers Association of B.C.**

Allard described California's aggregates need as "tremendous."

"The regulatory burdens placed upon aggregate producers in that state have forced them further and further away from the economic centres of the major cities and consequently they're having to come to Canada to acquire their aggregate reserves," he said.

Imports from Canada have increased over the past few years and California will increasingly look north for its sand, said **Charles Rae**, interim executive director of the **Construction Materials Association**

of California.

Wilson said six million tonnes of local sand and gravel production in the San Francisco Bay area alone was shut down between 2001 and 2005.

Polaris has secured one major sales contract in San Francisco.

U.K.-born Wilson, former president of Texas-based aggregates producer, **Lime and Minerals Inc.**, declined to name the customer, citing a confidentiality agreement.

He said the contract was the basis for Polaris's foray into California and represents about half of Polaris's expected first-year production and about 25 per cent of its full capacity production.

Its proposed Eagle Rock open pit, which is 15 kilometres south of Port Alberni, has a permitted volume of up to six million tonnes per year, the same as the Orca Sand and Gravel project it's developing near Port McNeill. The area is part of an existing tree farm licence and Polaris has leased 350 hectares of the land from **Western Forest Products**.

Wilson said the aggregates will be used in ready-mix concrete for everything from houses to highways in the U.S.

He added that while the company will initially focus on the California market, it could become a supplier to B.C.'s hot construction market.

The province consumes around 50 million tonnes of aggregates a year; the U.S. uses approximately one billion tonnes annually.

Commenting on the IPO, Wilson said Polaris needed \$65 million to close it but received \$79.8 million, allowing the company to reduce its debt commitment by US\$16 million. That debt now sits at US\$31 million.

Wilson pointed out that the five years Polaris spent navigating permitting processes and building relationships with First Nations and other stakeholders would have been extremely difficult for any company to do without investors.

"We consistently say in our industry that there will not be any more Mom and Pop companies ... because the funding you need upfront – and it's all pure risk capital – is very substantial. Our shareholders contributed \$20 million prior to the IPO just to get through the permitting and studies and planning stages of the game."

Polaris's chairman is **Roman Shklanka**, who held the same position with **Canico Resources Corp.**; its president is **Marco Romero**, a former senior vice-president of **Ivanhoe Mines Ltd.** ♦

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