EVENT: POLARIS MINERALS CORPORATION – SECOND QUARTER RESULTS CONFERENCE CALL
TIME: 11H00 E.T.
REFERENCE: CNW GROUP
LENGTH: APPROXIMATELY 28 MINUTES
DATE: AUGUST 10, 2009

OPERATOR: Good morning, ladies and gentlemen. Welcome to the Polaris Minerals Corporation second quarter results conference call.

At this time, all participants are in a listen only mode.

Later, we will conduct a question and answer session with instructions provided.

If anyone has any difficulties during the conference, please press star-zero for operator assistance.

I would like to remind everyone that this conference call is being recorded today, Monday, August 10, 2009 at 11:00 a.m. Eastern Time.

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

HERBERT WILSON (President and Chief Executive Officer, Polaris Minerals Corporation): Thank you, Operator. Good morning, I am Herb Wilson, President and CEO of Polaris Minerals and I am joined this morning by my colleagues, Lisa Dea, Chief Financial Officer; and David Singleton, the President of Eagle Rock Aggregates, our U.S. subsidiary.

Thank you for joining us to discuss the second quarter financial results and our current outlook. We hope you 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 that involve risks and uncertainties which may cause actual results or performance of the company or of the industry to be materially different from those expressed or implied by such forward-looking statements. As a reminder, all currencies are in U.S. dollars unless otherwise stated.

Sales this quarter continued to reflect the recessionary conditions in North America and especially in our major market, California, where the state's budget problems reemerged and then showed that a much hoped for stabilization in the economy did not occur.

Sales of sand and gravel from the Orca quarry in the quarter were 487,000 tons; that is about 3 percent below last year's level. However, a more accurate reflection of the market this year are the total sales for the first six months of 693,000 tons, a reduction of 32 percent from the same period last year. This figure is very much in line with the foul weather numbers for the same period recently disclosed by the major U.S. aggregate producers.

Revenue for the quarter decreased by 5.4 percent to $6.2 million compared with 2008 while revenue for the first six months fell 30 percent compared to last year.

The loss from operation, net of stock based compensation, was $1.65 million in the second quarter compared with 1.41 million recorded last year.

For the first six months of this year, the loss from operation, net of stock based compensation, was $3.42 million compared with a loss of 2.85 million recorded in 2008. This reflected our efforts to control costs in the light of the $4 million reduction in revenue in the comparable periods.

The company's net loss for the quarter was $3.34 million or $0.06 per share compared with a net loss of 1.93 million or $0.05 per share in the comparable period.

For the six months, the net loss was 4.73 million or $0.09 per share compared with a net loss of 4.39 million or $0.12 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 $342,000 compared to a profitive (phon) margin of 397,000 in the comparable quarter.

It should be noted that this quarter included a charge of $241,000 for dead freight as shipping efficiencies proved impossible to maximize at the lower demand level.

The gross margin for the first six months was a loss of 746,000 compared with a positive margin of 620,000 in 2008.

Performance is all about volumes produced and sold. And the current market conditions, proclaimed by industry leaders to be the worst since the 1930s, failed to live up to what had been previously projected by our major customers for the second quarter. We have contained costs at both our quarry and terminal operations by flexing operating hours and reducing costs, including overhead.

Polaris Minerals is, however, both an operating and a development company and is at a relative early stage of growth. We have developed high quality assets and are debt free. And it is essential that we do not overreact to this extremely difficult market period by losing sight of the stretch needed to achieve our strategical objectives. I would like to address three key business areas - the market, our continuing development strategy and our cash resources.

When we discussed expectations on the previous conference call in May, we had volume projections from our key customers reflecting a common belief that the second half of the year would begin to benefit from demand growth fueled by the U.S. Federal economic stimulus plan and the American Recovery and Reinvestment Act.

The State of California had received $3.9 billion for infrastructure work and we were all reassured to see the announcement of the state's budget agreement in February. The outcome has been very different.

The States have seen its revenues decline by a further 20 percent, such that in June the budget settlement was not consummated and yet another Senate standoff ensued with existing contracts being paid by I.O.U.'s. Uncertain of their revenue income, the state had reduced capital spending which appears to have offset the benefits from the federal initiative designed to kick start the construction and building industries.

On a more positive note, customers are now reporting an increasing level of bidding on contracts and the state's intention appears to be to spend the majority of the stimulus monies on new roads as opposed to maintenance on non-highway projects. This is good news for Polaris because, in the context of densely populated city areas such as San Francisco, new road projects mean elevated highways, ramps, tunnels and other structures that require a lot of high quality concrete and therefore high quality aggregates.

As there is a longer lead time in terms of permitting, engineering design and contract documentation for such new construction, this strategy should begin to positively impact our demand for product in 2010 with acceleration through at least 2011 and 2012.

There are also statistics suggesting that the housing market has bottomed and some modest improvement is underway. However, the private non-residential sector remains stagnant as tight credit markets make project financing very difficult to secure. Unfortunately, we do not see any early recovery in this important sector.

Regardless of all these short term cyclical trends, the underlying factor in long term demand for construction materials is population growth. And despite current pressures, the population of California is increasing and will continue to increase while the availability of local construction aggregates will continue to diminish.

There is one further layer of Federal funding in the U.S., which is every bit as important to our industry as the stimulus packages, and this is the highway funding appropriation known by the acronym SAFETEA-LU. A proposal to renew this ongoing federal commitment, now before the U.S. Senate, calls for 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 which could benefit both San Francisco and Hawaii.

The bill recently received a unanimous 30 to nil vote of approval from the Senate's appropriations committee and is now expected to receive full Congressional approval in the fall. The combination of all these measures is the basis for the aggregate industries anticipation of a return to pre-recession levels of output in the medium term.

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 to where volume levels might be profitable but do not achieve the business' potential.

The terminal outlets already developed in the San Francisco Bay area have sufficient capacity to allow the companies to be profitable when the market returns to reasonable levels and we cannot afford to lose momentum on the southern California terminal prospects.

San Diego and Long Beach 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.

Last week, on August 4th, we entered into an exclusive negotiating agreement with the Port of San Diego together with our strategic alliance partner. This agreement secured the exclusive right to negotiate an option to lease a most strategic site in that port—that the port is making available for an aggregate importing terminal; a development that would be very similar to our Richmond terminal.

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.

Permitting at the Long Beach property continues, although market conditions are suggesting that San Diego could be the development priority.

In the present depressed sales environment, we have not achieved the cash flow positive state that we expected at this stage in our development and our cash burn rate is approximately $500,000 per month. This monthly cash deficit should be gradually eliminated when sales volumes return in 2010.

At the end of the second quarter, the company had working capital of $11.2 million which included $4.7 million of cash. We have been actively pursuing three opportunities to improve the cash position through the realization of investments including the quarry (inaudible), the long term loan which financed the tug and barge in San Francisco, and marketing of the company's asset-backed commercial paper.

On a very positive note, we are now pleased to advise that on Friday we accepted a bid of $2.7 million Canadian for the company's asset-backed commercial paper Class A1 notes. These proceeds will shortly be added to our cash position bringing it to an approximately $7.1 million.

We are pleased to finally have this liquidity and, should we be successful with the remaining two initiatives, a further amount of approximately $6 million could be realized. These are priorities for us but progress is slow, being hampered by today's weak credit market, and we are not able to predict the outcome at this time.

In parallel to these specific initiatives, we have reduced capital expenditures to minimum levels and, following the commissioning of the second truck load out system at Richmond terminal, our existing operation has no immediate need for further capital expenditures.

As our new terminal development plans proceed through the permitting and planning phases over the next two to three years, we expect to realize cash from the outstanding warrants that expire in 2011 and believe that improving levels of sales to existing terminals, coupled with more enlightened credit markets, will enable us to proceed with our development plans in the best interest of all stakeholders.

In conclusion, the picture to the end of this year still lacks clear visibility and the final outcome will be influenced by the timing of the commencement of new project construction.

At this time, our major customers are not suggesting any significant change to the rate of consumption experienced in the second quarter but each month we receive a rolling three month forward sales requirement on which we then base a three month shipping requirement. In this way, we have the flexibility to rapidly respond to increases which will eventually be brought about through stimulus spending.

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.

OPERATOR: Thank you. Ladies and gentlemen, we will now conduct a question and answer session.

If you have a question, please press the star followed by the one on your touchtone phone. You will hear a tone acknowledging your request. Your questions will be polled in the order they are received. Please ensure you lift the handset if you are using a speaker phone before pressing (inaudible).

Your first question today comes from David Charles of GMP Securities. Please go ahead.

Mr. Charles, your line is open please go ahead.

DAVID CHARLES: Sorry about that. I was on mute. Good morning everyone. I'm just wondering, I know this is the real hard question—well, not the real hard question, there's probably lots of hard questions out there. But I'm just wondering can you help us, the analysts, sort of have some idea as to how sales would go for the rest of the year?

I mean obviously I would assume in the 487,000 tons that was shipped in the second quarter, part of that actually was a carry over from the first quarter. So I'm just really wondering, you know, what the type of run rate might be for the rest of the year?

HERBERT WILSON: Well, yes good morning again, David. You're absolutely right about the carry over and that's why we try to focus on the six month results. It's a much fair—more honest interpretation of where the market is. And in round numbers, the market's down 30 percent as already confirmed by Vulcan Materials and Martin Marietta in their second quarter calls.

Nothing is significantly changed from the run rate in the second quarter. But the reason my comments ended about the flexibility in our system, it is literally a month by month situation looking forward to 90 days. We get a rolling three month forecast which we turn into shipping, so the forecast we're set on today could be quite different in three or four weeks time.

We're all expecting a little bit of an uptick in the fourth quarter but whether it's, you know, material we just don't know at the moment and I'm sorry I really can't be more clear than that.

And I don't know, David, if you've got any comments to add to that but the market at the moment remains full of promise and not a lot of action.

DAVID SINGLETON (President of Eagle Rock Aggregates, Polaris Minerals Corporation): Yes, morning David. It's right, I mean we're sorry that we can't be more precise but we wish really that we could because our whole business effort at the moment is responding to the unknown. It is very, very difficult.

There are some little signs, there's no question. The bidding in July by our customers was at a much brisker level, but it followed the most depressing June you could ever imagine, which was really a kismet to the end of our second quarter.

But we are supplying materials as we speak. The San Pablo Dam which is a new project; there's 50,000 tons of sand going out and we are expecting that Sanex plans in San Francisco will start to pick up from an absolutely awful level. So we could get a little bit more but it's not going to be dramatic.

And of all the tension along with CSL our shipping partners there's really now trying to focus in on 2010 and see whether there's going to be a material shift during that period which we believe will, is far more likely.

DAVID CHARLES: Is there any way, I mean I understand that you know although you have a relatively simple business as you mentioned that the logistics can be quite complicated from month to month. I mean I suppose the question then is if we can't get an idea of where the revenues are going to be and clearly you're—the cost that you control yourself, you seem to be doing a very good job there. What about, you know, the freight costs—the unexpected, let's call it that, freight costs? I mean what's the chances in the second half of the year that you're going to bump into something like that again?

HERBERT WILSON: Well, I must say after this morning's session that David and I are both off to spend some time with CSL talking about the shipping situation and what can be done to maximize it.

Our challenge is that the market moves around. Last year, funny enough, when we put the budget together we were all worrying about the Richmond terminal. This year the bulk of the work and the promises is focusing on deliveries out of Richmond. So balancing deliveries into that terminal, which are required at a faster rate than perhaps at Redwood City, is where the problem arises for us. I believe, from listening to the industry, that all the guys are experiencing these same issues and talking to their shipper about the need to develop further flexibility. And again, it's just one of those things that's daily on our list for trying to drive a better position with, but it has been extraordinarily difficult.

We, as a young business, establishing credibility and reliability for these long term movements we've had to make sure we don't let customers down and we haven't done so we've maintained supplies and I think are developing a very good reputation in the market which is so necessary when the business does return.

DAVID CHARLES: But you are unable to say whether you might have some dry freight costs in the second half of the year?

DAVID SINGLETON: I think I should perhaps answer that, David. We're determined not to. And that is one of the focus points that we will be directing with CSL at this meeting that Herb referred to and there are ways in which we can avoid it.

The $241,000 that we incurred in the second quarter was a killer for us; we can't do anything other than to recognize that but as Herb says it was vital that we did so.

The one thing we can't do, even in this depressed state, is because of logistical issues is run out of material and we were determined not to. Well equally I'm determined not to have that sort of cost in the third and fourth quarter if we can possibly avoid it.

I have to say one positive—really positive thing that happened of course was changing the oil recovery costs from the annual recovery and behind us to a quarterly recovery. That's been very useful, been well received by the customers. Oil prices have gone up a little bit since the first quarter, as you know, and we're not stuck with having to carry that for the next six months or so.

So that was a very good step forward and we'll just continue to be as efficient as we possibly can on the logistical side.

HERBERT WILSON: And despite all this, the prices have remained stable and that's another very important feature to bear in mind.

DAVID CHARLES: Just one question on the cash, I mean you've—with your announcement basically that I suppose this morning that you've accepted 2.5 million from the ABCP. Now I just want clarification that, those notes had a face value of $4 million, is that it?

LISA DEA (Chief Financial Officer, Polaris Minerals Corporation): $5.9 million (unintelligible).

DAVID CHARLES: (Inaudible).

LISA DEA: The original value was 5.9 million.

HERBERT WILSON: Yes, on the piece that we sold because that's not our entire holding of this asset-backed paper. We were able to get the value we have them on our balance sheet for. We had written those—that class of notes down per our auditor's advice to $0.55 on the dollar and that was the rate we were able to achieve. And we took the view that that market simply hadn't developed as in the way that everybody had predicted it would. The opportunities were very spotty and it'd been all over the place. And once we got an offer that allowed us to move it at book value, we decided it was the better choice to make.

DAVID CHARLES: And there's how much left outstanding then, ABCP paper?

LISA DEA: It's about; it's less than 100,000.

DAVID CHARLES: Okay. Thank you very much.

HERBERT WILSON: Thank you, David.

OPERATOR: And your next question comes from John Hughes of Desjardins Security. Please go ahead.

JOHN HUGHES: Thanks Operator. Sorry just one quick follow up to David's question there on the 2.7 million Canadian; is there any—again just to clarify, is there any relative to book or for earnings or a curl based third quarter results, is there any loss, gains, is there any material impact on earnings as a result of that sale?

LISA DEA: There'll be a small write off related to that. It'll be less than $500,000 likely.

JOHN HUGHES: Oh.

HERBERT WILSON: Now on the actual piece we sold, there's no write off but the remaining notes that we hold are frankly being regarded as—it's junk paper (inaudible) and so we're attributing no value to those. They may or may not realize something in future but there's no earnings impact, John, whatsoever.

JOHN HUGHES: Okay, awesome. Thank you very much indeed.

HERBERT WILSON: Thank you, John.

OPERATOR: Ladies and gentlemen, if there are any additional questions please press the star followed by the one.

And your next question is a follow up from David Charles of GMP Securities. Go ahead.

DAVID CHARLES: Yes maybe seeing as there's not many, many more questions, just very quickly on the, you know, your run rate; you're saying that you're using about—or eating true about $500,000 a month. I mean it's not a dramatic amount of money but now that you've sold the ABCP paper, you know, it sounds like you're going to have about, what, $7.4 million which means that you'd have 15 months of cash on the books? And is it safe to say that you're in reasonably good shape from a cash perspective in the sense that by the end of the year you could see better business and you could become cash flow positive?

HERBERT WILSON: I think that's a very fair summary, David. We do feel that we're safe, that we're okay. We don't take anything for granted at the moment. You know, this market has taken us all by surprise and you know David Singleton eluded to the fact that June was the most awful month. Historically June is one of the bomb burner months for this industry and all of our customers everywhere were just amazed that it was such a poor month. We then hear that July has been a very much better month and, you know, really some encouragement so it has been all over the map.

We've taken these steps to make ourselves stable. We are perhaps a long way down the road on the sale of this tug which would further round out the number, as close as I can get at the moment to $10 million. So yes we've got no immediate concern and then we do believe that, because there is no capital to go out in 2010, and some of the numbers that show in this quarter in capital expenditure aren't truly what I would call capital. We've had this tax assessment from the B.C. Government of social services tax. $0.5 million of it. It had to be treated as capital expenditure even though we're very confident that we'll get it back and our legal counsel is working on it.

If we exclude the capital effect from our cash numbers and the burn rate per month, there is something approximately $215,000 per month.

So, yes we're fine. And I can only stress this has been a setback. I often joke but very seriously, you know, David Singleton and I have worked in this industry our entire working lives. I think we can acclaim to accumulated 85 years of experience. We've never seen a period like this. We've absolutely never seen the market take tumbles of this magnitude, but it can recover very quickly and we think that is going to happen starting in 2010 and then we'll get our game plan back on track.

OPERATOR: Ladies and gentlemen, if there are any additional questions please press the star followed by the one.

Mr. Wilson, there are no further questions at this time. Please continue.

HERBERT WILSON: Thank you, Operator. Well, I'd just like to thank everybody for joining us and listening to these comments. This has to be the darkest period in the construction market as we see it and slowly bit by bit we think it's going to come around and we look forward to chatting with you all in the subsequent quarters. So thank you for your interest.

OPERATOR: Ladies and gentlemen, this concludes the conference call for today. Thank you for your participation and you may now disconnect your lines.

*****