Polaris Materials Corporation


World-class Quarrying Operations and Exposure to US Economic Growth at Canadian Prices

Annual Report for Year Ended December 31, 2015

Management's Discussion and Analysis

Audited Financial Statements

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POLARIS MATERIALS

Letter to Shareholders

Dear Shareholder,

We are pleased to inform you that 2015 marked Polaris' first full year of profitability since becoming a publicly listed company. A combination of healthy market dynamics, combined with operational improvements and a continuing focus on profitability resulted in a significant margin gain during the year. We continue to see positive developments in both national and local market conditions, and our underlying thesis for the business remains intact. Local quarries in key urban markets in California face declining reserves and product quality with no permits for new projects on the horizon. These factors are expected to lead to increased demand for Polaris' high quality aggregate product.

While 2015 was profitable, we did see declining volumes in comparison to 2014. We of course value profits over volume but we also understand the need to achieve our targets. We have and continue to be in close contact with our major customers, to focus on achieving scheduled sales and improving visibility to end-user demand, pricing, and overall market conditions.

Looking forward to 2016, we started commercial operations at our terminal in the Port of Long Beach and have experienced better than expected initial sales uptake at this operation. Our strategy in this market is focused on communicating the end-to-end value for high performance structural concrete aggregates to designers, engineers and contractors, so they can appreciate the impact on the value chain that our high quality materials can achieve for all participants. Polaris' aggregates are harder, more easily placed, and use less cement than competing materials. Overall, buildings can be designed to achieve increasingly stringent standards with simple mix designs that mitigate costs and improve performance while providing the opportunity to increase valuable floor space. Following the success of this approach in southern California, we are working hard with our key customers in northern California to share this marketing strategy.

2015 was also a year of transition for our management team, beginning in October as I took on the role of President and CEO. Herb Wilson transitioned into a well-deserved retirement after shepherding the Company through one of the worst construction markets ever recorded. Herb will continue to be involved in setting the strategic direction of our company as Executive Vice Chair and Director. Darren McDonald, in addition to his responsibilities as Vice President, Finance and CFO took on the role of Corporate Secretary on October 1, while Scott Dryden, previously our Vice President, Business Development, has taken on expanded responsibility as Vice President, Operations. Early in 2016, we added Nicholas Van Dyk as Vice President, Investor Relations and Corporate Development, and we have also made several key additions to our operating team in both Vancouver Island and California.

I am very excited about the opportunities that we see for this year and beyond, and confident we have the key team members in place to make significant strides for the company. We would also like to thank you, our shareholders for your patience and support as we work to build our company and set it up for success. We see a bright future for Polaris, with the recently announced Black Bear development project on the horizon and we look forward to sharing our successes with you in the year ahead.

Sincerely,

[signed]

Ken Palko
President and Chief Executive Officer

POLARIS MATERIALS

(US dollars, except where noted)

(Unit of weight is US short tons)

Management's Discussion and Analysis
Year Ending December 31, 2015

The following discussion and analysis of the financial condition and operations of Polaris Materials Corporation, (the "Company", "Polaris" or "we") has been prepared by management as of March 1, 2016, and should be read in conjunction with the Company's audited annual consolidated financial statements for the year ended December 31, 2015, which have been prepared in accordance with International Financial Reporting Standards ("IFRS"). This Management's Discussion and Analysis contains "forward-looking statements" that are subject to risk factors set out in a cautionary note contained herein. All amounts are in United States dollars unless otherwise noted.

Executive Summary

Financial highlights

- Gross profit for 2015 of $4.9 million, compared to $1.2 million in 2014, is a new annual record as gross profit increased $3.7 million or 307% from the prior year
- Gross profit per ton for 2015 of $1.65 represents a new annual record, as it improved by $1.30 per ton or over four times the $0.35 per ton recorded in 2014
- Fourth quarter gross profit of $1.6 million ($1.93 per ton) was an increase of 144% compared with $0.7 million ($0.88 per ton) in the prior year
- The Company recorded its third consecutive year of positive adjusted EBITDA during 2015 of $5.5 million ($1.88/ton) compared with $0.5 million ($0.16/ton) last year
- Cash from operating activities for 2015 of $0.7 million ($0.23 per ton), was a $4.4 million increase compared with cash used by operations for 2014 of $3.8 million ($1.10 used per ton), as operating cash flows during the year were favourably impacted by price increases and operating efficiencies.

Overall, the Company's annual and fourth quarter results for 2015 reflect continuing margin expansion and improvement in profitability. Gross profit for 2015 and for the fourth quarter, improved significantly over their prior year comparatives as the Company continues to focus on margin expansion through pricing and cost control. Construction activity remains relatively robust in northern California as overall demand outlook continues to improve, and we believe the Company is well positioned to maintain margin growth. Both revenue and product volumes improved in the fourth quarter of 2015 when compared to the first three quarters of the year and to the comparative fourth quarter in 2014, as the Company's Strategic Alliance Partner addressed distribution problems encountered earlier in the year by introducing a new supply chain management initiative. This initiative seeks to provide better coordination and planning of sales and logistics.

Key value drivers

- Strong financial position and robust balance sheet with a yearend cash balance of $10.5 million and no long-term debt (excluding equipment financing leases).
- Continued gross margin expansion through improved market prices, ongoing cost control initiatives and the benefit of continuing weakness in the Canadian dollar.
- Low energy prices improve competitive positioning of Orca products versus local suppliers and reduce quarry and terminal operating costs
- Weak Canadian dollar benefits gross margins as sales are almost entirely in US dollars while quarry cash operating costs and corporate SG&A costs, are primarily in Canadian dollars.
- Favourable local market conditions should provide insulation from global economic turmoil with 5% growth in US cement consumption and 6% growth in US construction starts forecast for 2016. In addition, $305 billion of new US infrastructure funding was signed into law in December 2015, including over $200 billion in Federal Aid Highway Program spending.
- The Orca Quarry provides a uniquely differentiated product of high quality aggregate and the Company continues to focus on opportunities where Polaris' products provide measurable value to the end user. This strategy has positioned the Company to compete effectively against local aggregate suppliers on a number of major high-specification projects.

We have superior aggregate operations and favourable long-term growth prospects, which means we are well placed to capitalize on market recovery. The Orca quarry is presently operating at 70%-75% capacity (based on current staffing levels) and that places us in a healthy position to further leverage fixed costs to sales as the economy grows. Polaris' operating expertise and differentiated marketing strategy, which seeks to realize the value of our high quality aggregates, provide attractive opportunities for increased unit profitability. Also, our strong balance sheet positions the Company to pursue attractive bolt-on opportunities, such as the Black Bear project, which could provide increased flexibility in product mix while utilizing existing infrastructure for production, stockpiling and ship loading.

New executive leadership team

In May 2015 a new executive leadership team was announced, to be led by Ken Palko, President and Chief Executive Officer, effective October 1, 2015. Continuing with Mr. Palko on the leadership team are Darren McDonald, Vice President, Finance and Chief Financial Officer, and Scott Dryden, promoted to Vice President Operations. Also, on October 1, 2015, Herb Wilson became Executive Vice Chair of the Board of Directors and Mr. McDonald assumed the additional duties of Corporate Secretary. Early in 2016, we added Nicholas Van Dyk as Vice President Investor Relations and Corporate Development. We believe the new leadership team enables the Company to pursue growth and profitability while further leveraging the significant contributions made by the Company's former executive officers, who we wish all the best in their well-deserved retirement.

Market developments

The Company's markets in the busy San Francisco/San Jose corridor continues to be strong and there are now signs that the north and east San Francisco Bay markets are benefitting from increases in private housing and commercial developments, an inevitable consequence of the escalating property prices in San Francisco and Silicon Valley. The Company's principal market for aggregate products is the ready mixed concrete manufacturing sector and significant structural changes have taken place in that sector around San Francisco Bay. In 2012 Central Concrete Supply Co., a division of US Concrete, a NASDAQ listed public company, acquired a major independent producer, Bode Concrete in the city of San Francisco, and in 2015 they acquired Right-Away Redy Mix, another large independent producer in the East Bay. Through its relationship with Cemex, Hanson Aggregates, and their supply to Central Concrete, the Company has established itself as a significant supplier of concrete aggregates to the city of San Francisco.

We believe the continuing demand in northern California, coupled with the recognition of the value of the high quality Orca aggregate to meet exacting specifications for concrete, is positioning the Company to participate in real price increases occurring in the various markets. The California customers that service the markets from the city of San Francisco down the peninsula to San Jose, the corridor generally referred to as Silicon Valley, are seeing the strongest demand driven by the very successful high-tech sector in those areas. However, the market has been patchy with the east and north Bay markets lagging behind in recovery. It now appears that this situation is gradually improving with a number of larger projects planned, particularly in the private housing sector. The market conditions and material quality enabled price increases to be applied to some of the Company's outlets which commenced on January 1, 2015.

The Company maintains its focus on realizing the value of Orca aggregates for its customers and their end users. The trend for high strength concrete work that enables improved building designs is expected to continue in both Northern and Southern California. Furthermore, as multi-story projects suited to the use of high strength concrete, are typically located in the city centers, where Polaris and its customers are most often better situated to supply these projects than local aggregate sources that need to truck materials over increasingly congested city streets.

The Fixing America's Surface Transportation ("FAST") Act, a long term surface infrastructure funding program signed by President Obama on December 4, 2015 authorizes $305 billion dollars over a 5 year period, starting in 2016. It is estimated that California will benefit in cumulative state growth in aggregate demand over that period by 9.5% annually. This highway bill, coupled with existing construction activity, will require more raw materials overall and will help support the positive pricing momentum already established in our markets.

The Dodge Momentum Index followed a saw tooth pattern through 2015 but the overall trend has been positive ending the year with a 2.4% increase over December 2014. The Portland Cement Association also indicates expected growth in US cement usage of 5% in cement demand in 2016 and while Polaris' markets are somewhat discrete in these larger pictures, there are a significant number of large projects starting or underway in both San Francisco and Los Angeles areas that substantiate this expectation. The visibility of these large projects and the high quantity of the materials they require in a short period of time have created close discussions with our customers to maintain adequate inventory levels, smooth out the supply and distribution chain and take advantage of the opportunities that have arisen.

In respect of private sector construction investment, we believe that the encouraging statistics showing a resurgence in private housing will continue albeit at a measured pace. Although this sector is less influential on the demand for

Orca Quarry materials than private commercial investment, it is nonetheless helpful that each sector of the construction economy recover towards normalized levels, enabling a return to sound competitive factors. Increased multiple occupancy unit construction activity in San Francisco, coupled with strong private commercial activity, particularly in the San Francisco/San Jose corridor is contributing to increased demand for Orca Quarry product. House prices are reported to be increasing strongly in the San Francisco market which can be expected to benefit housing starts and commercial development to the north of the Golden Gate Bridge and also in the east Bay, areas that have lagged behind the upsurge in demand experienced in the south and west Bay area.

Local reserves of construction aggregate continue to decline and the development of new replacement quarries is still strongly opposed by local residents in most markets, especially those crucial to Polaris' business. Recent examples of the difficult resource permitting climate are: Lehigh-Hanson ceasing limestone aggregate production in Cupertino at the end of 2014, this operation had been suspended some three years earlier pending resolution of a permitting issues; the refusal to permit a proposed large new granite quarry in Riverside County north of San Diego; and the rejection of a new hard rock quarry proposed near Fresno. Both the San Diego and Fresno proposals failed due to the high level of public concern about such operations. In August, 2014, an application to develop a sand and gravel quarry at Paicines Ranch, approximately 90 miles south of San Jose, was abandoned by the proponent before the county board could consider it following "significant opposition". However, not all applications fail, in July, 2014, West Coast Aggregate Supply in Riverside County, which was established in 1982, received a thirty year extension to their mining permit. A new sand and gravel operation located in the Palmdale area, often referred to as 'the high desert', to the north of Los Angeles was recently permitted and a hard rock quarry east of the city was developed by a ready mixed concrete producer as a direct replacement for its depleted sand and gravel resource.

Selected Annual Information

	2015	2014	2013
Consolidated financial information			
($000's, except per share amounts)			
Revenue	43,085	45,241	44,893
Cost of goods sold	38,229	44,048	44,869
Gross profit	4,856	1,193	24
Selling, general and administrative expenses	5,251	6,571	5,364
Operating income (loss)	1,017	(6,837)	(7,060)
Net income (loss) attributable to shareholders	491	(6,685)	(8,208)
per share (basic)	*0.01*	*(0.08)*	*(0.11)*
per share (diluted)	*0.01*	*(0.08)*	*(0.11)*
Cash flows from (used in) operating activities	668	(3,773)	(1,362)
Cash and cash equivalents	10,501	14,231	9,385
Working capital	17,803	19,025	11,756
Total assets	77,501	83,878	78,571
Total non-current liabilities	4,268	4,974	4,538
Key performance indicators			
Sales of aggregates (000's tons)	2,946	3,434	3,364
Production of aggregates (000's tons)	3,183	3,418	3,286
Average selling price ($/ton)	14.62	13.17	13.35
Cost of goods sold ($/ton)	12.98	12.83	13.34
Gross profit ($/ton)	1.65	0.35	0.01
Gross margin (%)	11.3%	2.6%	0.1%
EBITDA ($/ton)	1.60	(0.58)	(0.88)
Adjusted EBITDA ($/ton)	1.88	0.16	0.03

Review of Annual Financial Results

Sales of aggregates

Aggregate sales for 2015 of 2.9 million tons were a 14% decrease over 2014. Principally, the Company's aggregate sales were impacted by a management restructuring within its Strategic Alliance Partner which resulted in adverse aggregate distribution patterns outside previously agreed budgets. This situation has been addressed by the Company's partner which has now established a supply chain management group to provide better future coordination between the companies in planning aggregate sales and logistics. This was not a reflection of the underlying market demand and the Company saw a significant improvement in the fourth quarter.

Revenue and pricing

Revenue for the year ended 2015 decreased by 5% to $43.1 million, compared with $45.2 million in 2014. Despite lower than expected volumes, revenue benefited from selling price increases and positive sales mix. Base selling prices, net of fuel-surcharges, increased compared to 2014 and the proportion of sales delivered to San Francisco, which include freight charges as opposed to those sold ex-quarry, also increased compared to 2014.

Average selling price ("ASP") during 2015 of $14.62 per ton increased $1.45 per ton from $13.17 per ton in 2014. Compared with 2014, price variance was a favorable 4% due to price increases. A favorable sales mix variance of 3% was due to increased sales to customers with delivered pricing.

Revenue and ASP per ton are influenced on an annual basis by; base pricing, shipping fuel surcharges, the distribution of tonnage to the various California terminals, and the percentage between delivered and ex-quarry sales.

Cost of goods sold

Cost of goods sold for the year ended 2015 decreased by 13% to 38.2 million, compared with 44.0 million in 2014; whereas, cost of goods sold per ton in 2015 increased slightly to $12.98 compared to $12.83 in 2014. Lower than expected volumes contributed to reduced overall cost of goods sold. Somewhat higher delivery costs due to increased sales mix to customers that include freight, were partially offset by the declining Canadian dollar as quarry costs are incurred in Canadian dollars and translated in US dollars for reporting purposes.

Gross profit and gross margin

The gross profit for 2015 was $4.9 million or $1.65 per ton, a significant improvement over the gross profit of $1.2 million or $0.35 per ton in 2014. Similarly, gross margin improved to 11.3% in 2015 from 2.6% in 2014. As noted above, the improvements in gross profit and gross margin are largely due to selling price increases and the declining Canadian dollar.

Selling, general and administrative costs

During the year ended December 31, 2015, selling, general and administrative ("SG&A") expenses were $5.3 million, including $0.8 million of non-cash stock based compensation, compared with $6.6 million, including $1.5 million of stock based compensation, during 2014. SG&A during 2015 was 12.2% of sales compared to 14.5% of sales during 2014. Net of non-cash charges for stock based compensation, 2015 SG&A represented 10.3% of sales compared with 11.3% last year.

Net income (loss)

The net income attributable to shareholders during the year ended December 31, 2015 was $491,000 ($0.01 per share) compared to a net loss attributable to shareholders of $6.7 million ($0.08 per share, net loss) during the year ended December 31, 2014. The year-on-year net income (loss) comparison benefited from improving gross margins, price increases and the declining Canadian dollar.

EBITDA and Adjusted EBITDA

Adjusted EBITDA and EBITDA for 2015 also improved over year-on-year comparatives (*see Non-IFRS Measures for details)*. Notably, the Company recorded its third consecutive year of positive adjusted EBITDA with the annual metric at $5.5 million ($1.88 per ton). Before adjusting for share-based employee benefits, EBITDA for 2015 of $4.7 million ($1.60 per ton) was an improvement of $6.7 million over the prior year comparative of, negative $2.0 million (negative $0.58 per ton).

Segmented analysis

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

Summary of Quarterly Results

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

	2015				2014			
	Dec 31	Sept 30	June 30	Mar 31	Dec 31	Sept 30	June 30	Mar 31
Consolidated financial information								
($000's, except per share amounts)								
Revenue	11,848	10,395	10,328	10,514	10,038	13,429	13,246	8,528
Cost of goods sold	10,246	8,837	9,277	9,869	9,381	12,709	13,117	8,841
Gross profit (loss)	1,602	1,558	1,051	645	657	720	129	(313)
Selling, general and administrative expenses	1,183	1,280	1,387	1,401	1,838	2,103	1,321	1,309
Operating income (loss)	504	1,130	(835)	218	(1,238)	(2,174)	(1,754)	(1,671)
Net income (loss) attributable to shareholders of Polaris	294	954	(847)	90	(1,439)	(2,096)	(1,624)	(1,526)
per share (basic)	0.01	0.01	(0.01)	-	(0.02)	(0.02)	(0.02)	(0.02)
per share (diluted)	0.00	0.01	(0.01)	-	(0.02)	(0.02)	(0.02)	(0.02)
Cash flows from (used in) operating activities	1,670	(1,061)	1,431	(1,372)	1,440	(3,445)	(395)	(1,373)
Cash and cash equivalents	10,501	9,019	11,343	11,301	14,231	14,762	20,702	6,989
Working capital	17,803	16,874	17,383	17,516	19,025	20,780	23,125	10,240
Total assets	77,501	78,452	79,269	80,094	83,878	87,942	92,027	73,745
Total non-current liabilities	4,268	4,321	4,640	4,655	4,974	4,565	4,379	4,367
Key performance indicators								
Sales of aggregates (000's tons)	830	730	668	718	750	1,032	1,020	632
Production of aggregates (000's tons)	791	957	710	725	789	989	864	776
Average selling price ($/ton)	14.27	14.24	15.46	14.64	13.38	13.01	12.99	13.49
Cost of goods sold ($/ton)	12.34	12.11	13.89	13.75	12.51	12.31	12.86	13.99
Gross profit ($/ton)	1.93	2.13	1.57	0.90	0.88	0.70	0.13	(0.50)
Gross margin (%)	13.5	15.0	10.2	6.1	6.5	5.4	1.0	(3.7)
EBITDA ($/ton)	1.70	2.65	0.36	1.59	(0.18)	(0.91)	(0.44)	(0.75)
Adjusted EBITDA ($/ton)	1.77	2.80	0.77	2.10	0.58	0.67	(0.27)	(0.48)

Fourth quarter 2015, compared to 2014

Aggregate sales for the quarter were 830,000 tons, an 11% increase from sales of 750,000 tons in same quarter for 2014. Compared to the same quarter in the prior year, the current quarter saw the benefits of its Strategic Alliance affiliate establishing a supply chain management group to provide better coordination between the companies in planning aggregate sales and logistics, and an increase in underlying industry demand.

Revenue for the quarter increased by 18% to $11.8 million compared with $10.0 million in the comparable quarter for the previous year. Fourth quarter revenue benefited from both, further selling price increases and higher volumes compared to the prior year quarter. ASP during the fourth quarter increased $0.89 per ton to $14.27 from $13.38 in the same period of 2014.

Cost of goods sold in the quarter increased by 9.2% to $10.2 million compared with $9.4 million in the same quarter of the previous year. Cost of goods sold per ton of $12.34 was a decrease of $0.17/ton compared to $12.51/ton for the same period in 2014. The increased sales mix to customers that include delivery costs were substantially offset by the declining Canadian dollar as quarry costs are incurred in Canadian dollars and translated in US dollars for reporting purposes.

During the fourth quarter of 2015 the Company's gross profit was $1.6 million, or $1.93/ton, compared with a gross profit of $0.7 million or $0.88/ton in the comparative period. SG&A expenses represented 10.0% of sales and were $0.7 million lower than in the same period of 2014 when they represented 18.3% of sales. Net of non-cash charges for stock based compensation, SG&A represented 9.7% of sales in this current quarter compared with 15.6% last year.

Net income attributable to shareholders was $0.3 million ($0.01 per share) during the three months ended December 31, 2015, compared to net loss attributable to shareholders of $1.4 million ($0.02 per share loss) during the three months ended December 31, 2014. The positive result this quarter was principally attributable to the factors discussed above including; price increases, cost management, and the declining Canadian dollar.

Selling price and fuel surcharge indices

	2015				2014			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Selling Price Index (Q1 2013=100)	109.0	111.4	110.0	112.2	108.3	107.2	106.4	105.1
Fuel Surcharge Index (Q1 2013=100)	57.6	75.6	65.3	92.3	101.4	102.3	100.2	96.3

In the fourth quarter of 2015, the quarter-on-quarter average delivered selling price decreased by 2.2% as a consequence of passing through lower shipping fuel surcharges from the third quarter, which reflected the decreasing trend in the world crude oil price.

Seasonality

The Company's Orca sand and gravel quarry operates year-round, however, sales demand is seasonal due to the impact of poor weather conditions, particularly in the first (winter) quarter which have an impact on production volumes and demand for the Company's products. As a consequence the Company's financial results for any individual quarter are not necessarily indicative of results to be expected for that year. Sales and earnings are typically sensitive to regional and local weather, market conditions, and, in particular, to cyclical variations in construction spending.

Results of Operations

Orca quarry

The Orca quarry continues to be a efficient aggregates production and shipping operation. Annual production tons have doubled since 2011. Mining of proximal material near the plant have allowed for a delay to the relocation of the main pit feed hopper supplying the plant. Planning continues for this pit feed relocation, which when matched with production demands will decrease scraper cycle times by 25% removing the burden of adding more equipment. The ship loader received its 250th ship during 2015; a milestone that is supported by the technological capabilities of the facility to turn a ship around consistently in under 24 hours to deliver to the market.

Marine terminals and ship lightering

Marine receiving terminals are a crucial component in the Company's logistics and opportunities to develop further suitable terminals are scarce and may require substantial investment.

Long Beach, California

The Los Angeles market is exhibiting strong recovery and following enquiries from major contractors experienced in the use of Orca aggregates, the Company decided to proceed with the development of a terminal in Long Beach. The Ports of Long Beach and Los Angeles are currently engaged in major construction projects designed to enhance their ability to receive and efficiently handle much larger container vessels. In July, 2015, the Company made its first delivery to the new terminal as an entry point into the southern California market and on February 1st, 2016 the company began commercial operation at the terminal.

The Company's US marketing subsidiary, Eagle Rock Aggregates, Inc., is the exclusive operator of the new Long Beach terminal and directly responsible for sales. There are no formal alliances in this market, which is considered desirable as the market is dominated by several vertically integrated cement and concrete producers. During 2015, an extensive test program of the Orca aggregate in Southern California provided excellent results to support marketing initiatives. The Company focuses its marketing efforts in Los Angeles on early-stage planning for projects where the premium quality of the Orca Quarry sand and gravel can offer cost effective design solutions. This is necessarily an approach with a longer lead-in time than experienced in Northern California, however, it offers the potential for market entry at prices that reflect the value of the aggregate. The Company is currently working with a local ready mix concrete producer in its bid to supply the concrete for construction of a major new residential tower in downtown Los Angeles, as the design of the new tower calls for high quality concrete to meet stringent project specifications.

Port of Redwood City, California

The operating draft of the shipping channel leading into the Port of Redwood City is a very important factor for the Company's logistics. A reduced draft negatively affects the capacity of CSL vessels delivering material into the port terminal and therefore impacts the efficiency and costs of shipping. This channel has experienced silting, which adversely affected deliverable tonnage to Redwood City in 2015. Dredging of this Federal Channel was completed at the end of 2015, and the available drafts have returned to their previous depths. This development will improve the Company's capacity to supply larger deliveries to Redwood City and reduce the requirements for lightering and their associated costs.

The Corps of Engineers has completed a study to improve shipping access to Redwood City for the long term with additional dredging that includes work over shoals in the Bay itself. The environmental assessment associated with this proposal entered a public comment period at the end of June 2015. Funding of this more ambitious project will still need to be secured from both state and federal sources but if successful it would represent a further significant improvement in the Company's ability to serve this key market.

Lightering

On arrival in San Francisco Bay, fully laden Panamax vessels are partially unloaded while at anchor ("lightered") into barges provided by either Shamrock Materials Inc., or Cemex, under the terms of the long term aggregate supply agreements with each company. Barges are chartered occasionally from an independent operator, particularly during periods of significant draft restrictions for vessels going to Redwood City. After lightering, the balance of the cargo may be unloaded at Cemex's Redwood City terminal, Hanson Aggregates' San Francisco terminal, or at the Company's Richmond Terminal. These arrangements offer the most economic shipping solution by utilizing fully loaded Panamax vessels from Vancouver Island to San Francisco Bay. The increasing demand for Orca Quarry products in northern California assists in maximizing shipping efficiency, although the balance between the individual terminals requires careful management as market forces make each point of sale highly variable. The access to secured lightering capacity is an important barrier to entry into this market.

Fully laden Panamax vessels can dock directly at the Company's Long Beach terminal and lightering is not required to support this operation.

Customers

The Company's Strategic Alliance with Cemex, which was established in 2007, provides for the joint development of new port receiving terminals on the US west coast that will ultimately be required to achieve the Orca Quarry's permitted production of 6.6 million tons per year. Either company may proceed with a legitimate terminal development project should the alliance partner decline the right to participate for any reason. Cemex, a public company, headquartered in

Monterrey, Mexico, is one of a small number of major international cement manufacturers and a significant producer of construction aggregate and ready mix concrete, in markets throughout the world.

A second long-term supply agreement commenced with Shamrock Materials in 2007. Orca Quarry products are unloaded from Panamax vessels, at anchorage in San Francisco Bay, into Shamrock's own barges for transportation to their Landing Way aggregate terminal. Shamrock Materials, headquartered in Petaluma, CA, is a well-established private company supplying ready mixed concrete in the north San Francisco Bay area.

In December 2012, the Company entered into a sales agreement with Hanson Aggregates Mid-Pacific Inc., a subsidiary of a major international building materials company headquartered in Heidelberg, Germany. The agreement has an initial term of three years from the commencement sales, which commenced in February, 2013. In January of 2016, the Company and Hanson agreed that purchases would continue past the third year anniversary date in February 2016 until December 31, 2016.

Through the established sales contracts, plus existing supply and distribution agreements with our customers, additional third party sales are carried out to quality concrete suppliers in the San Francisco bay area.

Other quarry projects

In June 2014, the Company announced that it would investigate a potential limestone deposit, located close to the Orca Quarry that, if viable, would provide coarse aggregates to complement the sand-rich Orca deposit. Initial field studies commenced in 2015 and a resource of potential interest was identified in February, 2015. Bulk samples were submitted to a materials testing laboratory to conduct an initial range of tests which attempted to determine whether or not the mineral could be considered for use in concrete or asphalt in California. Currently, no further exploration of the area is contemplated due to more favourable opportunities identified elsewhere.

In addition to the limestone investigation, the Company identified a potential source of an igneous hard rock that appears to be of similar geology to the Orca gravel and therefore possibly interchangeable from a market perspective. This hard rock deposit is also in close proximity to the Orca Quarry. The deposit, since named Black Bear, received an Investigative License of Occupation on December 18, 2015. The Company has also received letters of support for the project from the 'Namgis and Kwakiutl First Nations. A small scale exploratory drilling program is scheduled to be concluded in the first quarter of 2016 and is targeted at confirming the quality and consistency of the surface samples completed to date. In the near term, and subject to receiving all the necessary permits, the Black Bear deposit is expected to provide a bolt-on source of stone to improve the Orca quarry's plant capacity and balance the sand/stone ratio of production to meet market demand. The long term potential of the deposit could also provide the opportunity for the Company to begin marketing materials specific to the asphalt markets, utilizing the existing Orca infrastructure and ship loading facilities, with the same high quality material properties as the Orca Quarry.

Outlook Update

Management currently anticipates that 2016 volumes into the San Francisco market will be similar to 2015. We are in advanced discussions with a number of potential customers in Los Angeles, San Francisco and other markets outside of California which could drive incremental volumes at attractive margins.

We expect to achieve continued strong gross margins in 2016 as it works with customers to realize the unique value proposition of its products, as well as through operating cost savings and the impact of the weak Canadian dollar. The Company will continue to focus on improving visibility on sales expectations with its key San Francisco Bay area customers. This is expected to provide for increased reliability of shipping schedules and quarry production, and allow for optimal positioning of the Company's products for inclusion in high specification, high value projects.

We expect to advance permitting of Black Bear during 2016 and have implemented a preliminary work plan with minimal funding requirements that will allow the Company to evaluate the project in co-operation with First Nations partners and local stakeholders.

Non-IFRS Measures

Adjusted net income (loss)

The Company has prepared a calculation of adjusted loss for the period in order to better reflect underlying business performance by removing certain non-cash adjustments from its IFRS calculation of loss as it believes this is a useful indicator for investors. Adjusted loss may not be comparable to other similarly titled measures of other companies.

	Three months ended December 31,		Twelve months ended December 31,	
($000's, except per share and per ton amounts)	2015	2014	2015	2014
Net income (loss) for the period attributable to shareholders of Polaris	294	(1,439)	491	(6,685)
Adjustments				
Share-based employee benefits	37	274	792	1,470
Property tax provision	-	180	-	568
Other losses	28	119	19	505
Adjusted net income (loss) for the period	359	(866)	1,302	(4,142)
per share	*0.00*	*(0.01)*	*0.01*	*(0.05)*
per ton	*0.43*	*(1.15)*	*0.44*	*(1.21)*

EBITDA and Adjusted EBITDA

EBITDA, adjusted EBITDA, EBITDA per share and adjusted EBITDA per share ("EBITDA Metrics") are non-IFRS financial measures. EBITDA and EBITDA per share represent net income, excluding income tax expense, interest expense and amortization and accretion. Adjusted EBITDA and adjusted EBITDA per share better reflects the underlying business performance of the Company by removing certain non-cash adjustments from its calculation of EBITDA and EBITDA per share. The Company believes that the EBITDA Metrics trends are valuable indicators of whether its operations are generating sufficient operating cash flow to fund working capital needs and to fund capital expenditures. The Company uses the results depicted by the EBITDA Metrics for these purposes, an approach utilized by the majority of public companies in the construction materials sector. The EBITDA Metrics are intended to provide additional information, do not have any standardized meaning prescribed by IFRS and should not be considered in isolation or as a substitute for measures of performance prepared in accordance with IFRS. These measures are not necessarily indicative of operating profit or cash flow from operations as determined under IFRS. Other companies may calculate these measures differently.

The following table reconciles these non-IFRS measures to the most directly comparable IFRS measure.

	Three months ended December 31,		Twelve months ended December 31,	
($000's except per share and per ton amounts)	2015	2014	2015	2014
Net income (loss) for the period attributed to shareholders of Polaris	294	(1,439)	491	(6,685)
Interest expense	93	120	157	210
Income tax expense	40	152	-	15
Amortization, depletion and accretion	975	1,030	4,086	4,457
EBITDA	1,402	(137)	4,724	(2,003)
per share	*0.02*	*(0.00)*	*0.05*	*(0.02)*
per ton	*1.69*	*(0.18)*	*1.60*	*(0.58)*
Adjustments				
Share-based employee benefits	37	274	792	1,470
Property tax provision	-	180	-	568
Other losses	28	119	19	505
Adjusted EBITDA	1,467	436	5,535	540
per share	*0.02*	*0.00*	*0.06*	*0.01*
per ton	*1.77*	*0.58*	*1.88*	*0.16*

Liquidity

Cash and cash equivalents

At December 31, 2015, the Company had cash and cash equivalents of $10.5 million. Comparatively, at December 31, 2014 the Company had cash and cash equivalents of $14.2 million. During 2015, cash and cash equivalents have been invested in property, plant, and equipment at the Company's Long Beach terminal and Orca quarry along with permitting costs for the Black Bear project.

Operating, financing and investing activities

During the year ended December 31, 2015 cash from operating activities provided $0.7 million ($0.23 per ton), a $4.5 million increase compared with cash used in operations during 2014 of $3.8 million ($1.10 used per ton). Operating cash flows during the year were favourably impacted by price increases and operating efficiencies, which were partially offset by materials stockpiling for commencement of operations at the Long Beach terminal and increased levels of sand inventory at the Orca quarry at December 31, 2015.

For the year ended December 31, 2015 financing activities provided cash of $0.3 million compared to cash provided by financing activities of $15.4 million for the year ended 2014. Financing activities for 2015, related to proceeds from exercises of options and warrants offset by principal repayments on finance leases for equipment used for operations.

Investing activities during the year ended December 31, 2015, used cash of $3.4 million compared to cash used of $5.4 million for 2014. Investing activities for the year ended December 31, 2015 are mainly attributable to site development costs and purchases of equipment for the Long Beach terminal along with purchases of plant and equipment at the Orca quarry.

Contractual obligations

As at December 31, 2015, the Company's contractual obligations are outlined in the following table:

($000's)	Within 1 year	Between 1 – 2 years	Between 2 – 3 years	Between 3 – 4 years	Between 4 – 5 years	Over 5 years
Trade and other payables	4,046	-	-	-	-	-
Finance leases	386	375	366	70	-	-
Property taxes payable	379	519	-			
Restoration provision	-	10	-	-	-	2,928
Commitments relating to operating and through-put agreements	2,232	2,219	2,228	2,274	2,317	7,692
	7,043	3,123	2,594	2,344	2,317	10,620

Capital Resources

The Company's primary sources of capital resources are finance leases for the procurement of heavy equipment and access to capital markets. The Company manages its long-term capital structure and resources in order to minimize the cost of capital while properly managing credit, liquidity, and other market risks. To effectively manage capital requirements, the Company has in place a planning and budgeting process which determines the funds required to ensure the Company has the appropriate liquidity to meet its operating objectives. The Company ensures there are sufficient resources to meet its short-term business requirements, taking into account its anticipated cash flows from operations and its holdings of cash and cash equivalents.

At December 31, 2015, the Company expects it has capital resources and future cash flows from operations to support its normal operating requirements on an ongoing basis, along with planned development and exploration related to quarrying projects. At December 31, 2015, the Company was not subject to any externally imposed capital requirements.

Finance Leases

During the year, the Company financed, through long-term leasing agreements, $534,000 of terminal and computer equipment, at interest rates between 3.90% and 3.99%. The leases terminate between July 2018 and 2019.

Equity

Common share issuances are summarized below:

(000's)	2015	2014
Common shares issued and outstanding at January 1	87,665	80,396
Common share issuances		
Bought-deal public offering	-	6,785
Warrants exercised	625	236
Options exercised	45	248
Common shares issued and outstanding at December 31	88,335	87,665

During the year ended 2015, 625,000 warrants were exercised for proceeds of CAD$937,500. Each warrant entitled the holder to purchase one common share at an exercise price of $1.50 per warrant. At December 31, 2015, there are no warrants outstanding and exercisable.

Capital Expenditures

During the year ended December 31, 2015, the Company invested a total of $3.4 million in plant and equipment, of which $1.2 million related to processing plant equipment at Orca quarry and $2.1 related to terminal site equipment at the Long Beach terminal.

Commitments

Lease and through-put agreements

For the Richmond Terminal the Company has a 20 year ground lease with Levin Enterprises Inc. and a 20 year facilities use agreement with Pacific Atlantic Terminals LLC, both ending January 2028, however, the Company has the option to extend the ground lease for two additional ten-year periods to 2048 and to extend the facilities use agreement by ten years to 2038. Base rent and through-put charges based on minimum aggregate volumes purchased and/or sold through the Richmond Terminal, are payable in monthly payments.

In July 2010, the Company entered into a lease at commercial annual rates, with L.G. Everist, Inc. for Berth D-44, an 8.3 acre site in the Port of Long Beach, California. The lease has an initial term of five years with three additional five-year extension options, exercisable by the Company, which would extend the tenure to June 30, 2030.

Shipping tonnage

The Company has an exclusive Contract of Affreightment ("CoA") with CSL International, Inc. ("CSL"), which is effective from January 1, 2010 with a term of 20 years. The CoA requires the Company to ship annual minimum tonnages of 2,979,000 short tons for each remaining year of the contract. Prior to and for 2015, the Company had the option in any given year to increase or decrease the annual commitment by 10% without penalty. The Company and its shipper have agreed in principle, subject to definitive documentation that after 2015, the future latitude in minimum annual tonnages increases to plus or minus 15% without penalty. Failure by the Company to ship its annual cargo commitment will result in a dead-freight charge equal to 75% of the freight rate for the unshipped tons. Minimum freight volume penalties are payable annually in the year in which freight volumes do not meet the minimum volume requirements in the CoA. Annual minimum volume penalties of $299,000 were paid by the Company in respect of the 2015 contract year.

Strategic alliance and supply agreements

The Company has a long-term alliance with Cemex Inc. ("Cemex"), an international construction materials company. The alliance consists of a 10 year strategic alliance agreement, a standstill agreement, a 20 year supply and distribution agreement for northern California and a 10 year joint cooperation and development agreement. These agreements were executed with an effective date of September, 25, 2007. The Company also has a 20 year aggregates supply agreement with Shamrock Materials Inc., a well-established construction aggregates consumer located in the San

Francisco Bay, area that commenced in April 2007. See "Commitments and contingencies" (note 21) in the Company's December 31, 2015 financial statements for additional disclosures.

The supply and distribution agreement with Cemex, for their northern California exclusive territory, contained both target tonnages that would be expected to be purchased in normal economic conditions and also minimum tonnages that each party was required to supply, or purchase, as appropriate. During 2008 the minimum tonnage was exceeded but in 2009 it quickly became apparent that the magnitude of the collapse in demand in California was such that the contract numbers were unrealistic in the short term. Because this change was forced by circumstances beyond the control or influence of either party, it was agreed that revised tonnage commitments would be negotiated on an annual basis to reflect market conditions prevailing at the time. A similar situation arose with the Shamrock supply agreement with market changes effectively representing a "force majeure" situation. Tonnage expectations are now negotiated annually.

Contingencies

Royalty assessment for Eagle Rock Quarry project

The Company is disputing a royalty assessment for 2012 and 2013. During the first quarter of 2014, the Company's subsidiary Eagle Rock Materials Ltd. was notified by the British Columbia Ministry of Forests, Lands and Natural Resource Operations that royalties were due of CAD$456,000 for 2012 and CAD$496,000 for 2013, based on the tenure date, in respect of the Company's quarrying lease for the Eagle Rock Quarry project. The Company position is that royalties are only payable based on actual production, in accordance with a written undertaking from the responsible government agency prior to commencement of the lease, and as the project has not been developed, no royalties are currently due. Accordingly, the Company has not recorded a provision for the royalties. The Company has presented its case to the Ministry but has yet to receive a response.

Related Party Transactions

During the year ended December 31, 2015, the Company accrued for or paid the following services by related parties. David Singleton, a director of a subsidiary, provided to the Company, management and marketing services at a cost of $72,432 (year ended December 31, 2014 - $151,783). Navigator Management Ltd. ("Navigator"), a company controlled by Marco Romero, provided to the Company, consulting services at a cost of CAD$36,000 (year ended December 31, 2014 – CAD$42,165). The Company has agreed to pay Navigator a retainer of CAD$3,000 per month plus expenses under the agreement. Martineau & Associates ("Martineau"), a company controlled by Eugene Martineau, provided to the Company commercial and marketing services at a cost of $3,000 (year ended December 31, 2014 – $13,500). The Company has agreed to pay Martineau a fee of $1,500 per day plus expenses under the agreement.

These costs are included in general and administrative expenses. Transactions with related parties are recorded at the price agreed between the parties.

At December 31, 2015, accounts payable included; $1,500 due to David Singleton, (December 31, 2014 - $6,425), CAD$3,000 due to Navigator, (December 31, 2014 – CAD$3,764) and $3,000 due to Martineau & Associates, (December 31, 2014 - $nil).

Significant Accounting Judgments and Estimates

The preparation of financial statements requires management to use judgment in applying its accounting policies and estimates and assumptions about the future. Estimates and other judgments are continuously evaluated and are based on management's experience and other factors, including expectations about future events that are believed to be reasonable under the circumstances. The following discusses the most significant accounting judgments and estimates that the company has made in the preparation of the financial statements:

(i) Determination of mineral reserves
Reserves are estimates of the amount of product that can be economically and legally extracted from the Company's properties. In order to estimate reserves, estimates are required about a range of geological, technical and economic factors, including quantities, production techniques, production costs, capital costs, transport costs, demand, prices and exchange rates. Estimating the quantity of reserves requires the size, shape and depth of deposits to be determined by analyzing geological data. This process may require complex and difficult geological judgments to interpret the data. As a result, management will form a view of forecast sales prices, based on current

and long-term historical average price trends. Changes in the proven and probable reserves estimates may impact the carrying value of property, plant and equipment, restoration provisions, recognition of deferred tax amounts and depreciation, depletion and amortization.

(ii) Asset values and impairment charges

If the recoverable amount of an asset or cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount. An impairment loss is recognized immediately in the statement of comprehensive income. Management's determination of recoverable amounts include estimates of sales volumes and prices, costs to sell, recoverable reserves, operating costs and capital costs, which are subject to certain risks and uncertainties that may affect the recoverability of an asset's costs. Although management has made its best estimate of these factors, it is possible that changes could occur that could adversely affect management's estimate of the net cash flow to be generated from its assets or cash-generating units.

For quarrying property interests the Company considers both external and internal sources of information in assessing whether there are any indications of impairment. External sources of information the Company considers include changes in the market, economic and legal environment in which the Company operates that are not within its control and affect the recoverable amount of quarrying property interests. Internal sources of information the Company considers include indications of economic performance of the assets. In determining the recoverable amounts of the Company's quarrying property interests, the Company's management makes estimates of the discounted future after-tax cash flows expected to be derived from the Company's properties, costs to sell the quarrying properties and the appropriate discount rate. Reductions in price forecasts, increases in estimated future costs of production, increases in estimated future non-expansionary capital expenditures, reductions in the amount of recoverable reserves and resources, and/or adverse current economics can result in a write-down of the carrying amounts of the Company's quarrying interests.

(iii) Estimated Reclamation and Closure Costs

The Company's provision for reclamation and closure cost obligations represents management's best estimate of the present value of the future cash outflows required to settle the liability which reflects estimates of future costs, inflation, and assumptions of risks associated with the future cash outflows, and the applicable risk-free interest rates for discounting the future cash outflows. Changes in the above factors can result in a change to the provision recognized by the Company. Changes to reclamation and closure cost obligations are recorded with a corresponding change to the carrying amounts of related quarrying properties. Adjustments to the carrying amounts of related quarrying properties can result in a change to future depletion expense.

Accounting standards and amendments issued but not yet adopted

Unless otherwise noted, the following revised standards and amendments are effective for annual periods beginning on or after January 1, 2015.

(i) IFRS 9, *Financial Instruments,* was issued in November 2009 and addresses classification and measurement of financial assets. It replaces the multiple category and measurement models in IAS 39 for debt instruments with a new mixed measurement model having only two categories: amortized cost and fair value through profit or loss. IFRS 9 also replaces the models for measuring equity instruments. Such instruments are either recognized at fair value through profit or loss or at fair value through other comprehensive income. Where equity instruments are measured at fair value through other comprehensive income, dividends are recognized in profit or loss to the extent that they do not clearly represent a return of investment; however, other gains and losses (including impairments) associated with such instruments remain in accumulated comprehensive income indefinitely. Requirements for financial liabilities were added to IFRS 9 in October 2010 and they largely carried forward existing requirements in IAS 39, *Financial Instruments – Recognition and Measurement,* except that fair value changes due to credit risk for liabilities designated at fair value through profit and loss are generally recorded in other comprehensive income. IFRS 9 was amended In November 2013, to (i) include guidance on hedge accounting, (ii) allow entities to early adopt the requirement to recognize changes in fair value attributable to changes in an entity's own credit risk, from financial liabilities designated under the fair value option, in OCI (without having to adopt the remainder of IFRS 9) and (iii) remove the previous mandatory effective date of January 1, 2015. The July 2014 publication of IFRS 9 is the completed version of the Standard, replacing earlier versions of IFRS 9 and superseding the guidance relating to the classification and measurement of financial instruments in IAS 39, Financial Instruments: Recognition and Measurement (IAS 39). The completed version of IFRS 9 is effective for annual periods beginning on or after January 1, 2018, with early adoption permitted. The Company is currently assessing the effect of this standard on our financial statements.

(ii) In May 2014, the IASB and the Financial Accounting Standards Board (FASB) completed their joint project to clarify the principles for recognizing revenue and to develop a common revenue standard for IFRS and United States Generally Accepted Accounting Principles (US GAAP). As a result of the joint project, the IASB issued IFRS 15, Revenue from Contracts with Customers (IFRS 15) to replace IAS 18, Revenue and IAS 11, Construction Contracts and the related interpretations on revenue recognition.

The new revenue standard introduces a single, principles based, five-step model for the recognition of revenue when control of a good or service is transferred to the customer. The five steps are identify the contract(s) with the customer, identify the performance obligations in the contract, determine transaction price, allocate the transaction price and recognize revenue when the performance obligation is satisfied. IFRS 15 also requires enhanced disclosures about revenue to help investors better understand the nature, amount, timing and uncertainty of revenue and cash flows from contracts with customers and improves the comparability of revenue from contracts with customers.

IFRS 15 will be effective for annual periods beginning on or after January 1, 2017, with early adoption permitted. The Company is currently assessing the effect of this standard on our financial statements.

(iii) In January 2016, the IASB issued IFRS 16 *Leases*. This standard is effective for annual periods beginning on or after January 1, 2019, and permits early adoption, provided IFRS 15, has been applied, or is applied at the same date as IFRS 16. IFRS 16 requires lessees to recognize assets and liabilities for most leases. The Company is in the process of determining the impact of IFRS 16 on its consolidated financial statements.

Financial Instruments and Related Risk

Fair value of financial instruments

The carrying amounts and fair values of financial instruments at yearend are as follows:

	2015		2014	
($000's)	Carrying amount	Fair value	Carrying amount	Fair value
Loans and receivables:				
Cash and cash equivalents	10,501	10,501	14,231	14,231
Trade and other receivables	7,035	7,035	6,118	6,118
Security deposits	821	821	973	973

The fair values of cash, trade and other receivables, and security deposits, approximate their carrying values due to their short-term maturities.

Credit risk

Credit risk is the risk that the Company will incur a loss due to a customer or other third party failing to discharge their obligation due to the Company. The Company's cash and cash equivalents consists of demand deposit accounts with major banks in Canada and the USA as well as Canadian government treasury bills. The Company has three significant customers, which at December 31, 2015 comprise 100% (2014 – three customers comprise 100%) of trade receivables. The Company's largest customer is one of the world's largest international construction materials companies and the remaining customers are significant construction materials companies within their respective markets.

The Company's maximum exposure to credit risk at yearend is comprised of the following:

($000's)	2015	2014
Demand deposits	8,335	9,067
Trade and other receivables	7,035	6,118
Security deposits	821	973
	16,191	16,158

At December 31, 2015, no allowance for credit losses has been recorded against accounts receivable. No collateral or other form of security is held in respect of the amounts that comprise the Company's exposure to credit risk.

Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations associated with financial liabilities. The Company manages its liquidity risk by continuing to seek sources of financing at appropriate costs of capital.

A maturity analysis of the undiscounted cash flows of the Company's financial liabilities at December 31, 2015 is as follows:

($000's)	Within 1 year	Between 1 – 2 years	Between 2 – 3 years	Between 3 – 4 years	Between 4 – 5 years	Over 5 years
Trade and other payables	4,046	-	-	-	-	-
Finance leases	386	375	366	70	-	-
Property taxes payable	379	519	-	-	-	-
	4,811	894	366	70	-	-

Market risks

Foreign currency risk

The Company reports in US dollars while operating in both the United States and Canada. The Canadian operations use the Canadian dollar as their functional currency while the US operations have a US dollar functional currency. As a result, the Company is exposed to foreign currency gains and or losses affecting net income and cumulative translation adjustments which affect other comprehensive income. The Company does not use any derivative instruments to reduce its exposure to fluctuations in foreign currency exchange rates.

For the year ended December 31, 2015 a $0.01 change in the US/Canadian exchange rate, assuming all other variables did not change, would affect net gain/(loss) by $140,000.

Interest rate risk

The Company's interest rate risk arises primarily from the interest received on demand deposit accounts which are at floating rates.

For the year ended December 31, 2015 a 100 basis point change in interest rates, assuming all other variables did not change, would affect annual interest income by $105,000.

Capital Stock

As at the date of this report, the Company had unlimited common shares authorized, of which 88,334,686 were issued and outstanding. The Company also has 4,547,542 options outstanding, exercisable into 4,547,542 common shares, of which 4,015,871 are currently vested. There are no warrants outstanding.

Risks and Uncertainties

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 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.

Reliance on Certain Customers

The Company generates the major proportion of its revenue, approximately 88% and 83% in 2015 and 2014 respectively, from sales to two customers, Cemex and Shamrock. The ability of these customers to continue in business, or to retain third party sales, 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 Orca 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 the 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.

Under the Company's revised NCoA its exclusive shipper must provide volume capacity to transport approximately 3.2 million short tons of construction aggregates per annum. 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.

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 and title and, 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 valid legislative objective, subject to meeting a justification test. 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.

Additional uncertainty has arisen due to the decision in the Supreme Court of Canada in Tsilhquot'in Nation v. British Columbia (2014 SCC 44) which represents the first successful claim for aboriginal title in Canada and may lead other First Nations in British Columbia to pursue aboriginal title claims in their traditional land-use areas.

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 (such as the Company) 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.

The Tseshaht First Nation has asserted aboriginal 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 aboriginal 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 margins and, hence, on cash flows, of the foreign exchange rate and the fluctuation 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 effect 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 again amended and restated in December 2013, provides for minimum annual volumes of construction aggregates. If the Company is unable to secure sufficient sales volumes to meet contracted 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.

Eagle Rock Quarry Project Royalty Assessment

The Company has received a royalty assessment from the British Columbia Ministry of Forests, Lands and Natural Resource Operations for overdue royalties of $456,000 for 2012 and $496,000 for 2013, in respect of the Company's quarrying lease for the Eagle Rock Quarry project ("ERQ project") located on the Alberni Inlet to the south of the City of Port Alberni, British Columbia. The Company is disputing the assessment. The Company has not recorded a provision for the royalties. The amount of any payment, if required, is currently uncertain and it may be necessary to record a provision in future periods. There can be no assurance that the Company's position will prevail.

Controls and Procedures

Disclosure controls and procedures

Disclosure Controls and Procedures ("DC&P") are designed to provide reasonable assurance that information required to be disclosed is recorded, processed, summarized and reported within the time periods specified in accordance with the Canadian securities legislation, and include controls and procedures designed to ensure that information required to be disclosed is accumulated and communicated to management, including the CEO and CFO, as appropriate to allow timely decisions regarding required disclosure.

As at December 31, 2015, an evaluation of the design and effectiveness of the Company's DC&P was carried out under the supervision and with the participation of management including its certifying officers. Based on that evaluation, the Company's certifying officers concluded that the design and operation of the Company's DC&P were effective as at December 31, 2015 and would provide reasonable assurance that material information relating to the Company and its consolidated subsidiaries would be made known to them by others within those entities during the period in which the annual filings were prepared, and that information required to be disclosed by the Company would be recorded, processed, summarized and reported within the time periods specified in the applicable securities legislation.

Internal controls over financial reporting

Internal Controls over Financial Reporting ("ICFR") is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with IFRS. ICFR can only provide reasonable assurance and may not prevent or detect misstatements. Projections of an evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate due to changes in conditions, or that the degree or compliance with the policies and procedures may deteriorate.

As at December 31, 2015, an evaluation of the design and effectiveness of the Company's internal controls over financial reporting was carried out under the supervision and with the participation of the Company's management including its certifying officers. This evaluation included confirmation of the Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") control framework (2013) used to design the ICFR. Based on the evaluation, the CEO and CFO found the Company's ICFR to be effective. During the year ended December 31, 2015, there were no changes in the Company's internal controls over financial reporting that have materially affected, or are reasonably likely to materially affect, the internal control over financial reporting.

Based on their inherent limitation, disclosure controls and procedures and internal control over financial reporting may not prevent or detect misstatements, errors or fraud. Control systems, no matter how well conceived or operated, can provide only reasonable, but not absolute, assurance that the objectives of the control systems are met.

Cautionary Note Regarding Forward Looking Statements

This Management's Discussion and Analysis release contains "forward-looking statements" and "forward-looking information" within the meaning of applicable securities laws. These statements and information appear in a number of places in this document and include estimates, forecasts, information and statements as to management's expectations with respect to, among other things the future financial or operating performance of the Company, costs and timing of the development of the construction aggregate quarry, the timing and amount of estimated future production, costs of production, capital and operating expenditures, requirements for additional capital, government regulation of quarrying operations, environmental risks, reclamation expenses, and title disputes. Often, but not always, forward-looking statements and information can be identified by the use of words such as "may", "will", "should", "plans", "expects", "intends", "anticipates", "believes", "budget", and "scheduled" or the negative thereof or variations thereon or similar terminology. Forward-looking statements and information are necessarily based upon a number of estimates and assumptions that, while considered reasonable by management, are inherently subject to significant business, economic and competitive uncertainties and contingencies. Readers are cautioned that any such forward-looking statements and information are not guarantees and there can be no assurance that such statements and information will prove to be accurate and actual results and future events could differ materially from those anticipated in such statements. Important factors that could cause actual results to differ materially from the Company's expectations are disclosed under the heading "Risks and Uncertainties" in the Company's Annual Report and under the heading "Risk Factors" in the Company's Annual Information Form (AIF) in respect of its financial year-ended December 31, 2015, both of which are filed with Canadian regulators on SEDAR (www.sedar.com). The Company expressly disclaims any intention or obligation to update or revise any forward-looking statements and information whether as a result of new

information, future events or otherwise. All written and oral forward-looking statements and information attributable to us or persons acting on our behalf are expressly qualified in their entirety by the foregoing cautionary statements.

Other Information

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

Glossary of Terms

Ton – the unit of weight used in the US consisting of 2,000 imperial pounds, often referred to as a 'Short Ton'.

Metric Tonne – a unit of weight commonly used in Canada and worldwide in shipping operations consisting of 1,000 kilograms (2,205 imperial pounds).

POLARIS MATERIALS

CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2015 and 2014
(U.S. dollars)

Management's Responsibility for Financial Reporting

The consolidated financial statements of Polaris Materials Corporation have been prepared by and are the responsibility of the board of directors and management of the Company. The consolidated financial statements are prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board and reflect management's best estimates and judgement based on currently available information. Management has developed and maintains a system of internal controls to provide assurance, on a reasonable and cost effective basis, that the Company's assets are safeguarded, transactions are authorized and financial information is accurate and reliable.

The Audit Committee of the Board of Directors, consisting of three independent directors, meets periodically with management and the independent auditors to review the scope and results of the annual audit, and to review the financial statements and related financial reporting matters prior to submitting the financial statements to the Board for approval.

The consolidated financial statements have been audited by the Company's independent auditors, PricewaterhouseCoopers LLP, who are appointed by the shareholders. Their report outlines the scope of their audit and gives their opinion on the consolidated financial statements.

"Ken Palko"
Ken Palko
President and Chief Executive Officer

"Darren McDonald"
Darren McDonald
Vice President, Finance and Chief Financial Officer

March 1, 2016

March 1, 2016

Independent Auditor's Report

To the Shareholders of Polaris Materials Corporation

We have audited the accompanying consolidated financial statements of Polaris Materials Corporation, which comprise the consolidated statements of financial position as at December 31, 2015 and December 31, 2014 and the consolidated statements of income (loss), comprehensive loss, changes in equity and cash flows for the years then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements
Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility
Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Polaris Materials Corporation as at December 31, 2015 and December 31, 2014 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers LLP

Chartered Professional Accountants

PricewaterhouseCoopers LLP
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Polaris Materials Corporation
Consolidated Statements of Financial Position

(thousands of U.S. dollars)

	December 31, 2015 $	December 31, 2014 $
Assets		
Current assets		
Cash and cash equivalents	10,501	14,231
Trade and other receivables (note 4)	7,072	6,156
Inventories (note 5)	4,563	2,659
Other current assets	550	432
	22,686	23,478
Non-current assets		
Financial assets (note 6)	821	973
Property, plant and equipment (note 7)	53,994	59,427
	77,501	83,878
Liabilities		
Current liabilities		
Trade and other payables (note 8)	4,046	3,640
Current tax liabilities	72	16
Current portion of finance leases (note 9)	386	418
Current portion of property tax payable (note 10)	379	379
	4,883	4,453
Non-current liabilities		
Finance leases (note 9)	811	865
Property tax payable (note 10)	519	898
Restoration provision (note 11)	2,938	3,211
	9,151	9,427
Equity		
Share capital (note 12)	189,248	188,377
Contributed surplus (note 13)	24,516	23,828
Accumulated other comprehensive income	(13,048)	(4,846)
Deficit	(127,643)	(128,134)
Equity attributable to shareholders of the Company	73,073	79,225
Non-controlling interest (note 14)	(4,723)	(4,774)
Total equity	68,350	74,451
	77,501	83,878

Commitments and contingent liabilities (note 21)

Approved by the Board of Directors

"Terry Lyons"
Terry Lyons, Director

"Herbert Wilson"
Herbert Wilson, Director

POLARIS MATERIALS

Polaris Materials Corporation

Consolidated Statements of Income (Loss)

For the years end December 31, 2015 and 2014

(thousands of US dollars, except per share amounts)

	2015 $	2014 $
Sales	43,085	45,241
Cost of goods sold (note 15)	(38,229)	(44,048)
Gross profit	4,856	1,193
Selling, general and administrative expenses (note 15)	(5,251)	(6,571)
Foreign exchange gain	2,424	512
Property holding costs	(993)	(898)
Property tax provision (note 10)	-	(568)
Other losses	(19)	(505)
	(3,839)	(8,030)
Operating income (loss)	1,017	(6,837)
Finance income	66	103
Finance expense (note 16)	(147)	(210)
	(81)	(107)
Income (loss) before income taxes	936	(6,944)
Income tax expense (note 18)	-	(15)
Net income (loss) for the year	936	(6,959)
Net income (loss) attributable to:		
Shareholders of the Company	491	(6,685)
Non-controlling interest	445	(274)
	936	(6,959)
Net income (loss) per share:		
Basic income (loss) per common share	0.01	(0.08)
Fully diluted income per common share	0.01	(0.08)
Basic weighted average number of common shares outstanding	87,822	84,144
Fully diluted weighted average number of common shares outstanding	88,612	87,417

POLARIS MATERIALS

Polaris Materials Corporation

Consolidated Statements of Comprehensive Loss

For the years ended December 31, 2015 and 2014

(thousands of U.S. dollars)

	2015 $	2014 $
Net income (loss) for the year	936	(6,959)
Other comprehensive loss – Items that may be reclassified to profit or loss		
Foreign currency translation	(8,596)	(4,922)
Comprehensive loss for the year	(7,660)	(11,881)
Comprehensive loss attributable to:		
Shareholders of the Company	(7,712)	(11,396)
Non-controlling interest	52	(485)
	(7,660)	(11,881)

Polaris Materials Corporation

Consolidated Statements of Changes in Equity

For the years ended December 31, 2015 and 2014

(thousands of U.S. dollars, except number of common shares)

	Attributable to equity holders of the Company							
	Number of common shares (000's)	Amount of common shares $	Contributed surplus $	Accumulated other comprehensive income (loss) $	Deficit $	Shareholders' equity $	Non-controlling interest $	Total $
December 31, 2013	80,396	172,517	22,418	(136)	(121,448)	73,351	(4,289)	69,062
Common shares issued	6,785	15,075	-	-	-	15,075	-	15,075
Warrants issued	-	-	202	-	-	202	-	202
Warrants exercised	236	420	(126)	-	-	294	-	294
Share-based employee benefits	-	-	1,476	-	-	1,476	-	1,476
Options exercised	248	365	(142)			223	-	223
Other comprehensive loss	-	-	-	(4,710)	-	(4,710)	(212)	(4,922)
Net loss	-	-	-	-	(6,686)	(6,686)	(273)	(6,959)
December 31, 2014	87,665	188,377	23,828	(4,846)	(128,134)	79,225	(4,774)	74,451
Warrants exercised	625	784	(69)	-	-	715	-	715
Share-based employee benefits	-	-	792	-	-	792	-	792
Options exercised	45	87	(35)			52		52
Other comprehensive loss	-	-	-	(8,202)	-	(8,202)	(394)	(8,596)
Net income	-	-	-	-	491	491	445	936
December 31, 2015	88,335	189,248	24,516	(13,048)	(127,643)	73,073	(4,723)	68,350

POLARIS MATERIALS

Polaris Materials Corporation

Consolidated Statements of Cash Flows

For the years ended December 31, 2015 and 2014

(thousands of U.S. dollars)

	2015 $	2014 $
Cash flows from operating activities		
Net income (loss)	936	(6,959)
Amortization, depletion and accretion	4,086	4,457
Share-based employee benefits	792	1,470
Unrealized foreign exchange gain	(2,285)	(632)
Property tax provision (note 10)	-	529
Other losses	29	125
	3,558	(1,010)
Changes in non-cash working capital items (note 19)	(2,890)	(2,763)
	668	(3,773)
Cash flows from financing activities		
Proceeds from issue of common shares (net of issue costs)	767	15,789
Finance lease payments	(442)	(346)
	325	15,443
Cash flows from investing activities		
Property, plant and equipment purchases	(3,357)	(5,354)
Proceeds on disposal of property, plant and equipment	7	-
	(3,350)	(5,354)
Effect of foreign currency translation on cash	(1,373)	(1,470)
Increase (decrease) in cash	(3,730)	4,846
Cash and cash equivalents - beginning of year	14,231	9,385
Cash and cash equivalents - end of year	10,501	14,231

Supplemental cash flow information (note 19)

POLARIS MATERIALS

(U.S dollars, except where noted)

1. Nature and description of the Company

Polaris Materials Corporation ("the Company"), was incorporated on May 14, 1999 and is both incorporated and domiciled in Canada. The address of the Company's registered office is Suite 2740 - 1055 West Georgia Street, Vancouver, B.C., V6E 3R5. The Company's focus is threefold: the production, distribution and sales of aggregates from the Orca Quarry; the development of new aggregate marine terminals along the west coast of North America; and the development of additional aggregate quarries.

2. Basis of preparation

These consolidated financial statements have been prepared in compliance with International Financial Reporting Standards ("IFRS"). The Company has consistently applied the same accounting policies in all periods presented.

These financial statements were approved by the board of directors for issue on March 1, 2016.

3. Summary of significant accounting policies

Basis of measurement

These financial statements have been prepared on a historical cost basis except for financial instruments classified as fair value through profit or loss, which are stated at their fair value.

Principles of consolidation

These consolidated financial statements include the financial statements of the Company and the entities controlled by the Company. Control is defined as the exposure, or rights, to variable returns from involvement with an investee and the ability to affect those returns through power over the investee. Power over an investee exists when the Company has existing rights that give it the ability to direct the activities that significantly affect the investee's returns. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those of the Company.

Inter-company balances and transactions, including any unrealized income and expenses arising from intercompany transactions, are eliminated in preparing the consolidated financial statements.

The accounting policies followed in these consolidated financial statements are consistent with those of the previous financial year, except as described below.

(U.S dollars, except where noted)

3. Significant accounting policies *(continued)*

The consolidated financial statements include the accounts of the Company and its subsidiaries ("Group"). The subsidiaries and the Company's ownership interests therein, are as follows:

Company	Location	Ownership interest	Status
Eagle Rock Materials Ltd.	Canada	70 %	Consolidated subsidiary
Eagle Rock Aggregates, Inc.	United States	70 %	Consolidated subsidiary
Quality Rock Holdings Ltd.	Canada	100 %	Consolidated subsidiary
Polaris Aggregates Inc.	United States	100 %	Consolidated subsidiary
Orca Sand & Gravel Limited Partnership	Canada	88 %	Consolidated subsidiary
Orca Sand & Gravel Ltd.	Canada	88 %	Consolidated subsidiary
Quality Sand & Gravel Ltd.	Canada	100 %	Consolidated subsidiary
1045016 BC Ltd.	Canada	100 %	Consolidated subsidiary

Significant accounting judgments and estimates

The preparation of financial statements requires management to use judgment in applying its accounting policies and estimates and assumptions about the future. Estimates and other judgments are continuously evaluated and are based on management's experience and other factors, including expectations about future events that are believed to be reasonable under the circumstances. The following discusses the most significant accounting judgments and estimates that the company has made in the preparation of the financial statements:

(i) Determination of mineral reserves
Reserves are estimates of the amount of product that can be economically and legally extracted from the Company's properties. In order to estimate reserves, estimates are required about a range of geological, technical and economic factors, including quantities, production techniques, production costs, capital costs, transport costs, demand, prices and exchange rates. Estimating the quantity of reserves requires the size, shape and depth of deposits to be determined by analyzing geological data. This process may require complex and difficult geological judgments to interpret the data. Changes in estimates of proven and probable reserves may impact the carrying value of property, plant and equipment, restoration provisions, recognition of deferred tax amounts and depreciation, depletion and amortization.

(ii) Asset values and impairment charges
If the recoverable amount of an asset or cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount. An impairment loss is recognized immediately in the statement of income (loss). When necessary, management's determination of recoverable amounts include estimates of sales volumes and prices, costs of disposal, recoverable reserves, operating costs and capital costs, which are subject to certain risks and uncertainties that may affect the recoverability of an asset's costs. Although management has made its best estimate of these factors, it is possible that changes could occur that could adversely affect management's estimate of the net cash flow to be generated from its assets or cash-generating units.

For quarrying property interests the Company considers both external and internal sources of information in assessing whether there are any indications of impairment. External sources of information the Company considers include changes in the market, economic and legal environment in which the Company operates that are not within its control and affect the recoverable amount of quarrying property interests. Internal sources of information the Company considers include indications of economic performance of the assets. In determining the recoverable amounts of the Company's quarrying property interests, the Company's management makes estimates of the discounted future after-tax cash flows expected to be derived from the Company's properties, costs of disposal of the quarrying properties and the appropriate discount rate. Reductions in price forecasts, increases in estimated future costs of production, increases in estimated future non-expansionary capital expenditures, reductions in the amount of recoverable reserves and resources, and/or adverse current economics can result in a write-down of the carrying amounts of the Company's quarrying interests.

(iii) Estimated Reclamation and Closure Costs
The Company's provision for reclamation and closure cost obligations represents management's best estimate of the present value of the future cash outflows required to settle the liability which reflects estimates of future costs, inflation assumptions about risks associated with the future cash outflows, and the applicable risk-free interest rates for discounting the future cash outflows. Changes in the above factors can result in a change to the provision recognized by the Company. Changes to reclamation and closure cost obligations are recorded with a corresponding change to the carrying amounts of related quarrying properties. Adjustments to the carrying amounts of related quarrying properties result in a change to future depletion expense.

(U.S dollars, except where noted)

3. Significant accounting policies *(continued)*

Foreign currency translation

The Company's presentation currency is the United States dollar ("US dollar"). The functional currency of the Company and for each subsidiary of the Company is the currency of the primary economic environment in which it operates.

The functional currency of aggregate sales and terminal operations is the US dollar. The Company translates non-US dollar balances for these operations into US dollars as follows:

(i) Property, plant and equipment using historical rates;
(ii) Other assets and liabilities using the closing exchange rate as at the balance sheet date with translation gains and losses recorded in net income for the period; and
(iii) Income and expenses using the average exchange rate for the period, except for expenses that relate to nonmonetary assets and liabilities measured at historical

The functional currency of the quarrying operations and the corporate head office is the Canadian dollar. The Company translates these operations into US dollars as follows:

(i) Assets and liabilities using the closing exchange rate as at the balance sheet date with translation gains and losses recorded in other comprehensive income; and
(ii) Income and expenses using the average exchange rate for the period with translation gains and losses recorded in other comprehensive income

Inventories

Construction aggregates inventory is stated at the lower of average cost and net realizable value. Cost for construction aggregates inventory is determined on an average cost basis. Such costs include fuel, freight in, depreciation, depletion, repair parts and supplies, raw materials, direct labour and production overhead. Consumable supplies are stated at the lower of cost and net realizable value. Costs for consumable supplies are determined on a first-in, first-out basis.

When inventories have been written down to net realizable value ("NRV"), the Company makes a new assessment of NRV in each subsequent period. If circumstances that caused the write-down no longer exist, the remaining amount of the write-down is reversed.

Property, plant and equipment

Expenditures incurred to develop new aggregate properties or marine receiving terminals are capitalized. Costs are written down to the recoverable amount if impaired, or written off if the property or interest is sold, allowed to lapse or abandoned.

The Company capitalizes exploration and evaluation expenditures as a component of property, plant and equipment once the legal right to explore new aggregate properties has been acquired. Exploration expenditures relate to the initial search for deposits with economic potential and to detail assessments of deposits or other projects that have been identified as having economic potential. Once an economically viable reserve has been determined for an area and the decision to proceed with development has been approved, exploration and evaluation assets attributable to that area are first tested for impairment and then reclassified to development costs within property, plant and equipment.

Management assesses exploration and evaluation assets for impairment at each reporting date when facts and circumstances suggest that the carrying amount may exceed its recoverable amount. Exploration and evaluation expenditures are recorded at cost less accumulated impairment losses.

Developed property, plant and equipment are carried at cost less accumulated depreciation and depletion and accumulated impairment. Capitalized costs for quarries are depleted using a unit of production method over the estimated economic life of the quarry to which they relate following the commencement of operations. Capitalized costs for marine receiving terminals are amortized over the useful lives of the assets following the commencement of operations. Depreciation related to production is included in cost of goods sold.

Property, plant and equipment is depreciated or depleted over its estimated useful life using the following rates:

Quarry property costs	Units of production
Property, plant & equipment	3 to 25 years
Equipment under finance lease	10 years
Office equipment	3 to 10 years
Leasehold improvements	Life of lease

The cost of equipment held under finance leases is equal to the lower of the net present value of the minimum lease payments or the fair value of the leased property at the inception of the lease and is amortized over the term of the lease, except when there is reasonable certainty that the leased assets will be purchased at the end of the lease, in which case they are amortized over the

(U.S dollars, except where noted)

3. Significant accounting policies *(continued)*

estimated useful life. Equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on disposal of the asset, determined as the difference between the net disposal proceeds and the carrying amount of the asset, is recognized in statement of income (loss).

Where an item of plant and equipment comprises significant components with different useful lives, the components are accounted for as separate items of plant and equipment. Expenditures incurred to replace a component of an item of property, plant and equipment that is accounted for separately, including major inspection and overhaul expenditures are capitalized.

Useful lives, residual values and depreciation methods are reassessed annually for all property, plant and equipment with the impact of any changes in estimate accounted for on a prospective basis.

Impairment of long-lived assets

At each financial position reporting date the carrying amounts of the Company's assets are reviewed to determine whether there is any indication that those assets are impaired. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment, if any. The recoverable amount is the higher of fair value less costs of disposal and the value in use. Fair value is determined as the amount that would be obtained from the sale of the asset in an arm's length transaction between knowledgeable and willing parties. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Future cash flows are based on expected future production, estimated aggregate prices, and estimated operating, capital, and reclamation costs. Assumptions underlying future cash flow estimates are subject to risks and uncertainties. Any differences between significant assumptions used and actual market conditions and/or the Company's performance could have a material effect on the Company's financial position and results of operations.

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount and the impairment loss is recognized in the statement of income (loss) for the period. For the purposes of impairment testing, exploration and evaluation assets are allocated to cash-generating units to which the exploration activity relates. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash generating unit to which the asset belongs.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognized immediately in the statement of income (loss).

Restoration Provisions

The Company recognizes liabilities for statutory, contractual, legal or constructive obligations associated with the retirement of property, plant and equipment. The Company records the present value of any environmental rehabilitation and decommissioning costs as a long-term liability in the period in which the related environmental disturbance occurs, based on the net present value of the estimated future costs that are required by current legal and regulatory requirements. Discount rates using a pre-tax rate that reflect the time value of money and the risks specific to the obligation are used to calculate the net present value. The net present value of future rehabilitation cost estimates arising from the decommissioning of plant and other site preparation work is capitalized to quarrying assets along with a corresponding increase in the rehabilitation provision in the period incurred. The rehabilitation asset is depreciated on the same basis as quarrying assets.

The liability is accreted over time through periodic charges to profit or loss and it is reduced by actual costs of decommissioning and reclamation. The present value of the liability is added to the carrying amount of the capitalized mineral property. This capitalized amount will be amortized over the estimated useful life of the asset. The obligation is adjusted at the end of each fiscal period to reflect the passage of time and changes in the estimated future costs underlying the obligation.

Provisions

Provisions are recorded when a present legal or constructive obligation exists as a result of past events where it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

Share based payments

The Company applies the fair value method of accounting for all stock option awards to employees and others providing similar services. Under this method the Company recognizes a compensation expense for all share options awarded based on the fair value of the options on the date of grant. The fair value is determined by using a Black-Scholes option pricing model. The fair value of all share options granted, and estimated to eventually vest, is recorded, over the vesting period, as a charge to the statement of income (loss) and a credit to contributed surplus. At the end of each reporting period, the Company revises its estimate of the number of equity

(U.S dollars, except where noted)

3. Significant accounting policies *(continued)*

instruments expected to vest. The impact of the revision of original estimates, if any, is charged to the statement of income (loss) such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to contributed surplus. Consideration paid on exercise of share options in addition to the fair value attributed to stock options granted is credited to share capital.

Income taxes

Income tax on the profit or loss for the periods presented comprises current and deferred tax. Income tax is recognized in the statement of income (loss) except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

Current income taxes are calculated based on taxable income for the current year at enacted or substantially enacted statutory tax rates.

Deferred income taxes are calculated using the liability method of accounting. Temporary differences arising from the difference between the tax basis of an asset or liability and its carrying amount on the balance sheet are used to calculate deferred income tax liabilities or assets. Deferred income tax assets and liabilities are measured using enacted or substantially enacted tax rates and laws that are expected to apply when the temporary differences are expected to reverse. Deferred income tax assets are recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized.

Temporary differences are not provided for the initial recognition of assets or liabilities that affect neither accounting nor taxable profit at the time of the transaction; and differences relating to investments in subsidiaries to the extent that it is not probable that they will reverse in the foreseeable future.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

Financial instruments

All financial assets are initially recorded at fair value and designated upon inception into one of the following four categories:

i. Held to maturity - measured at amortized cost.

ii. Available-for-sale - measured at fair value.

iii. Loans and receivables - measured at amortized cost.

iv. Fair-value-through-profit-or-loss (“FVTPL”) - measured at fair value with gains and losses recognized through statement of income (loss).

Financial assets classified as available-for-sale are measured at fair value with gains and losses recognized in other comprehensive income (loss) except for impairment losses. Interest calculated using the effective interest method and foreign exchange gains and losses on monetary items, will be recognised in profit and loss. Transaction costs associated with FVTPL financial assets are expensed as incurred, while transaction costs associated with all other financial assets are included in the initial carrying amount of the asset. Cash and cash equivalents, trade and other receivables and security deposits are designated as loans and receivables.

All financial liabilities are initially recorded at fair value and designated upon inception as FVTPL or other financial liabilities. Financial liabilities classified as other financial liabilities are initially recognized at fair value less directly attributable transaction costs. After initial recognition, other financial liabilities are subsequently measured at amortized cost using the effective interest rate method. The effective interest rate method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that discounts estimated future cash payments through the expected life of the financial liability. The Company’s trade and other payables are classified as other financial liabilities.

Revenue recognition

Revenue from the sale of construction aggregates, net of any discounts, is recognized on the sale of products at the time the Company has transferred to the buyer the significant risks and rewards of ownership; the Company retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold; the amount of revenue can be measured reliability; it is probable that the economic benefits associated with the transaction will flow to the entity; and the costs incurred or to be incurred in respect of the transaction can be measured reliably.

(U.S dollars, except where noted)

3. Significant accounting policies *(continued)*

Earnings per share

Earnings per share are calculated using the weighted average number of common shares outstanding during the year. The calculation of diluted earnings per share assumes that outstanding in the money options and warrants are exercised and the proceeds are used to repurchase shares of the Company at the average market price of the shares for the period. The effect is to increase the number of shares used to calculate diluted earnings per share and is only recognized when the effect is dilutive.

Accounting standards and amendments issued but not yet adopted

(i) IFRS 9, *Financial Instruments,* was issued in November 2009 and addresses classification and measurement of financial assets. It replaces the multiple category and measurement models in IAS 39 for debt instruments with a new mixed measurement model having only two categories: amortized cost and fair value through profit or loss. IFRS 9 also replaces the models for measuring equity instruments. Such instruments are either recognized at fair value through profit or loss or at fair value through other comprehensive income. Where equity instruments are measured at fair value through other comprehensive income, dividends are recognized in profit or loss to the extent that they do not clearly represent a return of investment; however, other gains and losses (including impairments) associated with such instruments remain in accumulated comprehensive income indefinitely. Requirements for financial liabilities were added to IFRS 9 in October 2010 and they largely carried forward existing requirements in IAS 39, *Financial Instruments – Recognition and Measurement,* except that fair value changes due to credit risk for liabilities designated at fair value through profit and loss are generally recorded in other comprehensive income. IFRS 9 was amended In November 2013, to (i) include guidance on hedge accounting, (ii) allow entities to early adopt the requirement to recognize changes in fair value attributable to changes in an entity's own credit risk, from financial liabilities designated under the fair value option, in OCI (without having to adopt the remainder of IFRS 9) and (iii) remove the previous mandatory effective date of January 1, 2015. The July 2014 publication of IFRS 9 is the completed version of the Standard, replacing earlier versions of IFRS 9 and superseding the guidance relating to the classification and measurement of financial instruments in IAS 39, Financial Instruments: Recognition and Measurement (IAS 39). The completed version of IFRS 9 is effective for annual periods beginning on or after January 1, 2018, with early adoption permitted. The Company is currently assessing the effect of this standard on our financial statements.

(ii) In May 2014, the IASB and the Financial Accounting Standards Board (FASB) completed their joint project to clarify the principles for recognizing revenue and to develop a common revenue standard for IFRS and United States Generally Accepted Accounting Principles (US GAAP). As a result of the joint project, the IASB issued IFRS 15, Revenue from Contracts with Customers (IFRS 15) to replace IAS 18, Revenue and IAS 11, Construction Contracts and the related interpretations on revenue recognition.

The new revenue standard introduces a single, principles based, five-step model for the recognition of revenue when control of a good or service is transferred to the customer. The five steps are identify the contract(s) with the customer, identify the performance obligations in the contract, determine transaction price, allocate the transaction price and recognize revenue when the performance obligation is satisfied. IFRS 15 also requires enhanced disclosures about revenue to help investors better understand the nature, amount, timing and uncertainty of revenue and cash flows from contracts with customers and improves the comparability of revenue from contracts with customers.

IFRS 15 will be effective for annual periods beginning on or after January 1, 2018, with early adoption permitted. The Company is currently assessing the effect of this standard on our financial statements.

(iii) In January 2016, the IASB issued IFRS 16 "Leases" ("IFRS 16"). This standard is effective for annual periods beginning on or after January 1, 2019, and permits early adoption, provided IFRS 15, has been applied, or is applied at the same date as IFRS 16. IFRS 16 requires lessees to recognize assets and liabilities for most leases. The Company is in the process of determining the impact of IFRS 16 on its consolidated financial statements.

(U.S dollars, except where noted)

4. Trade and other receivables

(in thousands)	December 31, 2015 $	December 31, 2014 $
Trade receivables	7,029	5,951
Accrued interest	1	3
Other taxes receivable	37	38
Other receivables	5	164
	7,072	6,156

5. Inventories

(in thousands)	December 31, 2015 $	December 31, 2014 $
Construction aggregates	4,046	2,349
Components and consumable supplies	517	310
	4,563	2,659

6. Financial assets

(in thousands)	December 31, 2015 $	December 31, 2014 $
Loans and receivables measured at amortized cost:		
Orca quarry security deposits	821	973
Total financial assets	821	973

Orca Quarry security deposits

The Company maintains CAD$1,136,310 (December 31, 2014 - CAD$1,128,502) in interest-bearing term deposits for safekeeping agreements required by reclamation and remediation performance bonds on the Orca Quarry. The deposits are automatically renewed each year until returned to the Company upon completion of the performance bond, as such, their carrying value approximates fair value. As at December 31, 2015, deposits earn interest at a rate of 0.05% to 0.85% (December 31, 2014 - 0.35% to 1.25%).

(U.S dollars, except where noted)

7. Property, plant and equipment

(in thousands)	Orca Quarry			Richmond Terminal	Head Office	Long Beach Terminal Project		
	Property, plant & equipment	Equipment under finance lease	Exploration properties	Property, plant & equipment	Office equipment & leasehold improvement	Site development costs	Equipment under finance lease	**Total**
	$	**$**	**$**	**$**	**$**	**$**	**$**	**$**
Cost								
January 1, 2014	44,053	5,598	1,132	27,114	616	415	-	78,928
Additions	1,114	517	-	3	43	4,380	-	6,057
Environmental rehabilitation adjustments	255	-	-	-	-	-	-	255
Disposals	(188)	(126)	-	-	-	-	-	(314)
Foreign exchange	(4,512)	(473)	(110)	-	(50)	-	-	(5,145)
December 31, 2014	40,722	5,516	1,022	27,117	609	4,795	-	79,781
Accumulated depreciation								
January 1, 2014	(9,042)	(2,804)	-	(5,859)	(569)	-	-	(18,274)
Depreciation	(2,532)	(570)	-	(1,246)	(32)	-	-	(4,380)
Disposals	188	122	-	-	-	-	-	310
Foreign exchange	1,669	273	-	-	48	-	-	1,990
December 31, 2014	(9,717)	(2,979)	-	(7,105)	(553)	-	-	(20,354)
Carrying amount December 31, 2014	31,005	2,537	1,022	20,012	56	4,795	-	59,427
Cost								
January 1, 2015	40,722	5,516	1,022	27,117	609	4,795	-	79,781
Additions	946	242	-	166	17	2,039	524	3,934
Environmental rehabilitation adjustments	180	-	-	-	-	-	-	180
Disposals	(37)	(290)	-	-	-	-	-	(327)
Foreign exchange	(8,292)	(890)	(197)	-	(99)	-	-	(9,478)
December 31, 2015	33,519	4,578	825	27,283	527	6,834	524	74,090
Accumulated depreciation								
January 1, 2015	(9,717)	(2,979)	-	(7,105)	(553)	-	-	(20,354)
Depreciation	(2,186)	(535)	-	(1,270)	(20)	-	-	(4,011)
Disposals	37	254	-	-	-	-	-	291
Foreign exchange	3338	550	-	-	90	-	-	3,978
December 31, 2015	(8,528)	(2,710)	-	(8,375)	(483)	-	-	(20,096)
Carrying amount December 31, 2015	24,991	1,868	825	18,908	44	6,834	524	53,994

(U.S dollars, except where noted)

8. Trade and other payables

(in thousands)	December 31, 2015 $	December 31, 2014 $
Trade payables	1,820	1,628
Accrued liabilities	941	893
Royalties	825	712
Community benefit fund	460	407
	4,046	3,640

9. Finance leases

Included in property, plant and equipment is quarrying equipment that the Company has acquired pursuant to lease agreements. The Company's lease agreements terminate between February 2016 and June 2019. The quarrying equipment is the security for the indebtedness.

During the year, the Company financed $534,000 for leases on terminal and computer equipment at interest rates between 3.90% and 3.99%. The new leases have been accounted for as finance leases and terminate between July 2018 and June 2019. Monthly lease payments are $13,297. The equipment is the security for the indebtedness.

Future minimum lease payments are as follows:

(in thousands)	$
2016	434
2017	398
2018	375
2019	71
Total minimum lease payments	1,278
Less: Interest portion	81
Present value of capital lease obligations	1,197
Less: current portion	386
Non-current portion	811

10. Property tax payable

In 2013 Eagle Rock Aggregates ("ERA") received a payment demand, including penalties, for property tax dating back to 2008. The Company was successful in renegotiating a reduction of the amount claimed and favourable payment terms. During 2015 a payment was made reducing the liability by $379,000. The liability at December 31, 2015 of $898,000 consists of three remaining annual installments. Of this amount $519,000 has been classified as a long-term liability based on the agreement with the County.

(U.S dollars, except where noted)

11. Restoration provision

The Company has restoration and decommissioning obligations associated with its operating quarry and processing plant. The following table summarizes the movements in the provision for the years ended December 31, 2015 and 2014:

(in thousands)	2015 $	2014 $
As at January 1	3,211	3,141
New or revised provisions	180	255
Accretion	78	85
Foreign exchange	(531)	(270)
As at December 31	2,938	3,211

The measurement of the liability assumes undiscounted estimated future cash flows needed to settle the liability of approximately CAD$3.7 million. These amounts are expected to be expended throughout the quarry life to 2035.

These estimated future cash flows were discounted at a risk-free rate of 2.35% (2014 – 2.68%) after applying an inflation rate of 2.00% (2014 - 2.00%).

12. Share capital

The Company has unlimited common shares without par value. At December 31, 2015, there were 88,334,686 common shares issued and outstanding (December 31, 2014 – 87,665,186).

During the year ended December 31, 2015, 44,500 common shares were issued at CAD$1.56 on the exercise of stock options for proceeds of CAD$69,420.

During the year ended December 31, 2015, 625,000 common shares were issued at CAD$1.50 on the exercise of warrants for proceeds of CAD$937,500.

13. Contributed surplus

(in thousands)	December 31, 2015 $	December 31, 2014 $
Share-based employee benefits	17,453	16,668
Warrants	7,063	7,160
	24,516	23,828

Share-based employee benefits

The Company established an incentive stock option plan (“the Plan”) on April 23, 2001. The Board of Directors (“the Board”) determines the exercise price of an option, but the price shall not be less than the closing price on the trading day immediately preceding the date it is granted. Vesting and other terms are at the discretion of the Board. The Plan also prohibits the reduction of the exercise price of any outstanding options without prior shareholder approval. The Board administers the Plan, whereby it may from time to time grant options to directors, senior officers, employees, consultants, personal holding companies and certain registered plans. At the 2014 Annual General Meeting the proposed resolution to amend and restate the Company’s stock option plan, as set out in the 2014 Management Information Circular Dated April 24, 2015, was withdrawn at the meeting on the basis that there was insufficient support. As a result no further grants from the option plan are permitted until such time as the plan is again reconfirmed by shareholders. All options are exercisable in Canadian dollars.

(U.S dollars, except where noted)

13. Contributed surplus *(continued)*

The Company's stock options at December 31, 2015 and changes for the period are as follows:

	Number outstanding	Weighted average exercise price (CAD$)
At December 31, 2013	4,049,209	$3.95
Granted	1,085,000	$2.68
Exercised	(248,334)	$0.99
Forfeited	(3,333)	$1.56
Expired	(147,500)	$3.60
At December 31, 2014	4,735,042	$3.83
Granted	285,000	$2.15
Exercised	(44,500)	$1.56
Forfeited	(225,500)	$2.20
Expired	(87,500)	$4.00
At December 31, 2015	4,662,542	$3.82

At December 31, 2015, the following stock options are outstanding and exercisable:

	Options outstanding			Options exercisable		
Exercise price (CAD$)	Number of options outstanding	Weighted average exercise price (CAD$)	Weighted average remaining contractual life (years)	Number of options exercisable	Weighted average exercise price (CAD$)	Weighted average remaining contractual life (years)
$0.00 - $1.00	765,000	$0.94	5.46	765,000	$0.94	5.46
$1.01 - $2.00	1,713,333	$1.66	6.37	1,700,000	$1.66	6.38
$2.01 - $4.00	1,270,000	$2.56	3.64	751,670	$2.61	3.59
$4.01 - $6.00	127,709	$4.88	0.09	127,709	$4.88	0.09
$6.01 - $9.00	85,000	$8.69	2.13	85,000	$8.69	2.13
$9.01 - $13.75	701,500	$13.75	1.76	701,500	$13.75	1.76
	4,662,542	$3.82	4.53	4,130,879	$4.00	4.63

On February 3, 2015 the Company granted 285,000 options which have a total fair value of CAD$0.41 million and a weighted average grant-date fair value of CAD$1.43 per option. The options have been valued using the Black-Scholes options pricing model, with the following assumptions:

Average risk free rate	0.64%
Expected life	5.0 years
Expected volatility	85.4%
Expected dividends	–

Warrants

The Company's warrants at December 31, 2015 and changes for the period are as follows:

	Number of warrants outstanding	Weighted average exercise price (CAD$)
December 31, 2013	860,563	$1.45
Issued	339,250	$2.57
Exercised	(235,563)	$1.31
December 31, 2014	964,250	$1.88
Expired	(339,250)	$2.57
Exercised	(625,000)	$1.50
December 31, 2015	-	$ -

At December 31, 2015, there are no warrants outstanding and exercisable.

(U.S dollars, except where noted)

14. Non-controlling interest

The Company holds an 88% interest in the Orca Sand and Gravel Limited Partnership ("Orca") formed to develop the Orca quarry, with the remaining 12% interest held by the Namgis First Nation. The address and principal place of business for Orca is P.O. 699, #6505 Island Highway, Port McNeill, BC, Canada. Non-controlling interest consists of the minority interest's share of the equity in the partnership offset by the capital contributions loaned to the minority interest by the Company, with the balance of its interest as follows:

(in thousands)	$
Balance - December 31, 2013	4,289
Non-controlling interest share of net loss	273
Non-controlling interest share of other comprehensive income	212
Balance - December 31, 2014	4,774
Non-controlling interest share of net income	(445)
Non-controlling interest share of other comprehensive income	394
Balance - December 31, 2015	4,723

At the request of the Namgis and in order to enable the Namgis to make their required equity contributions to the partnership once a construction decision was made, the Company advanced a total of CAD$8,032,337 during the period from 2006 to 2007, at interest rates reflective of the equity nature of the loans. The Company's sole recourse for repayment is to the distributions receivable by the Namgis from the partnership, after repayment of any approved third party who has loaned the Namgis funds for equity contributions. Reflective of the equity nature of the funding, the balance of the loans offset the minority interest's share of equity. Due to the uncertainty associated with the recoverability, the Company has not recognized corresponding interest of CAD$3,526,446 on the Namgis loans.
The loans to the Namgis were restructured during the year ended December 31, 2009 and included; a suspension of interest until the Company's volumes substantially increase, reduced interest rates upon recommencement of interest being charged, repayment of the loans are permitted at anytime, and upon achieving positive cash flow in Orca Sand and Gravel Limited Partnership the Namgis may elect that up to one-half of the amount to which they are entitled under the partnership agreement be paid in cash.

Orca owns the quarry assets which are separately disclosed in Note 7. In addition, the environmental restoration provision disclosed in Note 11, relates to the quarrying assets owned by Orca. The majority of sales made by Orca to the Company's subsidiary Eagle Rock Aggregates utilize a transfer price set independently by the Canada Revenue Agency under an advanced transfer price ruling. Orca's net income for 2015 was CAD$4,794,241.

The following table summarizes select Orca financial information for the years ended December 31, 2015 and 2014.

(in thousands)	December 31, 2015 CAD$	December 31, 2014 CAD$
Current assets	28,212	18,811
Non-current assets	50,737	52,583
Current liabilities	46,146	43,616
Non-current liabilities	4,713	4,728
Revenue	21,806	19,179
Income (loss)	4,794	(2,469)
Total comprehensive income	4,794	(2,469)

(U.S dollars, except where noted)

15. Expenses by nature

(in thousands)	2015 $	2014 $
Cost of materials and consumables	5,377	4,962
Change in inventories	(1,816)	100
Salaries, wages, and employee benefits	6,503	6,950
Share based employee benefits	792	1,470
Annual minimum freight volume penalty	300	-
Amortization, depletion and depreciation	4,086	4,457
Distribution costs	20,873	23,467
Royalties and through-put	3,613	4,385
Utilities and rental payments	1,720	2,249
Professional and consulting fees	705	1,165
Operations support	1,143	1,240
Other	184	174
Total cost of goods sold, sales costs, general expenses, and administrative costs	43,480	50,619

16. Finance expense

(in thousands)	2015 $	2014 $
Interest on finance leases	69	125
Accretion of restoration provision	78	85
	147	210

17. Compensation of key management

Key management personnel include the members of the Board of Directors and the Senior leadership team. Compensation for key management personnel (including directors) was as follows:

(in thousands)	2015 $	2014 $
Salaries and other benefits	1,643	1,602
Share based benefits	550	1,267
	2,193	2,869

(U.S dollars, except where noted)

18. Income taxes

Income tax expense differs from the amount that would result from applying statutory income tax rates to the loss before provision for income taxes due to the following:

(in thousands)	2015 $	2014 $
Earnings (loss) before income taxes	936	(6,944)
Combined federal and provincial income tax rates	26.00%	26.00%
Income tax recovery based on the above rates	243	(1,806)
Non-deductible expenses	203	410
Difference in foreign tax rates	(29)	(253)
Foreign exchange and other items	(164)	56
Amounts provided for in prior years	-	15
Income tax benefits not previously recognized	(63)	-
Income tax benefits not recognized	(190)	1,593
Income tax expense	-	15
Represented by:		
Current income tax expense	-	15
Future income tax expense	-	-
	-	15

Unrecognized deferred tax assets

The components of the Company's net unrecognized tax asset (liability) are as follows:

(in thousands)	December 31, 2015 $	December 31, 2014 $
Non-capital losses	16,148	20,020
Property, plant and equipment	11,892	12,273
Asset retirement obligation	795	835
Share issuance costs	278	387
Capital leases	189	334
Unrealized foreign exchange (gains) losses	(3,443)	(721)
Capital losses	295	348
	26,154	33,476

(U.S dollars, except where noted)

18. Income taxes *(continued)*

The majority of the unrecognized deferred tax assets, other than non-capital losses, have no expiry date.

As at December 31, 2015 the Company has tax losses for income tax purposes in Canada and the United States which may be used to reduce future taxable income. The income tax benefit, if any, of these losses have not been recorded in these consolidated financial statements because of the uncertainty of their recovery. A portion of the losses in the US are subject to limitation. The future expiration dates are as follows:

(in thousands)	Canada $	United States $	Total $
2026	1,375	-	1,375
2027	2,409	52	2,461
2028	7,372	2,649	10,021
2029	8,613	-	8,613
2030	13,154	-	13,154
2031	5,525	1,563	7,088
2032	3,494	3,903	7,397
2033	1,930	987	2,917
2034	1,800	126	1,926
2035	2,049	-	2,049
	47,721	9,280	57,001
Capital losses, no expiry date	2,272		2,272

19. Supplemental cash flow information

(in thousands)	2015 $	2014 $
Changes in non-cash working capital items		
Trade and other receivables	(925)	(2,162)
Current tax assets	-	292
Inventories	(2,271)	(111)
Other current assets	(154)	(78)
Trade and other payables	404	(704)
Current tax liabilities	56	-
	(2,890)	(2,763)
Taxes paid		
Taxes paid	-	23

20. Related party transactions

During the year ended December 31, 2015, the Company accrued for or paid the following for services provided by related parties. David Singleton, a director of a subsidiary, provided to the Company, management and marketing services at a cost of $72,432 (year ended December 31, 2014 - $151,783). Navigator Management Ltd. ("Navigator"), a company controlled by Marco Romero, provided to the Company, consulting services at a cost of CAD$36,000 (year ended December 31, 2014 – CAD$42,165). The Company has agreed to pay Navigator a retainer of CAD$3,000 per month plus expenses. Martineau & Associates ("Martineau"), a company controlled by Eugene Martineau, provided to the Company commercial and marketing services at a cost of $3,000 (year ended December 31, 2014 – $13,500). The Company has agreed to pay Martineau a fee of $1,500 per day plus expenses.

(U.S dollars, except where noted)

20. Related party transactions *(continued)*

These costs are included in general and administrative expenses. Transactions with related parties are recorded at the price agreed between the parties.

At December 31, 2015, accounts payable included; $1,500 due to David Singleton, (December 31, 2014 - $6,425), CAD$3,000 due to Navigator, (December 31, 2014 – CAD$3,764) and $3,000 due to Martineau & Associates, (December 31, 2014 - $nil).

21. Commitments and contingencies

Shipping Tonnage

The Company has an exclusive Contract of Affreightment ("CoA") with CSL International, Inc. ("CSL"), which is effective from January 1, 2010 with a term of 20 years. The CoA requires the Company to ship annual minimum tonnages of 2,979,000 short tons for each remaining year of the contract. Prior to and for 2015, the Company had the option in any given year to increase or decrease the annual commitment by 10% without penalty. The Company and its shipper have agreed in principle, subject to definitive documentation that after 2015, the future latitude in minimum annual tonnages increases to plus or minus 15% without penalty. Failure by the Company to ship its annual cargo commitment will result in a dead-freight charge equal to 75% of the freight rate for the unshipped tons. Minimum freight volume penalties are payable annually in the year in which freight volumes do not meet the minimum volume requirements in the CoA. Annual minimum volume penalties of $299,000 were paid by the Company in respect of the 2015 contract year.

Operating and through-put agreements

The following minimum payments are required under operating leases, rent, equipment rentals, car leases, and aggregate through-put commitments as at December 31, 2015:

(in thousands)	**$**
2016	2,232
2017	2,219
2018	2,228
2019	2,274
2020	2,317
Thereafter	7,692
	18,962

The Company has a 20 year ground lease with an option for two ten-year extensions and a 20 year facilities use agreement with an option for one ten-year extension, the regular term of both ending January 2028, for the site of the Richmond Terminal. Base rent and through-put charges based on minimum aggregate volumes purchased and/or sold through the Richmond Terminal, are payable in monthly payments. Additionally, the Company has a lease for an 8.3 acre site on Berth D-44 in the Port of Long Beach, California, with an initial term of five years and three additional five-year extension options, exercisable by the Company, which would extend the tenure to June 30, 2030.

Cemex strategic alliance

The Company has a long-term alliance with Cemex, an international construction materials company. The alliance consists of a strategic alliance agreement, a supply and distribution agreement, joint cooperation and development agreements and a standstill agreement.

The ten year strategic alliance agreement, entered into in September 2007, 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 those products. An alliance committee, comprised of two members from each company, oversees the ongoing operations of the alliance. The agreement has an option to be extended for additional ten-year terms upon mutual agreement by the Company and Cemex.

The twenty year supply and distribution agreement for marine transported construction aggregates, entered into in September 2007, 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 its own internal use and for sales to third parties in northern California (excluding the counties of Marin, Sonoma, Mendocino and Napa). The agreement provides for a market pricing mechanism which is adjusted annually. It also provides for annual minimum tonnage purchase and supply commitments; however, previous minimum tonnage commitments are no longer being applied, with supply commitments being negotiated annually. This agreement automatically renews for two ten-year periods, subject to not exceeding the life of the Orca Quarry and a five-year termination notice.

(U.S dollars, except where noted)

21. Commitments and contingencies *(continued)*

The ten year joint cooperation and development agreements, entered into in September 2007, provide a mechanism through which the Company and Cemex will work together to pursue and develop new construction aggregate marine receiving terminals in Washington, Oregon and California (except for the counties of Marin, Sonoma, Mendocino and Napa). A development committee, comprised of two members from each company, will use their best efforts to identify terminals opportunities that are acceptable to both companies. Each new terminal development will be entered into contemporaneously with a supply and distribution agreement which sets out the exclusive area served by that terminal. In the event that either party does not wish to pursue a proposed terminal development, the proposing party is free to pursue the development of that terminal unencumbered, but with the loss of exclusivity for supply or distribution, as the case may be, related to the area served by that terminal. The Long Beach terminal is being developed exclusively by the Company. The agreement has an option to be extended for additional ten-year terms upon mutual agreement by the Company and Cemex.

Shamrock Materials Inc. supply agreement

In October 2005, the Company, through its subsidiary, Eagle Rock Aggregates Inc., entered into a long-term, twenty year, aggregates supply agreement ("ASA") with Shamrock Materials Inc. ("Shamrock"), a well established construction aggregates consumer located in the San Francisco Bay area. The ASA may be further extended by three 5 year periods, at the option of Shamrock. The ASA has granted Shamrock the exclusive right to promote, market, resell and distribute sand and gravel within a defined territory (the counties of Marin, Sonoma, Mendocino and Napa). In return, the Company has the right to be the exclusive provider of 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 in San Francisco Bay. However, previous minimum tonnage commitments are no longer being applied, with supply commitments being negotiated annually. Prices for the supply of sand and gravel pursuant to the ASA will be reviewed on an annual basis and adjusted to accommodate variations in the costs and changes in market prices for similar products within the defined area. Any adjustments based on changes to market prices will be shared by Shamrock and the Company according to an agreed formula. The ASA delivery schedules contemplate that a portion of a fully-laden vessel will be discharged into Shamrock's barges at anchorage, and the balance discharged and sold at the Company's Richmond Terminal and at Cemex's existing land-based discharge terminals.

Royalties

The Company pays combined royalties of CAD$1.32 per metric tonne (2014 – CAD$1.25) based on the tonnage of sand and gravel sold. For the year ended December 31, 2015, an expense of CAD$3,696,721 (2014 – CAD$3,896,721) was recorded in respect of royalties. The Company has a guarantee of CAD$100,000 against the payment of royalties.

Royalty Assessment

The Company is disputing a royalty assessment for 2012 and 2013. During the first quarter of 2014, the Company's subsidiary Eagle Rock Materials Ltd. was notified by the British Columbia Ministry of Forests, Lands and Natural Resource Operations that royalties were due of CAD$456,000 for 2012 and CAD$496,000 for 2013, based on the tenure date, in respect of the Company's quarrying lease for the Eagle Rock Quarry project. The Company's position is that royalties are only payable based on actual production, in accordance with a written undertaking from the responsible government agency prior to commencement of the lease, and as the project has not been developed, no royalties are currently due. Accordingly, the Company has not recorded a provision for the royalties.

Community Benefit Fund

In accordance with the Impact and Benefits Agreement ("the Agreement") established with the Namgis First Nation ("the Namgis"), part owner of the Orca Quarry, the Company was obliged, within five years of commencement of operations, to make contributions of CAD$0.06 per metric tonne to a foundation dedicated to the development of the communities specified in the Agreement. The Namgis are in the process of establishing the financial structures and governance practices of the foundation. Based on existing discussions with the Namgis a foundation or similar entity will be established within the next year. Therefore the Company has recorded a provision, based on tonnes sold by Orca from and after the date of commencement of contributions (March 2012), of CAD$637,000 which has been classified as a current liability.

(U.S dollars, except where noted)

22. Segment reporting

The Company operates in one segment: the development and operation of construction aggregates properties and projects located in western North America. The Company's sales were to one customer in Canada and three customers in the United States of America comprising 100% of the Company's sales.

The customers with significant sales are as follows:

(in thousands)	2015 $	2014 $
Customer A	31,471	31,162
Customer B	6,388	6,249
Customer C	5,088	5,995

Sales by geographic area are as follows:

(in thousands)	2015 $	2014 $
United States	42,974	45,135
Canada	111	106
	43,085	45,241

Property, plant and equipment by geographic area are as follows:

(in thousands)	December 31, 2015 $	December 31, 2014 $
United States	26,266	24,807
Canada	27,728	34,620
	53,994	59,427

23. Capital management

The Company's objectives when managing capital is to safeguard the entity's ability to continue as a going concern in order to continue development of its aggregates and port terminal properties and to maintain a flexible capital structure which optimizes the cost of capital at an acceptable risk level.

The Company considers its share capital, contributed surplus, accumulated other comprehensive income, and deficit as capital.

The Company manages its capital structure in order to ensure sufficient resources are available to meet day to day operating requirements and to have the financial ability to grow its operations through terminal and quarry development. Methods used by the Company to manage its capital, taking into consideration changes in economic conditions, include issuing new share capital or obtaining debt financing. The Company is not subject to any externally imposed capital requirements.

24. Financial instruments

Fair value of financial instruments

The carrying amounts and fair values of financial instruments are as follows:

	December 31, 2015		December 31, 2014	
(in thousands)	Carrying amount $	Fair value $	Carrying amount $	Fair value $
Loans and receivables				
Cash and cash equivalents	10,501	10.501	14,231	14,231
Trade and other receivables (note 4)	7,035	7,035	6,118	6,118
Security deposits (note 6)	821	821	973	973

(U.S dollars, except where noted)

24. Financial instruments *(continued)*

The fair values of cash and cash equivalents, trade and other receivables, and security deposits, approximate their carrying values due to their short-term maturities.

Credit risk

Credit risk is the risk that the Company will incur a loss due to a customer or other third party failing to discharge their obligation due to the Company. The Company's cash and cash equivalents consists of demand deposit accounts with major banks in Canada and the USA as well as Canadian government treasury bills. The Company has three significant customers, which at December 31, 2015 comprise 100% (2014 – three customers comprise 100%) of trade receivables. The Company's largest customer is one of the world's largest international construction materials companies and the remaining customers are significant construction materials companies within their markets.

The Company's maximum exposure to credit risk is comprised of the following:

(in thousands)	2015 $	2014 $
Demand deposits	8,335	9,067
Trade and other receivables	7,035	6,118
Security deposits	821	973
	16,191	16,158

At December 31, 2015, no allowance for credit losses has been recorded against accounts receivable. No collateral or other form of security is held in respect of the amounts that comprise the Company's exposure to credit risk.

Liquidity Risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations associated with financial liabilities. The Company manages its liquidity risk by continuing to seek sources of financing at appropriate costs of capital.

A maturity analysis of the undiscounted cash flows of the Company's financial liabilities at December 31, 2015 is as follows:

(in thousands)	Within 1 year $	Between 1 – 2 years $	Between 2 – 3 years $	Between 3 – 4 years $	Between 4 – 5 years $	Over 5 years $
Trade and other payables	4,046	-	-	-	-	-
Property tax payable	379	519	-	-	-	-
Finance leases	386	375	366	70	-	-
	4,811	894	366	70	-	-

Market Risks

Foreign currency risk

The Company reports in US dollars while operating in both the United States and Canada. The Canadian operations use the Canadian dollar as their functional currency while the US operations have a US dollar functional currency. As a result, the Company is exposed to foreign currency gains and or losses affecting net income and cumulative translation adjustments which affect other comprehensive income. The Company does not use any derivative instruments to reduce its exposure to fluctuations in foreign currency exchange rates.

For the year ended December 31, 2015 a $0.01 change in the US/Canadian exchange rate, assuming all other variables did not change, would effect net income/(loss) by $140,000.

Interest rate risk

The Company's interest rate risk arises primarily from the interest received on demand deposit accounts which are at floating rates.

For the year ended December 31, 2015 a 100 basis point change in interest rates, assuming all other variables did not change, would affect annual interest income by $105,000.