



POLARIS MATERIALS

CONSOLIDATED INTERIM FINANCIAL STATEMENTS

June 30, 2016 and 2015
(U.S. dollars)

Polaris Materials Corporation

Consolidated Interim Statements of Financial Position

(Unaudited)
(thousands of U.S. dollars)

	June 30 2016 \$	December 31 2015 \$
Assets		
Current assets		
Cash and cash equivalents	6,435	10,501
Trade and other receivables	11,696	7,072
Inventories (note 3)	4,574	4,563
Other current assets	175	550
	22,880	22,686
Non-current assets		
Security deposits	880	821
Property, plant and equipment (note 4)	55,120	53,994
	78,880	77,501
Liabilities		
Current liabilities		
Trade and other payables	4,675	4,046
Current tax liabilities	39	72
Current portion of finance leases	504	386
Current portion of property tax payable (note 6)	379	379
	5,597	4,883
Non-current liabilities		
Finance leases (note 5)	1,012	811
Property tax payable (note 6)	519	519
Restoration provision	3,184	2,938
	10,312	9,151
Equity		
Share capital (note 7)	189,248	189,248
Contributed surplus (note 8)	24,666	24,516
Accumulated other comprehensive income	(10,013)	(13,048)
Deficit	(130,567)	(127,643)
Equity attributable to shareholders of the Company	73,334	73,073
Non-controlling interest	(4,766)	(4,723)
Total equity	68,568	68,350
	78,880	77,501

Commitments and contingent liabilities (note 12)

Approved by the Board of Directors

“ Lenard Boggio ”
Lenard Boggio, Director

“ Herb Wilson ”
Herb Wilson, Director

Polaris Materials Corporation

Consolidated Interim Statements of Loss

(Unaudited)
(thousands of US dollars, except per share amounts)

	Three months ended June 30		Six months ended June 30	
	2016	2015	2016	2015
	\$	\$	\$	\$
Sales	13,311	10,328	21,260	20,842
Cost of goods sold	(12,270)	(9,277)	(20,527)	(19,146)
Gross profit	1,041	1,051	733	1,696
Selling, general and administrative expenses	(1,292)	(1,387)	(2,578)	(2,788)
Foreign exchange gain (loss)	(120)	(249)	(1,109)	945
Property holding costs	-	(254)	(89)	(479)
Other gains (losses)	1	4	(45)	9
	(1,411)	(1,886)	(3,821)	(2,313)
Operating loss	(370)	(835)	(3,088)	(617)
Finance income	8	19	16	41
Finance expenses (note 9)	(31)	(40)	(61)	(75)
	(23)	(21)	(45)	(34)
Loss before income taxes	(393)	(856)	(3,133)	(651)
Income tax (expense) recovery	-	(1)	-	40
Net loss for the period	(393)	(857)	(3,133)	(611)
Net loss attributable to:				
Shareholders of the Company	(429)	(847)	(2,924)	(757)
Non-controlling interest	36	(10)	(209)	146
	(393)	(857)	(3,133)	(611)
Net loss per share:				
Basic and diluted loss per common share	(0.00)	(0.01)	(0.03)	(0.01)
Weighted average number of common shares outstanding (000's)	88,335	87,708	88,335	87,687

Polaris Materials Corporation

Consolidated Interim Statements of Comprehensive Income (Loss)

(Unaudited)
(thousands of U.S. dollars)

	Three months ended June 30		Six months ended June 30	
	2016	2015	2016	2015
	\$	\$	\$	\$
Net loss for the period	(393)	(857)	(3,133)	(611)
Other comprehensive income (loss) – items that may be reclassified to profit or loss				
Foreign currency translation	266	685	3,201	(3,795)
Comprehensive income (loss) for the period	(127)	(172)	68	(4,406)
Comprehensive income (loss) attributable to:				
Shareholders of the Company	(177)	(199)	111	(4,397)
Non-controlling interest	50	27	(43)	(9)
	(127)	(172)	68	(4,406)

Polaris Materials Corporation

Consolidated Interim Statements of Changes in Equity

(Unaudited)
(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, 2014	87,665	188,377	23,828	(4,846)	(128,134)	79,225	(4,774)	74,451
Warrants exercised	94	146	(12)	-	-	134	-	134
Share-based employee benefits	-	-	649	-	-	649	-	649
Other comprehensive loss	-	-	-	(3,640)	-	(3,640)	(155)	(3,795)
Net income (loss)	-	-	-	-	(757)	(757)	146	(611)
June 30, 2015	87,759	188,523	24,465	(8,486)	(128,891)	75,611	(4,783)	70,828
Warrants exercised	531	638	(57)	-	-	581	-	581
Share-based employee benefits	-	-	143	-	-	143	-	143
Options exercised	45	87	(35)	-	-	52	-	52
Other comprehensive loss	-	-	-	(4,562)	-	(4,562)	(239)	(4,801)
Net income	-	-	-	-	1,248	1,248	299	1,547
December 31, 2015	88,335	189,248	24,516	(13,048)	(127,643)	73,073	(4,723)	68,350
Share-based employee benefits	-	-	150	-	-	150	-	150
Other comprehensive income	-	-	-	3,035	-	3,035	166	3,201
Net loss	-	-	-	-	(2,924)	(2,924)	(209)	(3,133)
June 30, 2016	88,335	189,248	24,666	(10,013)	(130,567)	73,334	(4,766)	68,568

Polaris Materials Corporation

Consolidated Interim Statements of Cash Flows

(Unaudited)
(thousands of U.S. dollars)

	Three months ended June 30		Six months ended June 30	
	2016	2015	2016	2015
	\$	\$	\$	\$
Cash flows from (used in) operating activities				
Net loss	(393)	(857)	(3,133)	(611)
Amortization, depletion and accretion	1,256	1,070	2,293	2,149
Share-based employee benefits	74	278	150	649
Unrealized foreign exchange (gain) loss	138	189	1,091	(933)
Other (gains) losses	(16)	(4)	30	(4)
	1,059	676	431	1,250
Changes in non-cash working capital items (note 10)	(3,787)	755	(3,818)	(1,191)
	(2,728)	1,431	(3,387)	59
Cash flows from (used in) financing activities				
Proceeds from issue of common shares (net of issue costs)	-	134	-	134
Finance lease payments	(120)	(98)	(224)	(194)
	(120)	36	(224)	(60)
Cash flows used in investing activities				
Property, plant and equipment purchases	(505)	(1,551)	(837)	(2,234)
Proceeds on disposal of property, plant and equipment	-	4	-	4
	(505)	(1,547)	(837)	(2,230)
Effect of foreign currency translation on cash	36	122	382	(657)
Increase / (decrease) in cash	(3,317)	42	(4,066)	(2,888)
Cash and cash equivalents - beginning of period	9,752	11,301	10,501	14,231
Cash and cash equivalents - end of period	6,435	11,343	6,435	11,343
Supplemental cash flow information (note 10)				

Polaris Materials Corporation

Notes to the Consolidated Interim Financial Statements

(Unaudited)
(U.S. dollars, except where noted)

1. Nature and description of the Company

Polaris Minerals 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 from the Orca Quarry; the development of new marine terminals along the west coast of North America; and the development of additional quarries.

2. Basis of preparation

Basis of preparation

These condensed consolidated interim financial statements have been prepared in accordance with IFRS, as applicable to interim financial reports including IAS 34, "Interim Financial Reporting", and should be read in conjunction with the Company's annual financial statements for the year ended December 31, 2015, which have been prepared in accordance with IFRS. These financial statements were approved by the board of directors for issue on August 9, 2016.

Seasonality

Although the Company's sand and gravel quarry operates year-round, seasonal changes and other weather related conditions 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.

3. Inventories

	June 30 2016	December 31 2015
(in thousands)	\$	\$
Construction aggregates	4,086	4,046
Components and consumable supplies	488	517
	4,574	4,563

Polaris Materials Corporation

Notes to the Consolidated Interim Financial Statements

(Unaudited)
(U.S. dollars, except where noted)

4. Property, plant and equipment

(in thousands)	Orca Quarry			Black Bear	Head Office	Eagle Rock Terminals		Total
	Property, plant & equipment	Equipment under finance lease	Exploration properties	Project	Office equipment & leasehold improvement	Property plant & equipment	Equipment under finance lease	
	\$	\$	\$	\$	\$	\$	\$	\$
Cost								
January 1, 2015	40,722	5,516	1,022	-	609	31,912	-	79,781
Additions	946	242	-	-	17	2,205	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	-	527	34,117	524	74,090
Accumulated depreciation								
January 1, 2015	(9,717)	(2,979)	-	-	(553)	(7,105)	-	(20,354)
Depreciation	(2,186)	(535)	-	-	(20)	(1,270)	-	(4,011)
Disposals	37	254	-	-	-	-	-	291
Foreign exchange	3,338	550	-	-	90	-	-	3,978
December 31, 2015	(8,528)	(2,710)	-	-	(483)	(8,375)	-	(20,096)
Carrying amount December 31, 2015	24,991	1,868	825	-	44	25,742	524	53,994
Cost								
January 1, 2016	33,519	4,578	825	-	527	34,117	524	74,090
Additions	680	104	-	117	3	102	494	1,500
Disposals	(37)	(78)	-	-	-	-	-	(115)
Foreign exchange	3,108	328	73	3	49	-	-	3,561
June 30, 2016	37,270	4,932	898	120	579	34,219	1,018	79,036
Accumulated depreciation								
January 1, 2016	(8,528)	(2,710)	-	-	(483)	(8,375)	-	(20,096)
Depreciation	(1,131)	(247)	-	-	(8)	(822)	(49)	(2,257)
Disposals	6	78	-	-	-	-	-	84
Foreign exchange	(1,388)	(223)	-	-	(36)	-	-	(1,647)
June 30, 2016	(11,041)	(3,102)	-	-	(527)	(9,197)	(49)	(23,916)
Carrying amount June 30, 2016	26,229	1,830	898	120	52	25,022	969	55,120

Polaris Materials Corporation

Notes to the Consolidated Interim Financial Statements

(Unaudited)
(U.S. dollars, except where noted)

5. Finance lease

During the quarter, the Company leased equipment for \$493,000 at 0.00% interest. The new lease has been accounted for as a finance lease and terminates March 2020. Monthly lease payments are \$10,285. The equipment is the security for the indebtedness.

6. 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. The liability at June 30, 2016 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 settlement agreement.

7. Share capital

The Company has unlimited common shares without par value. At June 30, 2016, there were 88,334,686 common shares issued and outstanding (December 31, 2015 – 88,334,686).

8. Contributed surplus

The Company's stock options at June 30, 2016 and changes for the period are as follows:

	Number outstanding	Weighted average exercise price (CAD\$)
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
Expired	(127,709)	\$4.88
At June 30, 2016	4,534,833	\$3.79

At June 30, 2016, 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\$)
\$0.00 - \$1.00	765,000	\$0.94	4.96	765,000	\$0.94	4.96
\$1.01 - \$2.00	1,713,333	\$1.67	5.87	1,700,000	\$1.67	5.87
\$2.01 - \$4.00	1,270,000	\$2.57	3.14	846,668	\$2.56	3.14
\$4.01 - \$9.00	85,000	\$8.69	1.64	85,000	\$8.69	1.64
\$9.01 - \$13.75	701,500	\$13.75	1.26	701,500	\$13.75	1.26
	4,534,833	\$3.79	4.16	4,098,168	\$3.93	4.26

Polaris Materials Corporation

Notes to the Consolidated Interim Financial Statements

(Unaudited)
(U.S. dollars, except where noted)

9. Finance expense

(in thousands)	Three months ended June 30		Six months ended June 30	
	2016	2015	2016	2015
	\$	\$	\$	\$
Interest on debt	12	20	25	35
Accretion of restoration provision	19	20	36	40
	31	40	61	75

10. Supplemental cash flow information

(in thousands)	Three months ended June 30		Six months ended June 30	
	2016	2015	2016	2015
	\$	\$	\$	\$
<i>Changes in non-cash working capital items</i>				
Trade and other receivables	(5,096)	611	(4,622)	(1,541)
Inventories	275	485	179	654
Other current assets	200	149	390	160
Trade and other payables	834	(490)	268	(464)
Current tax liabilities	-	-	(33)	-
	(3,787)	755	(3,818)	(1,191)
<i>Taxes paid</i>				
Taxes paid	-	-	33	-

11. Related party transactions

During the three months ended June 30, 2016, the Company accrued for or paid the following services by related parties. David Singleton provided to the Company management and marketing services at a cost of \$5,438 (three months ended June 30, 2015 - \$18,283). Navigator Management Ltd. ("Navigator"), a company controlled by Marco Romero, provided to the Company, consulting services at a cost of CAD\$9,000 (three months ended June 30, 2015 - CAD\$9,000). The Company has agreed to pay Navigator a retainer of CAD\$3,000 per month plus expenses under an agreement.

During the six months ended June 30, 2016, the Company accrued for or paid, David Singleton for management and marketing services at a cost of \$21,375 (six months ended June 30, 2015 - \$35,532) and Navigator for consulting services at a cost of CAD\$18,000 (six months ended June 30, 2015 - CAD\$18,000).

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

At June 30, 2016, accounts payable included; \$nil due to David Singleton, (December 31, 2015 - \$2,000) and CAD\$3,000 due to Navigator, (December 31, 2015 - CAD\$3,000).

Polaris Materials Corporation

Notes to the Consolidated Interim Financial Statements

(Unaudited)
(U.S. dollars, except where noted)

12. 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.

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.

13. Financial instruments

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

(in thousands)	June 30, 2016		December 31, 2015	
	Carrying amount \$	Fair value \$	Carrying amount \$	Fair value \$
Loans and receivables				
Cash and cash equivalents	6,435	6,435	10,501	10,501
Trade receivables	11,649	11,649	7,035	7,035
Security deposits	880	880	821	821
Other financial liabilities				
Trade and other payables	4,714	4,714	4,118	4,118

Financial instruments that are classified as loans and receivables and other financial liabilities are measured at amortized cost. The fair values of cash and cash equivalents, trade receivables, security deposits, and trade payables, approximate their carrying values due to either their short-term nature or maturities. The Company does not measure any financial instruments or other assets at fair value on a recurring basis in the statement of financial position.