Polaris
MINERALS CORPORATION

CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2014 and 2013
(U.S. dollars)

Polaris Minerals Corporation

Consolidated Statements of Financial Position

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

	June 30 2014 $	December 31 2013 $
Assets		
Current assets		
Cash	20,702	9,385
Trade and other receivables	5,186	4,000
Current tax assets	65	276
Inventories (note 3)	3,043	2,698
Other current assets	448	368
	29,444	16,727
Non-current assets		
Financial assets	1,188	1,190
Property, plant and equipment (note 4)	61,395	60,654
	92,027	78,571
Liabilities		
Current liabilities		
Trade and other payables	5,342	4,031
Current portion of finance leases	598	651
Current portion of property tax provision (note 5)	379	289
	6,319	4,971
Non-current liabilities		
Finance leases	425	530
Property tax provision (note 5)	778	867
Restoration provision	3,176	3,141
	10,698	9,509
Equity		
Share capital (note 6)	187,972	172,517
Contributed surplus (note 7)	22,812	22,418
Accumulated other comprehensive income	(307)	(136)
Deficit	(124,598)	(121,448)
Equity attributable to shareholders of the Company	85,879	73,351
Non-controlling interest	(4,550)	(4,289)
Total equity	81,329	69,062
	92,027	78,571

Commitments and contingent liabilities (note 11)
Subsequent events (note 7 and 13)

Approved by the Board of Directors

"Lenard Boggio"
Lenard Boggio, Director

"Herb Wilson"
Herb Wilson, Director

Polaris Minerals Corporation

Consolidated Statements of Loss

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

	Three months ended June 30		Six months ended June 30	
	2014	2013	2014	2013
	$	$	$	$
Sales	13,246	10,904	21,774	21,428
Cost of goods sold	(13,117)	(11,407)	(21,958)	(22,520)
Gross profit (loss)	129	(503)	(184)	(1,092)
Selling, general and administrative expenses	(1,321)	(1,756)	(2,630)	(2,851)
Foreign exchange gain (loss)	(322)	28	(153)	62
Property holding costs	(224)	(207)	(444)	(316)
Other (losses) gains	(16)	(100)	(14)	16
	(1,883)	(2,035)	(3,241)	(3,089)
Loss before interest and income taxes	(1,754)	(2,538)	(3,425)	(4,181)
Finance income	9	-	30	8
Finance expenses (note 8)	(36)	(316)	(77)	(639)
Finance charges	-	(870)	-	(870)
	(27)	(1,186)	(47)	(1,501)
Loss before income taxes	(1,781)	(3,724)	(3,472)	(5,682)
Income tax (expense) recovery	(25)	(100)	69	(230)
Net loss for the period	(1,806)	(3,824)	(3,403)	(5,912)
Net loss attributable to:				
Shareholders of the Company	(1,624)	(3,545)	(3,150)	(5,424)
Non-controlling interest	(182)	(279)	(253)	(488)
	(1,806)	(3,824)	(3,403)	(5,912)
Net loss per share:				
Basic and diluted loss per common share	(0.02)	(0.05)	(0.04)	(0.09)
Weighted average number of common shares outstanding (000's)	80,859	67,186	80,676	66,965

Polaris Minerals Corporation
Consolidated Statements of Comprehensive Loss

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

	Three months ended June 30 2014 $	Three months ended June 30 2013 $	Six months ended June 30 2014 $	Six months ended June 30 2013 $
Net loss for the period	(1,806)	(3,824)	(3,403)	(5,912)
Other comprehensive income (loss) – items that may be reclassified to profit or loss				
Foreign currency translation	1,590	(1,019)	(179)	(1,768)
Comprehensive loss for the period	(216)	(4,843)	(3,582)	(7,680)
Comprehensive loss attributable to:				
Shareholders of the Company	(131)	(4,473)	(3,321)	(7,032)
Non-controlling interest	(85)	(370)	(261)	(648)
	(216)	(4,843)	(3,582)	(7,680)

Polaris Minerals Corporation
Consolidated 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, 2012	66,746	156,772	21,347	2,109	(113,240)	66,988	(3,690)	63,298
Common shares issue	13,225	14,970	-	-	-	14,970	-	14,970
Warrants issued	-	-	376	-	-	376	-	376
Share-based employee benefits	-	-	550	-	-	550	-	550
Other comprehensive income	-	-	-	(1,608)	-	(1,608)	(160)	(1,768)
Net loss	-	-	-	-	(5,424)	(5,424)	(488)	(5,912)
June 30, 2013	79,971	171,742	22,273	501	(118,664)	75,852	(4,338)	71,514
Warrants exercised	425	775	(205)	-	-	570	-	570
Share-based employee benefits	-	-	350	-	-	350	-	350
Other comprehensive loss	-	-	-	(637)	-	(637)	(12)	(649)
Net loss	-	-	-	-	(2,784)	(2,784)	61	(2,723)
December 31, 2013	80,396	172,517	22,418	(136)	(121,448)	73,351	(4,289)	69,062
Common shares issue	6,785	15,075	-	-	-	15,075	-	15,075
Warrants issued	-	-	202	-	-	202	-	202
Warrants exercised	53	93	(30)	-	-	63	-	63
Share-based employee benefits	-	-	330	-	-	330	-	330
Options exercised	207	287	(108)	-	-	179	-	179
Other comprehensive income	-	-	-	(171)	-	(171)	(8)	(179)
Net loss	-	-	-	-	(3,150)	(3,150)	(253)	(3,403)
June 30, 2014	87,441	187,972	22,812	(307)	(124,598)	85,879	(4,550)	81,329

Polaris Minerals Corporation

Consolidated Statements of Cash Flows

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

	Three months ended June 30		Six months ended June 30	
	2014	2013	2014	2013
	$	$	$	$
Cash flows from operating activities				
Net loss	(1,806)	(3,824)	(3,403)	(5,912)
Amortization, depletion and accretion	1,132	993	2,257	2,114
Share-based employee benefits	157	522	330	550
Unrealized foreign exchange (gain) loss	298	410	118	173
Loss on settlement of long-term debt	-	767	-	767
Other losses	-	211	-	248
	(219)	(921)	(698)	(2,060)
Changes in non-cash working capital items (note 9)	(176)	1,519	(1,070)	695
	(395)	598	(1,768)	(1,365)
Cash flows from financing activities				
Proceeds from issue of common shares (net of issue costs)	15,560	15,346	15,709	15,346
Repayment of principal and interest on credit facility and senior secured notes	-	(8,223)	-	(8,223)
Finance lease payments	(76)	(100)	(150)	(205)
	15,484	7,023	15,559	6,918
Cash flows from investing activities				
Property, plant and equipment purchases	(1,603)	(25)	(2,435)	(554)
	(1,603)	(25)	(2,435)	(554)
Effect of foreign currency translation on cash	227	(289)	(39)	(226)
Increase in cash	13,713	7,307	11,317	4,773
Cash - beginning of period	6,989	3,003	9,385	5,537
Cash - end of period	20,702	10,310	20,702	10,310

Supplemental cash flow information (note 9)

(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, 2013, which have been prepared in accordance with IFRS. These financial statements were approved by the board of directors for issue on August 7, 2014.

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

(in thousands)	June 30 2014 $	December 31 2013 $
Construction aggregates	2,743	2,461
Components and consumable supplies	300	237
	3,043	2,698

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

4. Property, plant and equipment

(in thousands)	Orca Quarry			Richmond Terminal	Head Office	Long Beach Terminal Project	Other Terminal Projects	
	Property, plant & equipment	Equipment under finance lease	Exploration properties	Property, plant & equipment	Office equipment & leasehold improvement	Berth D-44 site development costs	Site development costs	Total
	$	$	$	$	$	$	$	$
Cost								
January 1, 2013	47,414	5,385	1,223	27,041	658	416	39	82,176
Additions	1,057	1,056	-	34	6	2	-	2,155
Environmental rehabilitation adjustments	(144)	-	-	-	-	-	-	(144)
Disposals	(449)	(478)	-	-	-	(3)	-	(930)
Foreign exchange	(3,825)	(365)	(91)	-	(48)	-	-	(4,329)
December 31, 2013	44,053	5,598	1,132	27,075	616	415	39	78,928
Accumulated depreciation								
January 1, 2013	(8,297)	(2,829)	-	(4,620)	(578)	-	-	(16,324)
Depreciation	(2,522)	(551)	-	(1,239)	(30)	-	-	(4,342)
Disposals	503	364	-	-	-	-	-	867
Foreign exchange	1,274	212	-	-	39	-	-	1,525
December 31, 2013	(9,042)	(2,804)	-	(5,859)	(569)	-	-	(18,274)
Carrying amount December 31, 2013	35,011	2,794	1,132	21,216	47	415	39	60,654
Cost								
January 1, 2014	44,053	5,598	1,132	27,075	616	415	39	78,928
Additions	1,097	26	-	2	2	1,966	-	3,093
Disposals	(184)	(33)	-	-	-	-	-	(217)
Foreign exchange	(144)	(18)	(4)	-	(4)	-	-	(170)
June 30, 2014	44,822	5,573	1,128	27,077	614	2,381	39	81,634
Accumulated depreciation								
January 1, 2014	(9,042)	(2,804)	-	(5,859)	(569)	-	-	(18,274)
Depreciation	(1,300)	(281)	-	(623)	(14)	-	-	(2,218)
Disposals	184	33	-	-	-	-	-	217
Foreign exchange	32	3	-	-	1	-	-	36
June 30, 2014	(10,126)	(3,049)	-	(6,482)	(582)	-	-	(20,239)
Carrying amount June 30, 2014	34,696	2,524	1,128	20,595	32	2,381	39	61,395

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

5. Property tax provision

During the fourth quarter of 2012, the Company's subsidiary Eagle Rock Aggregates Inc. ("ERA"), was verbally notified by the County Assessor for Contra Costa County ("the County') that the property taxes in respect of the Company's aggregate terminal located in the City of Richmond, California, may not have been duly reassessed following the completion of construction at the end of 2007. The Company entered into discussions with the County Assessor which were ongoing at the end of June 30, 2014. During 2013 ERA received a payment demand, including penalties, for property tax dating back to 2008. Under the terms of its lease agreement with Levin Terminals Inc. ("Levin"), ERA has paid its pro-rata share of property tax on the Richmond terminal land each year to Levin. The County's new assessment is in regard to personal property taxes on the value of the building, leasehold improvements, and equipment at the site. To date the Company has been successful in reducing the original assessment period from five years to four under a statute of limitations applicable to the tax code and has also filed a notice of appeal against the assessment. To prevent any additional accumulation of interest and/or penalties, ERA entered into an Escape Assessment Installment Plan (the "Plan") with the County, and made a payment of $379,000 on August 15th, 2013 which was equal to 20% of the assessed taxes and will be applied against the final settlement which depends on the outcome of the appeal. Under the Plan, the remaining outstanding balance of the taxes is payable in four equal annual installments commencing August 31, 2013. The Company is appealing on the basis that certain of the costs included in the assessment should not be subject to property tax and should not be included in the assessed value. The Company has recorded a provision for its current best estimate of the property taxes owing of $1.535 million. The liability at June 30, 2014 of $1.156 million is net of the amount already paid. Of this amount $778,000 has been classified as a long-term liability based on the Plan agreed with the County. The Company's appeal is ongoing.

6. Share capital

The Company has unlimited common shares without par value. At June 30, 2014, there were 87,441,081 common shares issued and outstanding (December 31, 2013 – 80,396,289).

On January 17, 2014, 100,000 common shares were issued at CAD$0.94 on the exercise of stock options for proceeds of CAD$94,000.

On March 7, 2014, 53,125 common shares were issued at CAD$1.31 on the exercise of warrants for proceeds of CAD$69,594.

On April 15, 2014, 100,000 common shares were issued at CAD$0.94 on the exercise of stock options for proceeds of CAD$94,000.

On May 26, 2014, 5,000 and 1,667 common shares were issued at CAD$0.94 and CAD$1.56 respectively on the exercise of stock options for proceeds of CAD$7,300.

On June 27, 2014, the Company issued 6,785,000 common shares on a bought deal basis at CAD$2.57 each for gross proceeds of CAD$17.4 million. Proceeds to the Company, after issue and transactions costs were CAD$16.3 million.

7. Contributed surplus

	June 30 2014	December 31 2013
(in thousands)	$	$
Share-based employee benefits	15,548	15,340
Warrants	7,264	7,078
	22,812	22,418

Share-based employee benefits

The Company's stock options at June 30, 2014 and changes for the period are as follows:

	Number outstanding	Weighted average exercise price (CAD$)
At January 1, 2013	3,361,709	$5.84
Granted	1,390,000	$1.56
Forfeited	(30,000)	$1.29
Expired	(672,500)	$8.56
At December 31, 2013	4,049,209	$3.95
Exercised	(206,667)	$0.95
Forfeited	(3,333)	$1.56
Expired	(147,500)	$3.60
At June 30, 2014	3,691,709	$4.14

7. Contributed surplus *(continued)*

At June 30, 2014, 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	790,000	$0.94	6.97	790,000	$0.94	6.97
$1.01 - $2.00	1,900,000	$1.67	7.83	1,411,669	$1.70	7.52
$2.01 - $4.00	87,500	$4.00	0.56	87,500	$4.00	0.56
$4.01 - $6.00	127,709	$4.88	1.60	127,709	$4.88	1.60
$6.01 - $9.00	85,000	$8.69	3.64	85,000	$8.69	3.64
$9.01 - $13.75	701,500	$13.75	3.26	701,500	$13.75	3.26
	3,691,709	$4.14	6.29	3,203,378	$4.53	5.92

On July 3, 2014 the Company granted 1,000,000 options which have a total fair value of CAD$1.81 million and a weighted average grant-date fair value of CAD$1.81 per option. The options have been valued using the Black-Scholes options pricing model, with the following assumptions:

Average risk free rate	1.60%
Expected life	5.0 years
Expected volatility	84.8%
Expected dividends	–

Warrants

In conjunction with the 6,785,000 share issue on June 27, 2014, (note 6), the company issued 339,250 warrants that are exercisable at a price of $2.57 per share until December 27, 2015. At the date of issue the estimated fair value of the warrants was CAD$239,014. Fair value of the warrants has been determined using the Black Scholes option pricing model. The following assumptions have been used for the Black Scholes option pricing model:

Average risk free rate	1.00 %
Expected life	1.5 years
Expected volatility	49 %
Expected dividends	–

The Company's warrants at June 30, 2014 and changes for the period from December 31, 2012 are as follows:

	Number of warrants outstanding	Weighted average exercise price (CAD$)
December 31, 2012	1,575,000	$4.52
Issued	661,250	$1.31
Exercised	(425,687)	$1.31
Expired	(950,000)	$6.50
December 31, 2013	860,563	$1.45
Issued	339,250	$2.57
Exercised	(53,125)	$1.31
June 30, 2014	1,146,688	$1.79

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

7. Contributed surplus *(continued)*

At June 30, 2014, the following warrants are outstanding and exercisable:

Number of warrants outstanding and exercisable	Expiry date	Weighted average exercise price (CAD$)	Weighted average remaining contractual life (years)
500,000	November 17, 2015	$1.50	1.38
125,000	November 19, 2015	$1.50	1.39
182,438	June 25, 2015	$1.31	0.99
339,250	December 27, 2015	$2.57	1.49
1,146,688		$1.79	1.35

8. Finance expense

	Three months ended June 30		Six months ended June 30	
	2014	2013	2014	2013
(in thousands)	$	$	$	$
Interest on debt	14	255	34	517
Amortization of discount	-	40	-	80
Accretion of restoration provision	22	21	43	42
	36	316	77	639

9. Supplemental cash flow information

	Three months ended June 30		Six months ended June 30	
	2014	2013	2014	2013
(in thousands)	$	$	$	$
Changes in non-cash working capital items				
Trade and other receivables	(2,237)	1,435	(1,342)	(138)
Current tax assets	25	118	211	381
Inventories	(141)	(180)	(354)	1,295
Other current assets	120	83	(77)	(189)
Trade and other payables	2,057	300	492	(654)
Other current liabilities	-	(237)	-	-
	(176)	1,519	(1,070)	695
Taxes paid				
Taxes paid	-	5	23	12

10. Related party transactions

During the three months ended June 30, 2014, the Company accrued for or paid the following services by related parties. Proconsult UK Ltd. ("Proconsult"), a company controlled by David Singleton, provided to the Company, management and marketing services at a cost of $56,610 (three months ended June 30, 2013 - $87,550). The Company had an agreement to pay Proconsult a retainer of $14,500 per month plus expenses until June 30, 2014, at which time the agreement expired. Navigator Management Ltd. ("Navigator"), a company controlled by Marco Romero, provided to the Company, consulting services at a cost of CAD$11,556 (three months ended June 30, 2013 - CAD$9,763). The Company has agreed to pay Navigator a retainer of CAD$3,000 per month plus expenses under the agreement.

During the six months ended June 30, 2014, the Company accrued for or paid, Proconsult for management services at a cost of $104,759 (six months ended June 30, 2013 - $176,035) and Navigator for consulting services at a cost of CAD$20,556 (six months ended June 30, 2013 - CAD$19,664).

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, 2014, accounts payable included; $20,300 due to Proconsult, (December 31, 2013 - $19,252) and CAD$3,933 due to Navigator, (December 31, 2013 - CAD$3,850).

11. Commitments and contingencies

Acquisition of Property, Plant and Equipment

As of June 30, 2014, the Company has contracted for, but not incurred, the purchase of $1.5 million in plant and equipment for the development of the terminal site in the Port of Long Beach, California.

Shipping Tonnage

The Company has a Contract of Affreightment ("NCoA") which is effective from January 1, 2010 with a term of 20 years. The NCoA requires the Company to ship minimum tonnages per year. On December 19, 2013 the Company and its exclusive shipper, executed an amendment to the NCoA that set the annual minimum tonnage at 2,979,000 short tons for each remaining year of the contract. The Company has the option in any given year to increase or decrease the annual commitment by 10% 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 NCoA.

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.

12. Financial instruments

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

	June 30, 2014		December 31, 2013	
(in thousands)	Carrying amount $	Fair value $	Carrying amount $	Fair value $
Loans and receivables				
Cash	20,702	20,702	9,385	9,385
Trade receivables	4,576	4,576	3,943	3,943
Security deposits	1,057	1,057	1,059	1,059
Other receivables	611	611	131	131
Other financial liabilities				
Trade and other payables	5,940	5,940	4,031	4,031

Financial instruments that are classified as loans and receivables and other financial liabilities are measured at amortized cost. The fair values of cash, trade receivables, security deposits, other receivables, 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.

13. Subsequent event

Finance lease

In July 2014, the Company entered into a lease financing facility whereby the Company may draw up to CAD$1.2 million for the acquisition of equipment at 4.71% interest for up to a maximum of four years from the acquisition date. Acquisitions of equipment under the new facility will accounted for as finance leases. Monthly payments are determined at drawdown and are fixed for the term of the lease. The equipment is the security for the indebtedness. The Company has drawn down CAD$659,557 for the acquisition of new screening equipment and a jaw crusher with monthly payments of CAD$14,237. Additional draws are subject to the Company maintaining a minimum debt service coverage ratio of no less than 1.2 times, tested quarterly on a building basis starting with the third quarter of 2014 and becoming a rolling four quarter test at the end of the fourth quarter of 2015. Debt service coverage is defined as EBITDA/(Principal + Interest).