



# POLARIS MATERIALS

CONSOLIDATED INTERIM FINANCIAL STATEMENTS

**September 30, 2015 and 2014**  
(U.S. dollars)

# Polaris Materials Corporation

## Consolidated Interim Statements of Financial Position

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

	September 30 2015	December 31 2014
	\$	\$
<b>Assets</b>		
<b>Current assets</b>		
Cash and cash equivalents	9,019	14,231
Trade and other receivables	8,138	6,156
Inventories (note 3)	4,142	2,659
Other current assets	717	432
	<u>22,016</u>	<u>23,478</u>
<b>Non-current assets</b>		
Financial assets	851	973
Property, plant and equipment (note 4)	55,585	59,427
	<u>78,452</u>	<u>83,878</u>
<b>Liabilities</b>		
<b>Current liabilities</b>		
Trade and other payables	4,339	3,640
Current tax liabilities	30	16
Current portion of finance leases	394	418
Current portion of property tax provision (note 6)	379	379
	<u>5,142</u>	<u>4,453</u>
<b>Non-current liabilities</b>		
Finance leases (note 5)	954	865
Property tax provision (note 6)	519	898
Restoration provision	2,848	3,211
	<u>9,463</u>	<u>9,427</u>
<b>Equity</b>		
Share capital (note 7)	188,707	188,377
Contributed surplus (note 8)	24,547	23,828
Accumulated other comprehensive income	(11,544)	(4,846)
Deficit	(127,937)	(128,134)
<b>Equity attributable to shareholders of the Company</b>	<u>73,773</u>	<u>79,225</u>
Non-controlling interest	(4,784)	(4,774)
<b>Total equity</b>	<u>68,989</u>	<u>74,451</u>
	<u>78,452</u>	<u>83,878</u>

Commitments and contingencies (note 12)

Subsequent events (note 11)

**Approved by the Board of Directors**

"Terry Lyons"  
Terry Lyons, Director

"Herb Wilson"  
Herb Wilson, Director

# Polaris Materials Corporation

## Consolidated Interim Statements of Income (Loss)

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

	Three months ended September 30		Nine months ended September 30	
	2015	2014	2015	2014
	\$	\$	\$	\$
<b>Sales</b>	10,395	13,429	31,237	35,203
<b>Cost of goods sold</b>	(8,837)	(12,709)	(27,983)	(34,667)
<b>Gross profit</b>	1,558	720	3,254	536
Selling, general and administrative expenses	(1,280)	(2,103)	(4,068)	(4,733)
Foreign exchange gain	1,110	196	2,055	43
Property holding costs	(258)	(227)	(737)	(671)
Property tax provision (note 6)	-	(388)	-	(388)
Other gains and (losses)	-	(372)	9	(386)
	(428)	(2,894)	(2,741)	(6,135)
<b>Income (loss) before interest and income taxes</b>	1,130	(2,174)	513	(5,599)
Finance income	14	43	55	73
Finance expenses (note 9)	(38)	(77)	(113)	(154)
	(24)	(34)	(58)	(81)
<b>Income (loss) before income taxes</b>	1,106	(2,208)	455	(5,680)
Income tax recovery	-	68	40	137
<b>Net income (loss) for the period</b>	1,106	(2,140)	495	(5,543)
<b>Net income (loss) attributable to:</b>				
Shareholders of the Company	954	(2,096)	197	(5,246)
Non-controlling interest	152	(44)	298	(297)
	1,106	(2,140)	495	(5,543)
<b>Net income (loss) per share:</b>				
Basic income (loss) per common share	0.01	(0.02)	0.00	(0.06)
Fully diluted income per common share	0.01	-	0.00	-
Weighted average number of common shares outstanding (000's)	87,725	87,479	87,717	82,969

# Polaris Materials Corporation

## Consolidated Interim Statements of Comprehensive Loss

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

	Three months ended September 30		Nine months ended September 30	
	2015	2014	2015	2014
	\$	\$	\$	\$
<b>Net income (loss) for the period</b>	1,106	(2,140)	495	(5,543)
<b>Other comprehensive loss – items that may be reclassified to profit or loss</b>				
Foreign currency translation	(3,211)	(2,729)	(7,006)	(2,908)
<b>Comprehensive loss for the period</b>	<b>(2,105)</b>	<b>(4,869)</b>	<b>(6,511)</b>	<b>(8,451)</b>
<b>Comprehensive loss attributable to:</b>				
Shareholders of the Company	(2,104)	(4,705)	(6,501)	(8,026)
Non-controlling interest	(1)	(164)	(10)	(425)
	<b>(2,105)</b>	<b>(4,869)</b>	<b>(6,511)</b>	<b>(8,451)</b>

# 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, 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	236	420	(126)	-	-	294	-	294
Share-based employee benefits	-	-	1,196	-	-	1,196	-	1,196
Options exercised	207	287	(108)	-	-	179	-	179
Other comprehensive income	-	-	-	(2,780)	-	(2,780)	(128)	(2,908)
Net loss	-	-	-	-	(5,246)	(5,246)	(297)	(5,543)
September 30, 2014	87,624	188,299	23,582	(2,916)	(126,694)	82,271	(4,714)	77,557
Share-based employee benefits	-	-	280	-	-	280	-	280
Options exercised	41	78	(34)	-	-	44	-	44
Other comprehensive loss	-	-	-	(1,930)	-	(1,930)	(84)	(2,014)
Net loss	-	-	-	-	(1,440)	(1,440)	24	(1,416)
December 31, 2014	87,665	188,377	23,828	(4,846)	(128,134)	79,225	(4,774)	74,451
Warrants exercised	258	330	(36)	-	-	294	-	294
Share-based employee benefits	-	-	755	-	-	755	-	755
Other comprehensive income	-	-	-	(6,698)	-	(6,698)	(308)	(7,006)
Net loss	-	-	-	-	197	197	298	495
September 30, 2015	87,923	188,707	24,547	(11,544)	(127,937)	73,773	(4,784)	68,989

# Polaris Materials Corporation

## Consolidated Interim Statements of Cash Flows

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

	Three months ended September 30		Nine months ended September 30	
	2015	2014	2015	2014
	\$	\$	\$	\$
<b>Cash flows from operating activities</b>				
Net income (loss)	1,106	(2,140)	495	(5,543)
Amortization, depletion and accretion	962	1,170	3,111	3,427
Share-based employee benefits	106	866	755	1,196
Unrealized foreign exchange gain	(950)	(275)	(1,883)	(157)
Property tax provision (note 6)	-	388	-	388
Other losses	(1)	4	(5)	4
	1,223	13	2,473	(685)
Changes in non-cash working capital items (note 10)	(2,284)	(3,458)	(3,475)	(4,528)
	(1,061)	(3,445)	(1,002)	(5,213)
<b>Cash flows from financing activities</b>				
Proceeds from issue of common shares (net of issue costs)	160	37	294	15,746
Finance lease payments	(122)	(87)	(316)	(237)
	38	(50)	(22)	15,509
<b>Cash flows from investing activities</b>				
Property, plant and equipment purchases	(830)	(1,405)	(3,064)	(3,840)
Proceeds on disposal of property, plant and equipment	1	-	5	-
	(829)	(1,405)	(3,059)	(3,840)
<b>Effect of foreign currency translation on cash</b>	(472)	(1,040)	(1,129)	(1,079)
<b>Increase (decrease) in cash</b>	(2,324)	(5,940)	(5,212)	5,377
<b>Cash and cash equivalents - beginning of period</b>	11,343	20,702	14,231	9,385
<b>Cash and cash equivalents - end of period</b>	9,019	14,762	9,019	14,762
<b>Supplemental cash flow information (note 10)</b>				

# Polaris Materials Corporation

## Notes to the Interim Consolidated Financial Statements

(Unaudited)  
(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 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, 2014, which have been prepared in accordance with IFRS. These financial statements were approved by the board of directors for issue on November 10, 2015.

#### *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

	September 30	December 31
	2015	2014
(in thousands)	\$	\$
Construction aggregates	3,799	2,349
Components and consumable supplies	343	310
	4,142	2,659

# Polaris Materials Corporation

## Notes to the Interim Consolidated Financial Statements

(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	Total	
	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
	\$	\$	\$	\$	\$	\$	\$	
<b>Cost</b>								
January 1, 2014	44,053	5,598	1,132	27,075	616	415	39	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	27,078	609	4,795	39	79,781
<b>Accumulated depreciation</b>								
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)
<b>Carrying amount December 31, 2014</b>	<b>31,005</b>	<b>2,537</b>	<b>1,022</b>	<b>19,973</b>	<b>56</b>	<b>4,795</b>	<b>39</b>	<b>59,427</b>
<b>Cost</b>								
January 1, 2015	40,722	5,516	1,022	27,078	609	4,795	39	79,781
Additions	993	103	-	165	14	2,419	-	3,694
Disposals	(41)	(127)	-	-	-	-	-	(168)
Foreign exchange	(6,698)	(720)	(159)	-	(80)	-	-	(7,657)
September 30, 2015	34,976	4,772	863	27,243	543	7,214	39	75,650
<b>Accumulated depreciation</b>								
January 1, 2015	(9,717)	(2,979)	-	(7,105)	(553)	-	-	(20,354)
Depreciation	(1,665)	(415)	-	(958)	(16)	-	-	(3,054)
Disposals	37	126	-	-	-	-	-	163
Foreign exchange	2,665	442	-	-	73	-	-	3,180
September 30, 2015	(8,680)	(2,826)	-	(8,063)	(496)	-	-	(20,065)
<b>Carrying amount September 30, 2015</b>	<b>26,296</b>	<b>1,946</b>	<b>863</b>	<b>19,180</b>	<b>47</b>	<b>7,214</b>	<b>39</b>	<b>55,585</b>

# Polaris Materials Corporation

## Notes to the Interim Consolidated Financial Statements

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

### 5. Finance leases

During the quarter, the Company financed USD\$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 USD\$13,297. The equipment is the security for the indebtedness.

### 6. Property tax provision

In 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 had paid its pro-rata share of property tax on the Richmond terminal land each year to Levin. The County's assessment was in regard to personal property taxes on the value of the building, leasehold improvements, and equipment at the site. During 2013 the Company was successful in reducing the original assessment period from five years to four under a statute of limitations applicable to the tax code and entered into an Escape Assessment Installment Plan (the "Plan") with the County, whereby the remaining outstanding balance of the taxes are payable in five annual installments commencing August 31, 2013. During 2014 the Company concluded a negotiated settlement of the property tax liability. During the quarter a payment was made reducing the liability by \$379,000. The liability at September 30, 2015 of \$898,000 is net of amounts already paid, and consists of three remaining annual installments. Of this amount \$519,000 has been classified as a long-term liability based on the Plan agreed with the County.

### 7. Share capital

The Company has unlimited common shares without par value. At September 30, 2015, there were 87,922,936 common shares issued and outstanding (December 31, 2014 – 87,665,186).

During the nine months ended September 30, 2015, 257,750 common shares were issued at CAD\$1.50 on the exercise of warrants for proceeds of CAD\$386,625.

### 8. Contributed surplus

	September 30 2015	December 31 2014
(in thousands)	\$	\$
Share-based employee benefits	17,423	16,668
Warrants	7,124	7,160
	24,547	23,828

#### Share-based employee benefits

The Company's stock options at September 30, 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
Expired	(87,500)	\$4.00
At September 30, 2015	4,932,542	\$3.73



# Polaris Materials Corporation

## Notes to the Interim Consolidated Financial Statements

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

### 8. Contributed surplus (continued)

At September 30, 2015, the following stock options are outstanding and exercisable:

Exercise price (CAD\$)	Options outstanding			Options exercisable		
	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	5.71	765,000	\$0.94	5.71
\$1.01 - \$2.00	1,883,333	\$1.67	6.57	1,856,666	\$1.67	6.59
\$2.01 - \$4.00	1,370,000	\$2.57	3.88	818,337	\$2.62	3.83
\$4.01 - \$6.00	127,709	\$4.88	0.35	127,709	\$4.88	0.35
\$6.01 - \$9.00	85,000	\$8.69	2.38	85,000	\$8.69	2.38
\$9.01 - \$13.75	701,500	\$13.75	2.01	701,500	\$13.75	2.01
	4,932,542	\$3.73	4.81	4,354,212	\$3.90	4.91

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 September 30, 2015 and changes for the period from December 31, 2013 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
Exercised	(257,750)	\$1.50
September 30, 2015	706,500	\$2.01

At September 30, 2015, 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)
242,250	November 17, 2015	\$1.50	0.13
125,000	November 19, 2015	\$1.50	0.14
339,250	December 27, 2015	\$2.57	0.24
706,500		\$2.01	0.19

# Polaris Materials Corporation

## Notes to the Interim Consolidated Financial Statements

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

### 9. Finance expense

(in thousands)	Three months ended September 30		Nine months ended September 30	
	2015	2014	2015	2014
	\$	\$	\$	\$
Interest on finance leases	19	56	54	90
Accretion of restoration provision	19	21	59	64
	38	77	113	154

### 10. Supplemental cash flow information

(in thousands)	Three months ended September 30		Nine months ended September 30	
	2015	2014	2015	2014
	\$	\$	\$	\$
<i>Changes in non-cash working capital items</i>				
Trade and other receivables	(452)	(3,059)	(1,993)	(4,401)
Current tax assets	-	(68)	-	143
Inventories	(2,379)	324	(1,725)	(30)
Other current assets	(479)	(234)	(319)	(311)
Trade and other payables	1,026	(421)	562	71
Other current liabilities	-	-	-	-
	(2,284)	(3,458)	(3,475)	(4,528)
<i>Taxes paid</i>				
Taxes paid	-	-	-	23

### 11. Related party transactions

During the three months ended September 30, 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 \$14,137 (three months ended September 30, 2014 - \$20,127). 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 September 30, 2014 - CAD\$10,485). The Company has agreed to pay Navigator a retainer of CAD\$3,000 per month plus expenses under the agreement. At the quarter end, Herb Wilson retired from the position of President and CEO and accepted a position as Executive Vice Chair at a monthly cost of CAD\$10,000.

During the nine months ended September 30, 2015, the Company accrued for or paid, David Singleton for management services at a cost of \$49,669 (nine months ended September 30, 2014 - \$124,887) and Navigator for consulting services at a cost of CAD\$27,000 (nine months ended September 30, 2014 - CAD\$31,041).

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

At September 30, 2015, accounts payable included; \$4,313 due to David Singleton, (December 31, 2014 - \$5,498) and CAD\$3,000 due to Navigator, (December 31, 2014 - CAD\$3,140).

# Polaris Materials Corporation

## Notes to the Interim Consolidated Financial Statements

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

### 12. Commitments and contingencies

#### *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.

### 13. Financial instruments

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

	September 30, 2015		December 31, 2014	
	Carrying amount	Fair value	Carrying amount	Fair value
(in thousands)	\$	\$	\$	\$
<b>Loans and receivables</b>				
Cash and cash equivalents	9,019	9,019	14,231	14,231
Trade receivables	8,054	8,054	6,118	6,118
Security deposits	851	851	973	973
<b>Other financial liabilities</b>				
Trade and other payables	4,369	4,369	3,656	3,656

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.