



POLARIS MATERIALS

CONSOLIDATED INTERIM CONDENSED FINANCIAL STATEMENTS

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

Polaris Materials Corporation

Consolidated Interim Condensed Statements of Financial Position

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

	September 30 2016 \$	December 31 2015 \$
Assets		
Current assets		
Cash and cash equivalents	6,605	10,501
Trade and other receivables	10,366	7,072
Current tax assets	9	-
Inventories (note 3)	4,085	4,563
Other current assets	654	550
	21,719	22,686
Non-current assets		
Financial assets	867	821
Property, plant and equipment (note 4)	53,948	53,994
	76,534	77,501
Liabilities		
Current liabilities		
Trade and other payables	3,289	4,046
Current tax liabilities	-	72
Current portion of finance leases	505	386
Current portion of other long-term liabilities (note 6)	379	379
	4,173	4,883
Non-current liabilities		
Finance leases (note 5)	871	811
Other long-term liabilities (note 6)	141	519
Restoration provision	3,153	2,938
	8,338	9,151
Equity		
Share capital (note 7)	189,248	189,248
Contributed surplus (note 8)	25,125	24,516
Accumulated other comprehensive income	(10,708)	(13,048)
Deficit	(130,729)	(127,643)
Equity attributable to shareholders of the Company	72,936	73,073
Non-controlling interest	(4,740)	(4,723)
Total equity	68,196	68,350
	76,534	77,501

Commitments and contingencies (note 12)

Approved by the Board of Directors

"Terry Lyons"
Terry Lyons, Director

"Herb Wilson"
Herb Wilson, Director

Polaris Materials Corporation

Consolidated Interim Condensed Statements of Income (Loss)

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

	Three months ended September 30		Nine months ended September 30	
	2016	2015	2016	2015
	\$	\$	\$	\$
Sales	12,272	10,395	33,532	31,237
Cost of goods sold	(11,057)	(8,837)	(31,584)	(27,983)
Gross profit	1,215	1,558	1,948	3,254
Selling, general and administrative expenses	(1,604)	(1,280)	(4,182)	(4,068)
Foreign exchange gain (loss)	275	1,110	(834)	2,055
Property holding costs	-	(258)	(89)	(737)
Other gains and (losses)	(13)	-	(58)	9
	(1,342)	(428)	(5,163)	(2,741)
Operating Income (loss)	(127)	1,130	(3,215)	513
Finance income	8	14	24	55
Finance expenses (note 9)	(29)	(38)	(90)	(113)
	(21)	(24)	(66)	(58)
Income (loss) before income taxes	(148)	1,106	(3,281)	455
Income tax recovery	44	-	44	40
Net income (loss) for the period	(104)	1,106	(3,237)	495
Net income (loss) attributable to:				
Shareholders of the Company	(162)	954	(3,086)	197
Non-controlling interest	58	152	(151)	298
	(104)	1,106	(3,237)	495
Net income (loss) per share:				
Basic income (loss) per common share	(0.00)	0.01	(0.03)	0.00
Fully diluted income per common share	(0.00)	0.01	(0.03)	0.00
Weighted average number of common shares outstanding (000's)	88,335	87,725	88,335	87,717

Polaris Materials Corporation

Consolidated Interim Condensed Statements of Comprehensive Loss

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

	Three months ended September 30		Nine months ended September 30	
	2016	2015	2016	2015
	\$	\$	\$	\$
Net income (loss) for the period	(104)	1,106	(3,237)	495
Other comprehensive income (loss) – items that may be reclassified to profit or loss				
Foreign currency translation	(727)	(3,211)	2,474	(7,006)
Comprehensive loss for the period	(831)	(2,105)	(763)	(6,511)
Comprehensive loss attributable to:				
Shareholders of the Company	(857)	(2,104)	(746)	(6,501)
Non-controlling interest	26	(1)	(17)	(10)
	(831)	(2,105)	(763)	(6,511)

Polaris Materials Corporation

Consolidated Interim Condensed 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	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
Warrants exercised	367	454	(33)	-	-	421	-	421
Share-based employee benefits	-	-	37	-	-	37	-	37
Options exercised	45	87	(35)	-	-	52	-	52
Other comprehensive loss	-	-	-	(1,504)	-	(1,504)	(86)	(1,590)
Net loss	-	-	-	-	294	294	147	441
December 31, 2015	88,335	189,248	24,516	(13,048)	(127,643)	73,073	(4,723)	68,350
Share-based employee benefits	-	-	609	-	-	609	-	609
Other comprehensive income	-	-	-	2,340	-	2,340	134	2,474
Net loss	-	-	-	-	(3,086)	(3,086)	(151)	(3,237)
September 30, 2016	88,335	189,248	25,125	(10,708)	(130,729)	72,936	(4,740)	68,196

Polaris Materials Corporation

Consolidated Interim Condensed Statements of Cash Flows

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

	Three months ended September 30		Nine months ended September 30	
	2016	2015	2016	2015
	\$	\$	\$	\$
Cash flows from (used in) operating activities				
Net income (loss)	(104)	1,106	(3,237)	495
Amortization, depletion and accretion	1,262	962	3,555	3,111
Share-based employee benefits	459	106	609	755
Unrealized foreign exchange gain	(299)	(950)	792	(1,883)
Other (gains) losses	(9)	(1)	21	(5)
	1,309	1,223	1,740	2,473
Changes in non-cash working capital items (note 10)	(332)	(2,284)	(4,150)	(3,475)
	977	(1,061)	(2,410)	(1,002)
Cash flows from (used in) financing activities				
Proceeds from issue of common shares (net of issue costs)	-	160	-	294
Finance lease payments	(130)	(122)	(354)	(316)
	(130)	38	(354)	(22)
Cash flows used in investing activities				
Property, plant and equipment purchases	(614)	(830)	(1,451)	(3,064)
Proceeds on disposal of property, plant and equipment	-	1	-	5
	(614)	(829)	(1,451)	(3,059)
Effect of foreign currency translation on cash	(63)	(472)	319	(1,129)
Increase (decrease) in cash	170	(2,324)	(3,896)	(5,212)
Cash and cash equivalents - beginning of period	6,435	11,343	10,501	14,231
Cash and cash equivalents - end of period	6,605	9,019	6,605	9,019
Supplemental cash flow information (note 10)				

Polaris Materials Corporation

Notes to the Interim Condensed 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, 2015, which have been prepared in accordance with IFRS. These financial statements were approved by the board of directors for issue on November 8, 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

	September 30 2016	December 31 2015
(in thousands)	\$	\$
Construction aggregates	3,645	4,046
Components and consumable supplies	440	517
	4,085	4,563

Polaris Materials Corporation

Notes to the Interim Condensed Consolidated Financial Statements

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

4. Property, plant and equipment

(in thousands)	Orca Quarry			Black Bear		Eagle Rock Terminals		Total
	Property, plant & equipment	Equipment under finance lease	Exploration properties	Project	Head Office 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	960	155	-	187	3	176	494	1,975
Disposals	(25)	(117)	-	-	-	-	-	(142)
Foreign exchange	2,385	252	56	(1)	40	-	-	2,732
September 30, 2016	36,839	4,868	881	186	570	34,293	1,018	78,655
Accumulated depreciation								
January 1, 2016	(8,528)	(2,710)	-	-	(483)	(8,375)	-	(20,096)
Depreciation	(1,734)	(383)	-	-	(13)	(1,298)	(73)	(3,501)
Disposals	7	114	-	-	-	-	-	121
Foreign exchange	(1,035)	(168)	-	-	(28)	-	-	(1,231)
September 30, 2016	(11,291)	(3,146)	-	-	(524)	(9,673)	(73)	(24,707)
Carrying amount September 30, 2016	25,548	1,722	882	186	46	24,620	945	53,948

Polaris Materials Corporation

Notes to the Interim Condensed Consolidated Financial Statements

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

5. Finance leases

In April 2016 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. Other long-term liabilities

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 the quarter a payment was made reducing the liability by \$379,000. The liability at September 30, 2016 of \$519,000 consists of two remaining annual installments. Of this amount \$140,000 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 September 30, 2016, there were 88,334,868 common shares issued and outstanding (December 31, 2015 – 88,334,686).

8. Contributed surplus

Share-based employee benefits

The Company's stock options at September 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
Granted	1,238,000	\$1.35
Expired	(127,709)	\$4.88
At September 30, 2016	5,772,833	\$3.27

At September 30, 2016, 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	4.71	765,000	\$0.94	4.71
\$1.01 - \$2.00	2,951,333	\$1.53	5.30	2,112,666	\$1.60	5.48
\$2.01 - \$6.00	1,270,000	\$2.56	2.89	1,174,999	\$2.59	2.86
\$6.01 - \$9.00	85,000	\$8.69	1.38	85,000	\$8.69	1.38
\$9.01 - \$13.75	701,500	\$13.75	1.01	701,500	\$13.75	1.01
	5,772,833	\$3.27	4.11	4,839,165	\$3.62	4.00

Polaris Materials Corporation

Notes to the Interim Condensed Consolidated Financial Statements

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

8. Contributed surplus (continued)

On August 12, 2016 the Company granted 1,238,000 options which have a total fair value of CAD\$0.59 million and a weighted average grant-date fair value of CAD\$0.48 per option. The options have been valued using the Black-Scholes options pricing model, with the following assumptions:

Average risk free rate	0.52%
Expected life	2.5 years
Expected volatility	57.9%
Expected dividends	—

Deferred Share Unit Plan

The Company established a deferred share unit (“DSU”) plan that allows directors to receive incentive compensation in the form of deferred share units. DSUs may only be exercised when the holder ceases to be a director. Directors receive common shares upon exercise of the DSU. Vesting terms of the DSUs are established by the directors at the time the DSUs are granted.

On August 18, 2016 the Company granted 260,000 DSUs that vested immediately and had a total fair value of CAD\$0.34 million.

The continuity of deferred share units issued and outstanding is as follows:

	Number outstanding
At December 31, 2015	-
Granted	260,000
At September 30, 2016	260,000

During the three and nine month period ended September 30, 2016, the Company recorded share-based compensation expense of CAD\$0.34 million (2015 - \$Nil) related to deferred share units.

9. Finance expense

	Three months ended September 30		Nine months ended September 30	
	2016	2015	2016	2015
(in thousands)	\$	\$	\$	\$
Interest on finance leases	11	19	36	54
Accretion of restoration provision	18	19	54	59
	29	38	90	113

Polaris Materials Corporation

Notes to the Interim Condensed Consolidated Financial Statements

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

10. Supplemental cash flow information

	Three months ended September 30		Nine months ended September 30	
	2016	2015	2016	2015
(in thousands)	\$	\$	\$	\$
<i>Changes in non-cash working capital items</i>				
Trade and other receivables	1,330	(452)	(3,292)	(1,993)
Current tax assets	(9)	-	(9)	-
Inventories	445	(2,379)	624	(1,725)
Other current assets	(480)	(479)	(90)	(319)
Trade and other payables	(1,579)	1,026	(1,311)	562
Current tax liabilities	(39)	-	(72)	-
	(332)	(2,284)	(4,150)	(3,475)
<i>Taxes paid</i>				
Taxes paid	-	-	33	-

11. Related party transactions

During the three months ended September 30, 2016, the Company accrued for or paid for the following services provided by related parties. David Singleton, a director of a subsidiary, provided to the Company management and marketing services at a cost of \$5,920 (three months ended September 30, 2015 - \$14,137). 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, 2015 - CAD\$9,000). The Company has agreed to pay Navigator a retainer of CAD\$3,000 per month plus expenses under the agreement.

During the nine months ended September 30, 2016, the Company accrued for or paid, David Singleton for management and marketing services at a cost of \$27,295 (nine months ended September 30, 2015 - \$49,669) and Navigator for consulting services at a cost of CAD\$27,000 (nine months ended September 30, 2015 - CAD\$27,000).

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, 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).

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.

Polaris Materials Corporation

Notes to the Interim Condensed Consolidated Financial Statements

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

13. Financial instruments

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

(in thousands)	September 30, 2016		December 31, 2015	
	Carrying amount \$	Fair value \$	Carrying amount \$	Fair value \$
Loans and receivables				
Cash and cash equivalents	6,605	6,605	10,501	10,501
Trade receivables	10,315	10,315	7,035	7,035
Security deposits	867	867	821	821
Other financial liabilities				
Trade and other payables	3,289	3,289	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.