



POLARIS MATERIALS

CONSOLIDATED INTERIM FINANCIAL STATEMENTS

March 31, 2016 and 2015
(U.S. dollars)

Polaris Materials Corporation

Consolidated Interim Statements of Financial Position

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

	March 31, 2016	December 31, 2015
	\$	\$
Assets		
Current assets		
Cash and cash equivalents	9,752	10,501
Trade and other receivables	6,603	7,072
Inventories (note 3)	4,836	4,563
Other current assets	374	550
	<u>21,565</u>	<u>22,686</u>
Non-current assets		
Security deposits	875	821
Property, plant and equipment (note 4)	55,104	53,994
	<u>77,544</u>	<u>77,501</u>
Liabilities		
Current liabilities		
Trade and other payables	3,700	4,046
Current tax liabilities	39	72
Current portion of finance leases	374	386
Current portion of property tax payable (note 5)	379	379
	<u>4,492</u>	<u>4,883</u>
Non-current liabilities		
Finance leases	764	811
Property tax payable (note 5)	519	519
Restoration provision	3,148	2,938
	<u>8,923</u>	<u>9,151</u>
Equity		
Share capital (note 6)	189,248	189,248
Contributed surplus (note 7)	24,592	24,516
Accumulated other comprehensive income	(10,265)	(13,048)
Deficit	(130,138)	(127,643)
	<u>73,437</u>	<u>73,073</u>
Equity attributable to shareholders of the Company		
Non-controlling interest	(4,816)	(4,723)
	<u>68,621</u>	<u>68,350</u>
Total equity	<u>77,544</u>	<u>77,501</u>

Commitments and contingencies (note 11)
Subsequent event (note 13)

Approved by the Board of Directors

"Lenard Boggio"
Lenard Boggio, 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 March 31,	
	2016	2015
	\$	\$
Sales	7,949	10,514
Cost of goods sold	(8,257)	(9,869)
Gross profit (loss)	(308)	645
Selling, general and administrative expenses	(1,286)	(1,401)
Foreign exchange gain (loss)	(989)	1,194
Property holding costs	(89)	(225)
Other gains (losses)	(46)	5
	(2,410)	(427)
Operating income (loss)	(2,718)	218
Finance income	8	22
Finance expense (note 8)	(30)	(35)
	(22)	(13)
Income (loss) before income taxes	(2,740)	205
Income tax recovery	-	41
Net income (loss) for the period	(2,740)	246
Net income (loss) attributable to:		
Shareholders of the Company	(2,495)	90
Non-controlling interest	(245)	156
	(2,740)	246
Net income (loss) per share:		
Basic and diluted income (loss) per common share	(0.03)	0.00
Weighted average number of common shares outstanding	88,335	87,665

Polaris Materials Corporation

Consolidated Interim Statements of Comprehensive Income (Loss)

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

	Three months ended March 31,	
	2016	2015
	\$	\$
Net income (loss) for the period	(2,740)	246
Other comprehensive income (loss) – items that may be reclassified to profit or loss:		
Foreign currency translation	2,935	(4,480)
Comprehensive income (loss) for the period	195	(4,234)
Comprehensive income (loss) attributable to:		
Shareholders of the Company	288	(4,198)
Non-controlling interest	(93)	(36)
	195	(4,234)

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							Total
	Number of common shares (000's)	Amount of common shares \$	Contributed surplus \$	Accumulated other comprehensive income (loss) \$	Deficit \$	Shareholders' equity \$	Non- controlling interest \$	
December 31, 2014	87,665	188,377	23,828	(4,846)	(128,134)	79,225	(4,774)	74,451
Share-based employee benefits	-	-	371	-	-	371	-	371
Other comprehensive loss	-	-	-	(4,288)	-	(4,288)	(192)	(4,480)
Net income	-	-	-	-	90	90	156	246
March 31, 2015	87,665	188,377	24,199	(9,134)	(128,044)	75,398	(4,810)	70,588
Warrants exercised	625	784	(69)	-	-	715	-	715
Share-based employee benefits	-	-	421	-	-	421	-	421
Options exercised	45	87	(35)	-	-	52	-	52
Other comprehensive loss	-	-	-	(3,914)	-	(3,914)	(202)	(4,116)
Net income	-	-	-	-	401	401	289	690
December 31, 2015	88,335	189,248	24,516	(13,048)	(127,643)	73,073	(4,723)	68,350
Share-based employee benefits	-	-	76	-	-	76	-	76
Other comprehensive income	-	-	-	2,783	-	2,783	152	2,935
Net loss	-	-	-	-	(2,495)	(2,495)	(245)	(2,740)
March 31, 2016	88,335	189,248	24,592	(10,265)	(130,138)	73,437	(4,816)	68,621

Polaris Materials Corporation

Consolidated Interim Statements of Cash Flows

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

	Three months ended March 31,	
	2016 \$	2015 \$
Cash flows from operating activities		
Net income (loss)	(2,740)	246
Amortization, depletion and accretion	1,037	1,079
Share-based employee benefits	76	371
Unrealized foreign exchange (gain) loss	953	(1,122)
Other losses	46	-
	<u>(628)</u>	<u>574</u>
Changes in non-cash working capital items (note 9)	(31)	(1,946)
	<u>(659)</u>	<u>(1,372)</u>
Cash flows from financing activities		
Finance lease payments	(104)	(96)
	<u>(104)</u>	<u>(96)</u>
Cash flows from investing activities		
Property, plant and equipment purchases	(332)	(683)
	<u>(332)</u>	<u>(683)</u>
Effect of foreign currency translation on cash	346	(779)
Decrease in cash	(749)	(2,930)
Cash - beginning of period	10,501	14,231
Cash - end of period	<u>9,752</u>	<u>11,301</u>
Supplemental cash flow information (note 9)		

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 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. Summary of accounting policies

Basis of presentation

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 May 5, 2016.

The accounting policies followed in these condensed consolidated interim financial statements are consistent with those of the previous financial year.

Seasonality

The Company’s sand and gravel quarry operates year-round; however, sales demand is seasonal due to the impact of poor weather conditions, particularly in the first, or 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.

3. Inventories

	March 31, 2016	December 31, 2015
(in thousands)	\$	\$
Construction aggregates	4,294	4,046
Components and consumable supplies	542	517
	4,836	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	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	240	43	-	63	3	54	-	403
Disposals	(11)	(12)	-	-	-	(40)	-	(63)
Foreign exchange	2,873	302	68	2	46	-	-	3,291
March 31, 2016	36,621	4,911	893	65	576	34,131	524	77,721
Accumulated depreciation								
January 1, 2016	(8,528)	(2,710)	-	-	(483)	(8,375)	-	(20,096)
Depreciation	(524)	(118)	-	-	(4)	(362)	(12)	(1,020)
Disposals	5	12	-	-	-	-	-	17
Foreign exchange	(1,277)	(208)	-	-	(33)	-	-	(1,518)
March 31, 2016	(10,324)	(3,024)	-	-	(520)	(8,737)	(12)	(22,617)
Carrying amount March 31, 2016	26,297	1,887	893	65	56	25,394	512	55,104

Polaris Materials Corporation

Notes to the Consolidated Interim Financial Statements

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

5. 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 March 31, 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.

6. Share capital

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

7. Contributed surplus

The Company's stock options at March 31, 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	(115,000)	\$4.80
At March 31, 2016	4,547,542	\$3.80

At March 31, 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	5.21	765,000	\$0.94	5.21
\$1.01 - \$2.00	1,713,333	\$1.66	6.12	1,700,000	\$1.66	6.13
\$2.01 - \$4.00	1,270,000	\$2.56	3.39	846,668	\$2.56	3.39
\$4.01 - \$6.00	12,709	\$5.60	0.13	12,709	\$5.60	0.13
\$6.01 - \$9.00	85,000	\$8.69	1.88	85,000	\$8.69	1.88
\$9.01 - \$13.75	701,500	\$13.75	1.51	701,500	\$13.75	1.51
	4,547,542	\$3.80	4.40	4,110,877	\$3.93	4.50

Polaris Materials Corporation

Notes to the Consolidated Interim Financial Statements

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

8. Finance expense

(in thousands)	Three months ended March 31,	
	2016	2015
	\$	\$
Interest on finance leases	13	15
Accretion of restoration provision	17	20
	30	35

9. Supplemental cash flow information

(in thousands)	Three months ended March 31,	
	2016	2015
	\$	\$
<i>Changes in non-cash working capital items</i>		
Trade and other receivables	474	(2,152)
Inventories	(96)	169
Other current assets	190	11
Trade and other payables	(566)	26
Current tax liabilities	(33)	-
	(31)	(1,946)
<i>Taxes paid</i>		
Taxes paid	33	-

10. Related party transactions

During the three months ended March 31, 2016, the Company accrued for or paid the following services by related parties. David Singleton, a director of a subsidiary of the Company, provided to the Company, management and marketing services at a cost of \$15,938 (three months ended March 31, 2015 - \$17,249). 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 March 31, 2015 - CAD\$9,000). The Company has agreed to pay Navigator a retainer of CAD\$3,000 per month. Martineau & Associates ("Martineau"), a company controlled by Eugene Martineau, provided to the Company commercial and marketing services at a cost of \$3,000 (three months ended March 31, 2015 - \$nil). The Company has agreed to pay Martineau a fee of \$1,500 per day plus expenses.

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

At March 31, 2016, accounts payable included; \$10,500 due to David Singleton, (December 31, 2015 - \$1,500), CAD\$3,000 due to Navigator, (December 31, 2015 - CAD\$3,000) and \$nil due to Martineau & Associates, (December 31, 2015 - \$3,000).

Polaris Materials Corporation

Notes to the Consolidated Interim Financial Statements

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

11. 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.

12. Financial instruments

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

(in thousands)	March 31, 2016		December 31, 2015	
	Carrying amount \$	Fair value \$	Carrying amount \$	Fair value \$
Loans and receivables				
Cash and cash equivalents	9,752	9,752	10,501	10,501
Trade receivables	6,477	6,477	7,035	7,035
Security deposits	875	875	821	821
Other financial liabilities				
Trade and other payables	3,739	3,739	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.

13. Subsequent event

Finance lease

In April 2016, subsequent to quarter-end, the Company leased equipment for \$493,500 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.