**(US dollars, except where noted)**

**(Unit of weight is US short tons)**

# Management's Discussion and Analysis
# Quarter Ending June 30, 2016

The following discussion and analysis of the financial condition and operations of Polaris Materials Corporation (the "Company", "Polaris", or "we") has been prepared by management as of August 9, 2016, and should be read in conjunction with the Company's unaudited interim consolidated financial statements for the three and six months ended June 30, 2016, which have been prepared in accordance with International Financial Reporting Standards ("IFRS") for interim financial reporting, and the audited annual consolidated financial statements for the year ended December 31, 2015, which have been prepared in accordance with IFRS. This Management's Discussion and Analysis contains "forward-looking statements" that are subject to risk factors set out in a cautionary note contained herein. All amounts are in United States dollars unless otherwise noted.

## Executive Summary

***Highlights***

- Sales volumes in the quarter were the highest since Q3 2014, a 42% improvement over Q2 2015, with nearly all delivery points showing significant improvement versus prior year comparatives and Q1 2016.
- First full quarter of operations at the Long Beach terminal with the successful delivery of aggregates for several large concrete foundation pours.
- Q2 2016 Adjusted EBITDA improved by 80% to $0.9 million, or $0.96 per ton, over the prior year comparative of $0.5 million, or $0.77 per ton.
- During the second quarter the Company revised the payment terms with its major customer, which will accelerate cash collection compared with the prior year, however, this change temporarily increased quarter-end accounts receivable. In early July, the Company received a payment of $6.0 million to bring the account in agreement with the revised payment terms.
- Work continues on the Black Bear preliminary resource report, with the report targeted for completion in the next several months.

Adjusted EBITDA for the second quarter reflected the higher sales volumes in the quarter. These results were robust and in line with the Company's expectations for the full year. Construction activity both in California and throughout the US continues to show healthy levels of activity with a significant backlog of projects, particularly in Los Angeles, now progressing towards the start of construction. Ongoing discussions at multiple levels in the construction industry supply-chain have demonstrated the value added to major projects through the use of high performance aggregates from Orca. We expect a positive pricing environment, as well as ongoing cost reduction programs, to contribute to healthy margins through the remainder of 2016.

The second quarter was the first full quarter of operations at the Long Beach terminal. High volumes of material were successfully delivered in a demanding schedule for Oceanwide Plaza's foundation concrete pours. This type of scheduling and coordination is typically demanded by contractors participating in large, high specification, projects on which the Company intends to focus its marketing efforts. Several major projects are expected to start in late Q3 / Q4 2016 in the L.A. area. We are well positioned to supply these projects as they are favorable applications for our high performance concrete aggregate and proven high volume delivery capability.

## Market Developments

In northern California, the San Francisco / San Jose corridor remains the largest and most active market that we serve. The continuing strength of this market has led to a proposal from a major ready-mix concrete producer in the market to develop a new batch plant facility at the Port of Redwood City, approximately 0.5 miles from Cemex's Redwood City terminal operations that we supply. We continue to see signs of improving conditions in the northern and eastern Bay Area markets, with throughputs at our Richmond terminal increasing to an average of 2,000 tons per day in the quarter from 1,400 tons per day earlier in the year. Sales volumes in Q2 2016 were the best since 2014, with nearly all delivery

points showing significant improvement. We continue to expect healthy volumes in the San Francisco Bay Area through the balance of 2016.

The marketing strategy in southern California continues to be focused on securing supply contracts where our high performance concrete aggregates provide value and peace of mind to concrete suppliers, construction managers, designers and owners alike. The pace of construction in Los Angeles has been modestly slower to recover than activity in California generally, which has resulted in a greater “infrastructure debt” in this market on which we are well positioned to capitalize. In Q1 2016, Polaris began supplying materials to two of the top 5 construction projects in Los Angeles, including providing approximately 45,000 tons of material for the foundation concrete pours at the prestigious Oceanwide Plaza project. By the end of Q2 2016, sales were approximately 93,000 tons from Long Beach, and Eagle Rock Aggregates has firm commitments for an additional 75,000 tons. A number of significant projects are expected to break ground in late Q3 or Q4 2016 for which our high performance concrete aggregates are well positioned for significant orders.

Nationwide, housing starts in June 2016 increased 4.8% over May 2016 on a seasonally adjusted basis after a modest decline of 1.7% in the previous period, which was well ahead of expectations for a 0.5% gain and the second highest level of activity in the past 12 months. According to Dodge Data and Analytics, construction activity overall continues to show some weakness in the US, with year to date activity down approximately 2% versus the same period in 2015 (excluding projects over $1 billion). The majority of the relative weakness up to this point has been in non-residential building and non-building construction, however non-residential building in particular has shown positive movement in June after a slower April and May. Projects are included in the construction starts statistic at their full construction value once they are shovel ready, so large projects can distort reported activity levels, and the first half of 2015 was host to the start of several very large projects. As the balance of the year plays out, Dodge is forecasting 2016 to compare better to 2015, as the latter part of 2015 included a slow-down in activity related to the decline in oil prices at that time. The US markets are expected to show further modest demand improvements in 2017 although the presidential election in November 2016 may influence future economic policies towards to infrastructure investment.

On the permitting front in California, a permit extension for the Kaweah River Rock Quarry in Woodlake was not approved, while a proposed 2.5 million ton per annum quarry located in Madera County received approval by the county’s Planning Commission in a 3-2 vote but is expected to be appealed to the County’s Board of Supervisors, with considerable ongoing local opposition. While unlikely to be a competitor for Orca’s materials in the Bay Area, due to the distance to the relevant markets, the developments at these quarries are ongoing example of the difficult permitting environment in the state.

(US dollars, except where noted)

(Unit of weight is US short tons)

## Summary of Quarterly Results

The selected financial information set out below is based on and derived from the unaudited consolidated financial statements of the Company for each of the quarters listed:

| | 2016 | | 2015 | | | | 2014 | |
|---|---|---|---|---|---|---|---|---|
| | June 30 | Mar 31 | Dec 31 | Sept 30 | June 30 | Mar 31 | Dec 31 | Sept 30 |
| **Consolidated financial information** | | | | | | | | |
| ($000's, except per share amounts) | | | | | | | | |
| Revenue | 13,311 | 7,949 | 11,848 | 10,395 | 10,328 | 10,514 | 10,038 | 13,429 |
| Cost of goods sold | 12,270 | 8,257 | 10,246 | 8,837 | 9,277 | 9,869 | 9,381 | 12,709 |
| Gross profit (loss) | 1,041 | (308) | 1,602 | 1,558 | 1,051 | 645 | 657 | 720 |
| Selling, general and administrative expenses | 1,292 | 1,286 | 1,183 | 1,280 | 1,387 | 1,401 | 1,838 | 2,103 |
| Operating income (loss) | (370) | (2,718) | 504 | 1,130 | (835) | 218 | (1,238) | (2,174) |
| Net income (loss) attributable to shareholders | (429) | (2,495) | 294 | 954 | (847) | 90 | (1,439) | (2,096) |
| *per share (basic)* | (0.00) | (0.03) | 0.01 | 0.01 | (0.01) | - | (0.02) | (0.02) |
| *per share (diluted)* | (0.00) | (0.03) | 0.00 | 0.01 | (0.01) | - | (0.02) | (0.02) |
| EBITDA | 839 | (1,445) | 1,408 | 1,935 | 238 | 1,143 | (137) | (938) |
| Adjusted EBITDA | 912 | (1,321) | 1,471 | 2,041 | 514 | 1,509 | 436 | 688 |
| Cash flows from (used in) operating activities | (2,728) | (659) | 1,670 | (1,061) | 1,431 | (1,372) | 1,440 | (3,445) |
| Cash and cash equivalents | 6,435 | 9,752 | 10,501 | 9,019 | 11,343 | 11,301 | 14,231 | 14,762 |
| Working capital | 17,283 | 17,073 | 17,803 | 16,874 | 17,383 | 17,516 | 19,025 | 20,780 |
| Total assets | 78,880 | 77,544 | 77,501 | 78,452 | 79,269 | 80,094 | 83,878 | 87,942 |
| Total non-current liabilities | 4,715 | 4,431 | 4,268 | 4,321 | 4,640 | 4,655 | 4,974 | 4,565 |
| **Key performance indicators** | | | | | | | | |
| Sales of aggregates (000's tons) | 946 | 516 | 830 | 730 | 668 | 718 | 750 | 1,032 |
| Production of aggregates (000's tons) | 1,000 | 637 | 791 | 957 | 710 | 725 | 789 | 989 |
| Average selling price ($/ton) | 14.07 | 15.41 | 14.27 | 14.24 | 15.46 | 14.64 | 13.38 | 13.01 |
| Cost of goods sold ($/ton) | 12.97 | 16.00 | 12.34 | 12.11 | 13.89 | 13.75 | 12.51 | 12.31 |
| Gross profit (loss) ($/ton) | 1.10 | (0.60) | 1.93 | 2.13 | 1.57 | 0.90 | 0.88 | 0.70 |
| Gross margin (loss) (%) | 7.8 | (3.8) | 13.5 | 15.0 | 10.2 | 6.1 | 6.5 | 5.4 |
| EBITDA ($/ton) | 0.89 | (2.80) | 1.70 | 2.65 | 0.36 | 1.59 | (0.18) | (0.91) |
| Adjusted EBITDA ($/ton) | 0.96 | (2.56) | 1.77 | 2.80 | 0.77 | 2.10 | 0.58 | 0.67 |

***Selling price and fuel surcharge indices***

| | 2016 | | 2015 | | | | 2014 | |
|---|---|---|---|---|---|---|---|---|
| | Q2 | Q1 | Q4 | Q3 | Q2 | Q1 | Q4 | Q3 |
| Selling Price Index (Q1 2013=100) | 103.8 | 107.5 | 109.0 | 111.4 | 110.0 | 112.2 | 108.3 | 107.2 |
| Fuel Surcharge Index (Q1 2013=100) | 17.3 | 46.4 | 57.6 | 75.6 | 65.3 | 92.3 | 101.4 | 102.3 |

In the second quarter of 2016, the quarter-on-quarter average delivered selling price decreased by 3.4% as a consequence of passing through lower shipping fuel surcharges from the first quarter of 2016, which reflected the decreasing trend in the world crude oil price during the period.

***Seasonality***

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

## Review of Financial Results

***QUARTER ENDED JUNE 30***

***Adjusted EBITDA***

Adjusted EBITDA for the second quarter of 2016 of $0.9 million ($0.96 per ton) represented an improvement of $0.4 million, or 80%, over the prior year comparative of $0.5 million ($0.77 per ton). Additional tons sold in the current quarter reduced comparative quarrying costs per ton and limited the impact of costs associated with the first full quarter of operations at the Long Beach terminal.

***Sales of aggregates***

Aggregate sales for the current quarter were 946,000 tons, a 42% increase over sales of 668,000 tons in the second quarter of 2015. Shipments of the Company's products increased compared to the prior year due to both increased delivered shipments into San Francisco and ex-quarry sales. Additionally, this was the first full quarter of operations for the Long Beach terminal.

***Revenue and pricing***

Revenue for the three months ended June 30, 2016 increased by 29% to $13.3 million, compared with $10.3 million for the three months ended June 30, 2015. Growth in revenue was driven by increased sales volumes, which were partially offset by reductions in revenue per ton as described below.

Average selling price ("ASP") during the current quarter of $14.07 per ton was a decrease $1.39 per ton from $15.46 per ton in the same period of 2015. Year on year prices decreased $0.50 per ton or negative 9% due to lower fuel surcharge pass-through, which reflected the decreasing trend in the world crude oil price during the period. Sales mix variance decreased the ASP by $0.90 per ton due to increased ex-quarry sales that do not include delivery costs.

Revenue and ASP per ton are influenced on a quarter by quarter basis by base pricing, shipping fuel surcharges, overall market demand, the distribution of tonnage delivered to the various California terminals, and the varying percentage between delivered and ex-quarry sales.

***Cost of goods sold***

Cost of goods sold for the three months ended June 30, 2016 increased by 32% to $12.3 million, driven by higher sales volumes, compared with $9.3 million for the three months ended June 30, 2015. Cost of goods sold per ton for the current quarter decreased by $0.92 per ton to $12.97 per ton compared to the cost of goods sold per ton for the same period in 2015 of $13.89. The per ton decrease is mainly attributable to increased sales mix to customers that do not include delivery costs. This reduction was partially offset by the inclusion of the costs associated with the first full quarter of operations at the Long Beach terminal as well as the unfavourable impact of foreign exchange.

***Gross profit***

During the second quarter of 2016 the Company's gross profit was $1.0 million or $1.10 per ton compared with a gross profit of $1.1 million or $1.57 per ton in the prior year period. As noted above, gross margin was impacted by sales mix and operating costs at the Long Beach terminal.

***Selling, general and administrative costs***

Current quarter selling, general and administrative ("SG&A") expenses of $1.3 million decreased 7% compared with $1.4 million during the same quarter in 2015. The decrease is principally due to lower non-cash share-based employee benefits. Net of non-cash charges for stock based compensation, current quarter SG&A represented 9.2% of sales compared with 10.7% last year. Total SG&A during the quarter was 9.7% of sales compared to 13.4% of sales during 2015.

***Net loss***

The Company incurred a reduced net loss attributable to shareholders of $0.4 million ($0.00 per share loss) during the three months ended June 30, 2016, compared to the net loss attributable to shareholders of $0.8 million ($0.01 per share loss) during the three months ended June 30, 2015. The current quarter net loss reflects the circumstances presented above.

***YEAR-TO-DATE JUNE 30***

***Adjusted EBITDA***

Adjusted EBITDA for the first six months of 2016 of negative $0.4 million, or $0.28 loss per ton, declined $2.4 million compared with the prior year comparative of $2.0 million, or $1.46 per ton. Foreign exchange gains and losses represented $2.0 million of the swing. In the first half of 2016 a strengthening Canadian dollar resulted in foreign exchange losses of $1.1 million, compared to a foreign currency tailwind in the first half of 2015 that amounted to foreign exchange gains of $0.9 million.

***Sales of aggregates***

Aggregate sales for the first six months of 2016 of 1.5 million tons represented a 5.6% increase over the first six months of 2015.

***Revenue and pricing***

Revenue for the six months ended June 30, 2016 increased by 2% to $21.3 million from $20.8 million in 2015. The ASP for the first six months of 2016 was $14.54, a decrease of $0.50 per ton from $15.04 in the first six months of 2015. Revenue and ASP for the period were impacted by a lower fuel surcharge pass-through which reflected the decreasing trend in the world crude oil price during the period.

***Cost of goods sold***

Cost of goods sold for the six months ended June 30, 2016 increased by 6% to $20.5 million from $19.4 million in 2015. Cost of goods sold per ton for the first six months of 2016 marginally increased to $14.04 per ton compared to $13.81 per ton for 2015, which is attributable to the modest changes to sales mix and the ramp up of the Long Beach terminal, offset by a reduction in fuel surcharges.

***Gross profit***

Gross profit for the first six months of 2016 was $0.7 million or $0.50 per ton, compared to the gross profit of $1.7 million or $1.22 profit per ton in the same period of 2015. As noted above, the first half of 2016 was impacted by lower fuel surcharge, changes in sales mix, and costs associated with the first five months of operations at the Long Beach terminal.

***Selling, general and administrative costs***

During the six months ended June 30, 2016, SG&A expense of $2.6 million decreased 8% compared with $2.8 million during the same period in 2015 principally due to lower share-based employee benefits, a non-cash charge.

### *Net loss*

The net loss attributable to shareholders during the six months ended June 30, 2016 was $2.9 million, or $0.03 per share loss, compared to a net loss attributable to shareholders of $0.8 million, or $0.01 per share loss, during the six months ended June 30, 2015. The year-on-year net loss comparison reflects the circumstances presented above.

## Liquidity

### *Cash and cash equivalents*

At June 30, 2016, the Company had cash and cash equivalents of $6.4 million. Comparatively, at December 31, 2015 the Company had cash and cash equivalents of $10.5 million. During the quarter ended June 30, 2016 the Company revised its accounts receivable terms with its major customer, which overall will reduce the applied payment period and moderately accelerate cash collection for the Company. Implementation commenced on July 1$^{st}$; the timing of which effectively delayed a previously scheduled June payment, temporarily increasing accounts receivable and decreasing cash at period end. On July 5$^{th}$ the Company received a payment of $6.0 million to bring the account in line with the revised payment terms.

### *Operating, Financing and Investing Activities*

During the three months ended June 30, 2016 the Company used cash from operations of $2.7 million compared with cash generated of $1.4 million during 2015. As noted above, current cash flows from operations were impacted by a temporary increase in accounts receivable due to a revision of payment terms with the major customer. Subsequent to quarter end the Company received $6.0 million to bring the account into agreement with the new payment terms. Operating activities used cash of $3.4 million in the six months ended June 30, 2016 compared to cash generated of $0.1 million in 2015. Operating cash flows in the first half of 2016 were similarly impacted by increased levels of trade accounts receivable at June 30, 2016 due to the amendment of payment terms.

For the three and six months ended June 30, 2016 financing activities used cash of $0.1 million and used cash of $0.2 million, respectively, compared to cash provided of $0.04 million and used cash of $0.06 million, for the same periods in 2015. Financing activities for the current quarter and first half of 2016 related to principal repayments of finance leases for equipment whereas in 2015 proceeds from an exercise of warrants were received that were partially offset by principal repayments on finance leases for mining equipment used at the Orca Quarry.

Investing activities during the three months ended June 30, 2016 used cash of $0.5 million compared to cash used of $1.5 million for 2015. Investing activities during the six months ended June 30, 2016, used cash of $0.8 million compared to cash used of $2.2 million for the same period in 2015. The decrease in cash used for investing is attributable to the completion of construction at the Long Beach terminal, combined with relatively modest planned expenditures on plant and equipment at the Orca Quarry.

## Capital Resources

The Company's primary sources of capital resources are finance leases for the procurement of heavy equipment and access to capital markets. The Company manages its long-term capital structure and resources in order to minimize the cost of capital while properly managing credit, liquidity, and other market risks. To effectively manage capital requirements, the Company has in place a planning and budgeting process which determines the funds required to ensure the Company has the appropriate liquidity to meet its operating objectives. The Company ensures there are sufficient resources to meet its short-term business requirements, taking into account its anticipated cash flows from operations and its holdings of cash and cash equivalents.

At June 30, 2016, the Company expects it has the capital resources and anticipated future cash flows from operations to support its normal operating requirements on an ongoing basis, along with planned development and exploration related to quarrying projects. At June 30, 2016, the Company was not subject to any externally imposed capital requirements.

### *Finance Leases*

In April 2016 the Company leased equipment for $0.5 million at 0.0% 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.

***Equity***

Common share issuances are summarized below:

| (000's) | 2016 |
|---|---|
| Common shares issued and outstanding at January 1 | 88,335 |
| Common share issuances | - |
| Options exercised | - |
| Common shares issued and outstanding at March 31 | 88,335 |

During the six months ended June 30, 2016, there were no common share issuances.

***Capital Expenditures***

During the quarter ended June 30, 2016, the Company invested approximately of $1.1 million in plant and equipment; of which $0.5 million of cash expenditures related to processing plant equipment at Orca quarry, $0.5 million financed by equipment leases related to mobile equipment at the Company's Long Beach terminal, and $0.1 million of cash expenditures related to exploration of the Company's Black Bear project.

## Operations

***Orca quarry***

The Orca quarry continues to be a safe, efficient aggregates production and shipping operation. The quarry operated without issue during the quarter and as of August 9 has now achieved 11 consecutive months without any lost time incidents. The pit hopper move, originally planned for later this year, has now been deferred as a result of changes to pit sequencing and in order to coordinate work with Black Bear development plans. In other developments at the quarry, a local contractor has now completed two thirds of 2016 overburden removal. We have also advanced our progressive reclamation works with the sloping and grading of depleted areas, as well as placement of new overburden, in preparation for seeding and planting.

***Marine terminals and ship lightering***

*Long Beach, California*

On February 1st, 2016 the company began commercial operation at its new Long Beach terminal. Sales from the terminal now total over 93,000 tons, including materials for four large foundation mat concrete pours at the Oceanwide Plaza project, as well as continuing daily sales to other projects where our aggregate products provide measurable value. We have additional committed volumes of approximately 75,000 tons for the year, with visibility to several other major projects which are expected to start in late Q3 / Q4 2016 where our high performance concrete aggregate, and proven high volume delivery capability, positions us well for additional contracts. The Long Beach terminal has operated accident and injury free.

The Oceanwide Plaza foundation mat pours were a significant highlight for the Long Beach terminal in Q1 and Q2. The pours took place over four consecutive weekends, starting on March 26, and required deliveries of up to 12,000 tons in a single weekend. The Long Beach terminal demonstrated the capacity to ship 1,000 tons per hour whenever trucks were available to support that level of throughput. This pour was a key test of the terminal's capabilities, as the volumes for the Oceanwide pour exceeded the total of all shipments from the terminal prior to starting this project.

*Port of Redwood City, California*

Dredging of the Federal Channel in the Port of Redwood City has improved our logistical flexibility, as expected, although balancing deliveries to this facility with available lightering capacity remains one of our most important logistical challenges. The US Army Corps of Engineers has further maintenance dredging planned for late 2016, which is expected to further improve our ability to deliver to this important market. A longer term project to deepen the overall target depth of this channel to 32 feet from its present 30 foot target depth is currently undergoing evaluation by the Port of Redwood City, to consider including the use of surplus materials for coastal reclamation projects, in addition to other alternatives.

*Lightering*

On arrival in San Francisco Bay, fully laden Panamax vessels are partially unloaded while at anchor ("lightered") into barges provided by either Shamrock Materials Inc., or Cemex, under the terms of the long term aggregate supply agreements with each company. When required, barges are occasionally chartered from an independent operator to balance availability of customer barging capacity and shipping needs. After lightering, the balance of the cargo is unloaded at Cemex's Redwood City terminal, Hanson Aggregates' San Francisco terminal, or at the Company's Richmond Terminal. These arrangements offer the most economic shipping solution by utilizing fully loaded Panamax vessels from Vancouver Island to San Francisco Bay. The increasing demand for Orca Quarry products in northern California assists in maximizing shipping efficiency, although the balance between the individual terminals requires careful management as market forces can make each point of sale highly variable. The access to secured lightering capacity is an important barrier to entry into this market.

Fully laden Panamax vessels can dock directly at the Company's Long Beach terminal, so lightering is not required to support shipments to this operation. This can provide additional logistical flexibility as we have the option to deliver first to Long Beach and send the balance to San Francisco. This is an alternative to lightering in the Bay but is an option for additional flexibility rather than our planned shipping routine.

A dredging permit for minor work to improve draft at the Company's Richmond terminal is presently being sought and discussions with our Strategic Alliance partner will seek to maximize performance from this location. The Company is reviewing its options to maximize shipping deliveries into San Francisco Bay in 2017 on the basis that the Hanson Pier 94 terminal may no longer be available as one of the lightering points used to service Redwood City terminal.

*Additional Updates*

During Q2, the previously disclosed planned maintenance was completed at a major customer facility, which will further improve shipping flexibility for the remainder of the year.

In addition, California recently released a Sustainable Freight Action Plan, which recognizes the need for balanced and integrated support for investment in freight infrastructure, and focuses on competitiveness and efficiency while achieving robust environmental targets. The Plan includes a deadline to develop an integrated funding strategy which incorporates distribution of federal FAST funds by January 2017, and will include targeted investments in freight infrastructure to support the goals outlined in the Plan. This could benefit the Company through increased infrastructure development as well as improving overall freight accessibility in California.

***Customers***

The Company's Strategic Alliance with Cemex, established in 2007, provides for the joint development of new port receiving terminals on the US west coast. Either company may proceed on its own with a legitimate terminal development project should the other alliance partner decline the right to participate for any reason; which is the situation in Long Beach, CA, where Cemex declined to participate. Cemex, a public company, headquartered in Monterrey, Mexico, is one of a small number of major international cement manufacturers and a significant producer of construction aggregate and ready mix concrete, in markets throughout the world. The most significant aspect of this Strategic Alliance is that Cemex were granted exclusive marketing rights for the Company's aggregate products in California (excluding four northern counties reserved for Shamrock Materials) as well as Washington and Oregon. On declining to participate in the Long Beach development, Cemex automatically relinquished the marketing rights in the area serviced by that terminal. The Strategic Alliance and related agreements are subject to a periodic review in March 2017. This review will present both parties an opportunity to update the agreements and ensure that both parties' interests continue to be represented, following significant compromises made in order to survive the Great Recession.

A long-term supply agreement was entered into with Shamrock Materials in 2005 under which deliveries commenced in 2007. Orca Quarry products are unloaded from Panamax vessels, at anchorage in San Francisco Bay, into Shamrock's own barges for transportation to their Landing Way aggregate terminal on the Petaluma River. Shamrock Materials, headquartered in Petaluma, CA, is a well-established private company supplying ready mixed concrete in the north San Francisco Bay area. The agreement with Shamrock also granted them exclusive marketing rights to the Company's aggregates in the counties of Marin, Napa, Sonoma and Mendocino.

In December 2012, the Company entered into a sales agreement with Hanson Aggregates Mid-Pacific Inc., a subsidiary of a major international building materials company headquartered in Heidelberg, Germany. The agreement had an initial term of three years from the commencement of sales in February 2013. In January of 2016, the Company and Hanson agreed that purchases would continue past the third year anniversary date in February 2016 and this sales agreement is now scheduled to expire on December 31, 2016. We are in ongoing discussions to find terms for renewal

that mutually benefit the Company and Hanson, while evaluating alternative logistical arrangements and additional sales opportunities, should the contract not be renewed.

Through the established supply and distribution agreements with our customers, additional third party sales are made to other ready-mix concrete suppliers in the San Francisco Bay Area.

The Los Angeles market is host to several competing ready-mix concrete producers, including CalPortland, A&A Ready Mixed Concrete, Robertson's Ready-mix, Standard Concrete, and Cemex. The Company believes that in this market, where vertical integration of the existing concrete companies is highly developed, it is important to remain independent. We, therefore, do not intend to enter into long-term arrangements with companies, and intend instead to work with our customers to structure competitive bids on a project by project basis.

***Other quarry projects***

In 2015, the Company identified a potential source of an igneous hard rock that is of similar geology to the Orca gravel and therefore possibly interchangeable from a market perspective. This hard rock deposit is also in close proximity to the Orca Quarry. The deposit, since named Black Bear, received an Investigative License of Occupation on December 18, 2015. The Company has also received initial letters of support for the project from our partners in the Orca Quarry, the 'Namgis and Kwakiutl First Nations. A small scale exploratory drilling program was completed in the first quarter of 2016 and is targeted at confirming the quality and consistency of the surface samples completed to date. Results from the drilling program will be incorporated in an NI43-101 report expected in mid-2016.

In the near term, and subject to receiving all the necessary permits, the Black Bear deposit is expected to provide a bolt-on source of stone to improve the Orca quarry's plant capacity and balance to the sand/stone ratio of production to better meet market demands. The long term potential of the deposit could also provide the opportunity for the Company to begin marketing materials for asphalt and other construction markets. Utilizing the existing Orca infrastructure and ship loading facilities, with the same high quality material properties as the Orca Quarry, Black Bear improves the Company's capacity to supply its current customers and add additional sales opportunities with no significant capital outlay.

# Outlook Update

We are currently expecting shipments in Q3 2016 in the range of 700,000 to 900,000 tons, including up to 2 deliveries to Long Beach. We continue to work with our customers to reduce costs and improve ship scheduling, which we expect will result in a more balanced delivery profile. For the full year, we are revising our expectation of sales volumes to be updated to a revised target range of 3.0 to 3.2 million tons.

We expect healthy margins in 2016 as we work with customers to realize the value-added proposition of the Company's products, continue to pursue operating cost savings, and benefit from the impact of the weak Canadian dollar. The Company will continue to focus on improving visibility on sales expectations with its key San Francisco Bay area customers. This is expected to provide for increased reliability of shipping schedules and quarry production, and allow for optimal positioning of the Company's products for inclusion in high specification, high value concrete projects.

We expect to advance permitting of Black Bear during 2016 and have implemented a project plan with minimal funding requirements. This program will allow the Company to evaluate the project in co-operation with First Nations partners and local stakeholders with a goal to begin operations in 2017. As part of our development plan for Black Bear, we applied for an extension to our License of Occupation, which will provide us with improved access to a starter pit location on the west side of the project area. We are currently in active discussions with our First Nations partners to attain their support for the development of this project.

## Non-IFRS Measures

***Adjusted Loss***

The Company has prepared a calculation of adjusted loss for the period in order to better reflect underlying business performance by removing certain non-cash adjustments from its IFRS calculation of loss as it believes this may be a useful indicator to investors. Adjusted loss may not be comparable to other similarly titled measures of other companies.

| | Three months ended June 30, | | Six months ended June 30, | |
|---|---|---|---|---|
| ($000's, except per share and per ton amounts) | 2016 | 2015 | 2016 | 2015 |
| Net loss for the period attributable to shareholders | (429) | (847) | (2,924) | (757) |
| Adjustments: | | | | |
| Share-based employee benefits | 74 | 280 | 150 | 651 |
| Other (gains) and losses | (1) | (4) | 45 | (9) |
| Adjusted net loss for the period | (356) | (571) | (2,729) | (115) |
| *per share* | *(0.00)* | *(0.01)* | *(0.03)* | *(0.00)* |
| *per ton* | *(0.38)* | *(0.85)* | *(1.87)* | *(0.08)* |

***EBITDA and Adjusted EBITDA***

EBITDA, adjusted EBITDA, EBITDA per share and adjusted EBITDA per share ("EBITDA Metrics") are non-IFRS financial measures. EBITDA and EBITDA per share represent net income, excluding income tax expense, interest expense and amortization and accretion. Adjusted EBITDA and adjusted EBITDA per share better reflects the underlying business performance of the Company by removing certain non-cash adjustments from its calculation of EBITDA and EBITDA per share. The Company believes that the EBITDA Metrics trends are valuable indicators of whether its operations are generating sufficient operating cash flow to fund working capital needs and to fund capital expenditures. The Company uses the results depicted by the EBITDA Metrics for these purposes, an approach utilized by the majority of public companies in the construction materials sector. The EBITDA Metrics are intended to provide additional information, do not have any standardized meaning prescribed by IFRS and should not be considered in isolation or as a substitute for measures of performance prepared in accordance with IFRS. These measures are not necessarily indicative of operating profit or cash flow from operations as determined under IFRS. Other companies may calculate these measures differently.

The following table reconciles these non-IFRS measures to the most directly comparable IFRS measure.

| | Three months ended June 30, | | Six months ended June 30, | |
|---|---|---|---|---|
| ($000's except per share and per ton amounts) | 2016 | 2015 | 2016 | 2015 |
| Net loss for the period attributed to shareholders | (429) | (847) | (2,924) | (757) |
| Interest | 12 | 14 | 25 | 35 |
| Income tax expense (recovery) | - | 1 | - | (40) |
| Amortization, depletion and accretion | 1,256 | 1,070 | 2,293 | 2,149 |
| EBITDA | 839 | 238 | (606) | 1,387 |
| *per share* | *0.01* | *0.00* | *(0.01)* | *0.02* |
| *per ton* | *0.89* | *0.36* | *(0.41)* | *1.00* |
| Adjustments: | | | | |
| Share-based employee benefits | 74 | 280 | 150 | 651 |
| Other (gains) and losses | (1) | (4) | 45 | (9) |
| Adjusted EBITDA | 912 | 514 | (411) | 2,029 |
| *per share* | *0.01* | *0.01* | *(0.00)* | *0.02* |
| *per ton* | *0.96* | *0.77* | *(0.28)* | *1.46* |

## Commitments

*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 commitment 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.

## Contingencies

*Royalty assessment for Eagle Rock Quarry project*

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 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. The Company has presented its case to the Ministry but has yet to receive a response.

## 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).

## Significant accounting judgments and estimates

The Company's accounting policies are described in Note 3 to the December 31, 2015 audited consolidated financial statements. The preparation of financial statements requires management to use judgment in applying its accounting policies and estimates and assumptions about the future. Estimates and other judgments are continuously evaluated and are based on management's experience and other factors, including expectations about future events that are believed to be reasonable under the circumstances. The Company considers the accounting policies and estimates for; the determination of mineral reserves, asset values and impairment charges, estimated reclamation, closure costs, and provision for property tax assessment, to be significant. There is a full discussion and description of the Company's significant accounting judgments and estimates in the 2015 management discussion and analysis.

## Financial Instruments

Cash and cash equivalents, trade receivables, and security deposits are classified as loans and receivables. Trade payables are classified as other financial liabilities. Financial instruments that are classified as loans and receivables and other financial liabilities are measured at amortized cost.

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

## Capital Stock

As at the date of this report, the Company had unlimited common shares authorized, of which 88,334,686 were issued and outstanding. The Company also has 4,534,833 options outstanding, exercisable into 4,534,833 common shares, of which 4,098,168 are currently vested. There are no warrants outstanding.

## Risks and Uncertainties

The development and operation of the Company's construction aggregate properties involves a high degree of business and financial risk. Accordingly, investment in the securities of the Company involves a high degree of risk and should be regarded as speculative due to the nature of the Company's business. The Company has incurred losses and may incur further losses. The following are the relevant risks of the Company related to the operations, results, earnings, properties, business and condition and the interim consolidated financial statements of the Company for the quarter ending June 30, 2016 which the Company has reviewed and updated as of the date hereof with respect to such quarter. The following risks are not intended to be a complete list of all risk factors. A full discussion and description of the Company's risks which should be taken into account in assessing important factors that could cause the Company's actual results to differ materially from the Company's expectations and which remain applicable to the Company are disclosed under the heading "Risks and Uncertainties" in the Company's Management Discussion and Analysis for the year ending December 31, 2015 and under the heading "Risk Factors" in the Company's Annual Information Form (AIF) in respect of its financial year ended December 31, 2015, both of which are filed with Canadian regulators on SEDAR (www.sedar.com). Any one or more of the following risks could have a material effect on the Company.

#### The Company's operations may require further capital

The quarrying, processing and development of the Company's properties and terminals, including any future terminals which may be acquired and developed by the Company, will require substantial additional financing. Failure to obtain sufficient financing may result in delaying or indefinite postponement of development or production of the Company's properties and terminals or even a loss of those property interests. There can be no assurance that additional capital or other types of financing will be available if needed or that, if available, the terms of such financing will be favourable to the Company. Any future financing may be dilutive to existing shareholders.

#### Reliance on Certain Customers

The Company generates the major proportion of its revenue, approximately 88% and 83% in 2015 and 2014 respectively, from sales to two customers, Cemex and Shamrock. The ability of these customers to continue in business, or to retain third party sales, could have a material effect on the Company and no assurance can be given in that respect.

#### The Company may not secure additional construction aggregates sales volumes and prices projected for the Orca Quarry

The value and price of the Common Shares, the Company's financial results, and the Company's development and quarrying activities may be significantly adversely affected if the Company does not secure the sales volumes and prices of construction aggregates intended for the Orca Quarry. Demand for construction aggregates products in the Company's target markets fluctuates and is affected by numerous factors beyond the Company's control such as private sector residential and commercial construction, and public sector construction, including roads, bridges, services, and other infrastructure. The supply of construction aggregates to the Company's target markets may also fluctuate and may be affected by new or expanded local production, or supplies of construction aggregates brought into the target markets by road, rail or vessel. Depending on the sales volumes and prices of construction aggregates,

cash flow from quarrying operations may not be sufficient and the Company could be forced to discontinue production and may lose its interest in, or may be forced to sell, some or all of its properties. Future production from the Company's Orca Quarry is dependent on applicable construction aggregates sales volumes and prices being sufficient to make materials extraction from the Orca Quarry economic.

In addition to adversely affecting the Company's financial condition, declining construction aggregates sales volumes and prices can impact operations by requiring a reassessment of the feasibility of the Orca Quarry. Such a reassessment may be the result of a management decision or may be required under financing arrangements related to the Orca Quarry. The need to conduct such a reassessment may cause substantial delays or may interrupt operations until the reassessment can be completed.

**The assumptions made in AMEC's financial analysis of the Orca Project may no longer be reasonable**

The financial analysis completed by AMEC of the Orca Project detailed in the Orca Report relies on certain underlying assumptions which may no longer be reasonable as a result of the global economic recession since 2008. The analysis undertaken by AMEC was completed in 2008. The cash flow projections were based on various assumptions including assumptions on the capital costs, operating costs, production and sales volumes and sales revenues over the life of the project which were reasonable at the time the financial analysis was completed. Since 2008, the actual sales values suggest that the assumptions made may no longer be reasonable. Therefore, undue reliance should not be given to AMEC's financial analysis of the Orca Project.

**The Company must secure access to discharge points and additional shipping volumes for its products**

The Company's business plan includes discharges of Orca Quarry construction aggregates to barges, the Richmond Terminal and to Cemex through its Strategic Alliance with Cemex. Although the Company has access to certain terminals through its Strategic Alliance, there is no certainty that its strategic alliance will secure further joint terminals to meet the increasing deliveries and sales incorporated by the Company in its business plan. If the Company is unable to continue to secure access to additional discharge terminals, or acquire its own discharge terminals, its revenues, operations and financial condition could be materially adversely affected.

When the Eagle Rock Shareholders Agreement was entered into in 2002, it did not contemplate the construction or use of the Richmond Terminal or other terminals by third parties (including the Orca Partnership) prior to the construction of the Eagle Rock Quarry Project. In addition, the Eagle Rock Shareholders Agreement did not contemplate the marketing, shipment and sale of construction aggregates from other projects prior to the commencement of operations at the Eagle Rock Quarry Project. Eagle Rock Aggregates, Inc., a subsidiary of Eagle Rock Materials Ltd., holds the Richmond Terminal Lease, the corresponding easement and facilities use agreements, and the Company's other potential port interests. Eagle Rock Aggregates, Inc. also holds the marketing interests of the Company and it is expected that it will continue to manage the Company's operations in the United States, including the shipment and sale of construction aggregates from the Orca Quarry.

The parties to the Eagle Rock Shareholders Agreement have been negotiating, and will continue to negotiate, the terms and conditions of an arrangement with respect to Eagle Rock Aggregates, Inc. and the financing, construction, and operation of the Richmond Terminal, and the purchase, shipping, distribution and sales of construction aggregates from the Orca Partnership. There is no certainty when or if an agreement will be reached.

Under the Company's revised CoA its exclusive shipper must provide volume capacity to transport approximately 3.3 million short tons of construction aggregates per annum. To achieve the anticipated sales from the Orca Quarry and the Eagle Rock Quarry Project, the Company will have to secure additional shipping capacity. If the Company is unable to secure the additional shipping volumes, or fails to meet the contracted annual minimum volumes, its revenues, operations and financial condition could be materially adversely affected.

**Currency fluctuations may adversely affect the Company's financial performance**

The effects on financial performance and cash flows from the Canadian dollar foreign exchange rate versus the U.S. dollar are significant. The Company does not enter into hedging contracts in connection with foreign currencies. Changes in the Canadian dollar against the U.S. dollar could materially affect the Company's U.S. dollar-reported operational profitability and financial condition.

**The Company currently depends on a single property**

The Company's only material mineral producing property is the East Cluxewe Deposit. Unless the Company acquires or develops additional material properties or projects, the Company will be solely dependent upon the operation of the Orca Quarry for its revenue and profits, if any.

**The Company may not meet minimum freight contract volumes**

The Company's freight contract, which was again amended and restated in December 2013, provides for minimum annual volumes of construction aggregates. If the Company is unable to secure sufficient sales volumes to meet contracted minimum freight volumes, its revenues, operations and financial condition could be materially adversely affected.

**Eagle Rock Quarry Project Royalty Assessment**

The Company has received a royalty assessment from the British Columbia Ministry of Forests, Lands and Natural Resource Operations for overdue royalties of $456,000 for 2012 and $496,000 for 2013, in respect of the Company's quarrying lease for the Eagle Rock Quarry project ("ERQ project") located on the Alberni Inlet to the south of the City of Port Alberni, British Columbia. The Company is disputing the assessment. The Company has not recorded a provision for the royalties. The amount of any payment, if required, is currently uncertain and it may be necessary to record a provision in future periods. There can be no assurance that the Company's position will prevail.

***Additional risk factors***

The quarrying industry is competitive and the Company faces strong competition from other quarrying companies, or prospective quarrying companies, in connection with the supply of construction aggregates to the Company's target markets. Government regulation and assessments may adversely affect the Company. The Company's title to its properties may be subject to disputes or other claims including land title claims of First Nations. The Company's operations will be subject to all the hazards and risks normally encountered in the development and production of construction aggregates, including, without limitation, unusual and unexpected geologic formations, seismic activity, pit-wall failures, cave-ins, flooding and other conditions involved in the drilling and removal of material, any of which could result in damage to, or destruction of, quarries and other producing facilities, damage to life or property, environmental damage and legal liability. Construction aggregates resources are estimates only and there is no certainty that the construction aggregates resource represented at the Company's properties will be realized or that such resource can be economically quarried. The actual costs of reclamation included in the Company's plan for the Orca Quarry are estimates only and may not represent the actual amounts required to complete all reclamation activity. The Company will require other construction aggregates resources in the future. The Company's operations are subject to environmental risks as all phases of the Company's operations are subject to Federal, Provincial and local environmental regulation in the various jurisdictions in which it operates which could potentially make operations expensive or prohibit them all together. The Company does not insure against all risks and the Company's insurance will not cover all the potential risks associated with a quarrying company's operations. Certain groups are opposed to quarrying. In North America there are organizations opposed to quarrying, particularly open pit quarries such as the Orca Quarry and the Eagle Rock Quarry Project. The Company is dependent upon certain of its executive management team and the loss of the services of its executive officers could have a material adverse effect on the Company. The Company's growth will require new personnel and there can be no assurance that the Company will be able to recruit or retain personnel required to execute its programs or to manage these changes successfully. Certain of the directors and officers of the Company also serve as directors, officers and/or significant shareholders of other companies involved in natural resource exploration and development and consequently there exists the possibility for such directors and officers to be in a position of conflict.

# Controls and Procedures

The Company's management is responsible for establishing and maintaining adequate internal control over financial reporting. Any system of internal control over financial reporting, no matter how well designed, has inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation. There have been no changes in the Company's internal control over financial reporting during the three months ended June 30, 2016 that have materially affected, or are reasonably likely to materially affect, internal control over financial reporting.

## Cautionary Note Regarding Forward Looking Statements

This Management's Discussion and Analysis release contains "forward-looking statements" and "forward-looking information" within the meaning of applicable securities laws. These statements and information appear in a number of places in this document and include estimates, forecasts, information and statements as to management's expectations with respect to, among other things the future financial or operating performance of the Company, costs and timing of the development of the construction aggregate quarry, the timing and amount of estimated future production, costs of production, capital and operating expenditures, requirements for additional capital, government regulation of quarrying operations, environmental risks, reclamation expenses, and title disputes. Often, but not always, forward-looking statements and information can be identified by the use of words such as "may", "will", "should", "plans", "expects", "intends", "anticipates", "believes", "budget", and "scheduled" or the negative thereof or variations thereon or similar terminology. Forward-looking statements and information are necessarily based upon a number of estimates and assumptions that, while considered reasonable by management, are inherently subject to significant business, economic and competitive uncertainties and contingencies. Readers are cautioned that any such forward-looking statements and information are not guarantees and there can be no assurance that such statements and information will prove to be accurate and actual results and future events could differ materially from those anticipated in such statements. Important factors that could cause actual results to differ materially from the Company's expectations are disclosed under the heading "Risks and Uncertainties" in the Company's Annual Report and under the heading "Risk Factors" in the Company's Annual Information Form (AIF) in respect of its financial year-ended December 31, 2015, both of which are filed with Canadian regulators on SEDAR (www.sedar.com). The Company expressly disclaims any intention or obligation to update or revise any forward-looking statements and information whether as a result of new information, future events or otherwise. All written and oral forward-looking statements and information attributable to us or persons acting on our behalf are expressly qualified in their entirety by the foregoing cautionary statements.

## Other Information

Additional information related to the Company is available for viewing on SEDAR at www.sedar.com and at the Company's website at www.polarismaterials.com.

## Glossary of Terms

**Ton** – the unit of weight used in the US consisting of 2,000 imperial pounds, often referred to as a 'Short Ton'.

**Metric Tonne** – a unit of weight commonly used in Canada and worldwide in shipping operations consisting of 1,000 kilograms (2,205 imperial pounds).