(US dollars, except where noted)

(Unit of weight is US short tons)

Management's Discussion and Analysis
Quarter Ending June 30, 2013

The following discussion and analysis of the financial condition and operations of Polaris Minerals Corporation (the "Company") has been prepared by management as of August 1, 2013, and should be read in conjunction with the Company's unaudited interim consolidated financial statements for the three and six months ended June 30, 2013, 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, 2012, 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.

Highlights

- **Aggregate sales of 836,000 tons represented a new quarterly high and an increase of 56% over the same period last year. For the first six months of 2013 aggregate sales totaled 1,609,000 tons, also a 56% increase over the prior year.**
- **Completed a bought deal financing of 13.2 million common shares at CAD$1.31 per share. Gross proceeds to the Company were CAD$17.3 million of which CAD$8.7 million was used to fully repay the Company's outstanding debt, including accrued interest. The debt had an interest rate of 12%.**

Results of Operations

The Company continues to experience increasing demand in its principal market in northern California and anticipates this trend continuing. Notably, the Company generated a positive cash flow from operations during the second quarter as increased aggregate sales volumes reduced cash operating costs per ton and the Company benefited from certain selling price increases that were implemented at the beginning of the quarter.

Net loss

The Company incurred a net loss attributable to shareholders of $3.5 million ($0.05 per share loss) during the three months ended June 30, 2013, compared to a net loss attributable to shareholders of $1.9 million ($0.04 per share loss) during the three months ended June 30, 2012. Contributing to the current quarter increase in year-on-year net loss was higher general and administrative expenses, which are principally attributable to non-cash stock based compensation charges, and the inclusion of a $0.1 million loss on the disposal of equipment at the Orca quarry. Also, the three months ended June 30, 2013 included a $0.9 million loss on the final settlement of the Company's long-term debt, whereas the three months ended June 30, 2012 benefited from inclusion of a $0.6 million income tax recovery.

The net loss attributable to shareholders during the six months ended June 30, 2013 was $5.4 million ($0.09 per share loss) compared to a net loss attributable to shareholders of $6.2 million ($0.12 per share loss) during the six months ended June 30, 2012. The decrease in year-on-year net loss benefited from a decrease in gross loss for the six months end June 30, 2013 compared to the same period in 2012, as well as a decrease in interest on long term debt for the first half of 2013 compared to the same period in 2012.

(000's, except per ton amounts)	Three months ended June 30, 2013		Three months ended June 30, 2012		Six months ended June 30, 2013		Six months ended June 30, 2012	
	Tons	$	Tons	$	Tons	$	Tons	$
Sales	836	10,904	535	7,659	1,609	21,428	1,033	14,761
Cost of goods sold		(11,407)		(8,337)		(22,520)		(17,387)
Gross loss		(503)		(678)		(1,092)		(2,626)
Gross loss per ton		*(0.60)*		*(1.27)*		*(0.68)*		*(2.54)*

Revenue and tons sold

Revenue for the three months ended June 30, 2013 increased by 42% to $10.9 million, compared with $7.7 million for the three months ended June 30, 2012. Revenue for the six months ended June 30, 2013 increased by 45% to $21.4 million, compared with $14.8 million for the six months ended June 30, 2012. Aggregate sales for the current quarter were 836,000 tons, a 56% increase over sales of 535,000 tons in the second quarter of 2012. Aggregate sales for the first half of 2013 were 1.6 million tons, a 56% increase over sales of 1.0 million tons in the first half of 2012. Overall revenue has benefited from certain selling price increases that were implemented at the beginning of the quarter and continued increasing demand in the Company's principal market in northern California.

The average selling price ("ASP") during the current quarter of $13.04 per ton decreased from $14.32 per ton in same period for 2012 and the ASP for the first half of 2013 of $13.32 decreased from $14.29 in the first half of 2012. The decrease in ASP for the current quarter and first half of 2013 compared with the same periods in 2012 is consistent with the additional volumes supplied under the new agreement that commenced in February 2013, on a Free-On-Board ("FOB") basis at the Orca quarry. This new supply agreement does not include freight charges and is priced accordingly. ASP per ton is also influenced on a quarter by quarter basis by the shipping fuel surcharges, the distribution of tonnage delivered to the various California terminals, and the varying percentage between delivered and ex-quarry sales. Further, the tonnage sold in any particular quarter can be significantly affected, positively or negatively, by the timing of specific voyages delivering product into San Francisco Bay although this issue is becoming much less significant as volumes increase.

Cost of goods sold

Cost of goods sold for the three months ended June 30, 2013 increased by 37% to $11.4 million, compared with $8.3 million for the three months ended June 30, 2012, whereas aggregate sales for the current quarter increased 56% over sales in the second quarter of 2012. Accordingly, cost of goods sold per ton for the current quarter declined to $13.64 compared to the cost of goods sold per ton for the same period in 2012 of $15.58. Cost of goods sold for the six months ended June 30, 2013 increased by 30% to $22.5 million, compared with $17.4 million for the six months ended June 30, 2012, whereas aggregate sales for the first half increased 56% over sales in the first half of 2012. Accordingly, cost of goods sold per ton for the first half of 2013 declined to $14.00 compared to the cost of goods sold per ton for the same period in 2012 of $16.83. The additional volumes supplied under the new agreement that commenced in February 2013 do not include freight charges and thus contribute to the year-on-year reduction in overall cost of goods sold per ton. Although the majority of the Company's sales and shipping costs are denominated in US dollars, the cost of goods sold benefited from the fact that the costs at the Orca Quarry are incurred primarily in Canadian dollars and as such benefited from the decline in the exchange rate of Canadian dollar relative to the US dollar. Additionally, fixed quarrying costs, measured on a per ton basis, benefited from the increased level of production during the current quarter and first half of 2013 and contributed to the reduction in cost of goods sold per ton. These benefits in quarrying costs are partially offset by increases in contractor costs, wages and benefits, and repairs and maintenance in the second quarter and first half of 2013.

Gross loss

During this second quarter of 2013 the Company reduced its gross loss to $0.5 million, or $0.60 loss per ton, compared with a gross loss of $0.7 million, or $1.27 loss per ton in the prior year period. The gross loss for the first six months of 2013 was $1.1 million or $0.69 loss per ton, a significant improvement over the gross loss of $2.6 million or $2.64 loss in the same period of 2012., The improvement is largely due to the increased volumes that have enabled the Company to operate more efficiently and reduce unit fixed costs per ton together with the implementation of certain selling price increases. The Company continues to benefit from the new supply agreement that commenced in February, 2013, on a FOB basis, which contributes to the gross margin without requiring additional working capital to fund freight costs.

Shipping Fuel Surcharges

As a consequence of the Company's two major supply agreements in northern California, the Company absorbs changes in the cost of shipping fuel during a quarter and then passes the cost, or benefit, through to the customer during the following quarter. The commencement selling prices to both customers reflected actual fuel costs at the time of entering into the contracts.

The Company's sensitivity to changes in fuel prices is as follows: for every $10 movement per metric tonne in the price of Low Sulphur Fuel Oil ("LSFO"), the main fuel required to be used in shipping since August, 2012, the Company's delivered price is impacted, positively or negatively, by approximately 3.7 cents per ton.

North American Emission Control Area

On August 1, 2012, the USA EPA and Environment Canada established a North American Emission Control Area (the "ECA") of 200 nautical miles around the US and Canadian coasts. All vessels operating within the ECA must now use Low Sulphur Fuel Oil (LSFO) which has a limit of 1% sulphur. This action significantly increased the cost of shipping from August 1st, 2012, which the Company has now passed on to its customers through oil pass-through clauses in the Company's sales agreements.

The objective of the ECA is to reduce emissions from ships that might be harmful to coastal environments, a principle supported by marine cargo shippers including CSL International, the Company's exclusive shipper. However, the US EPA directed that the ECA be 200 miles offshore without the benefit of new research which clearly establishes that an ECA limit beyond 50 miles provides no further benefit to coastal environments. This new regulation has adversely impacted many freight movements in North America and these coastal regions would actually be seriously impacted by the increased air pollution and road congestion that would arise should millions of tons per annum of products, including construction aggregate, be forced to use shore-based truck or rail transportation rather than ships. A Coalition of Short-Sea Shippers, coupled with the Maritime Industrial Transportation Alliance, are actively pressing for the ECA to be modified to 50 miles for smaller, short-sea, coastal vessels which would include those operated by CSL. The Company is engaged with the National Stone and Sand and Gravel Association to support the coastal shippers in achieving a modification to the ECA regulations thus enabling the current economic benefits to be maintained in the vital supply of construction aggregates to coastal cities, without negatively impacting the coastal environment.

Selling, general and administrative costs

During the quarter ended June 30, 2013, selling, general and administrative ("SG&A") expenses of $1.8 million represented an increase of $0.8 million compared with $1.0 million in the same period for 2012; however, this increase was principally due to the recognition of a $0.6 million non-cash charge for stock based compensation arising from stock options granted in June, 2013. During the six months ended June 30, 2013 SG&A expense of $2.9 million showed a similar increase due to stock based compensation compared to SG&A of $2.5 million for the six months ended June 30, 2012.

Segmented Analysis

The Company operates in one segment: the development and operation of construction aggregate properties and projects located in the United States and Canada.

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:

($000's)	2013		2012				2011	
	June 30	Mar 31	Dec 31	Sept 30	June 30	Mar 31	Dec 31	Sept 30
Revenue	10,904	10,524	8,305	9,130	7,659	7,102	6,984	6,774
Loss before interest and income taxes	(2,538)	(1,643)	(2,034)	(3,176)	(2,116)	(3,282)	(5,504)	(2,952)
Net loss attributable to shareholders of Polaris	(3,545)	(1,879)	(2,631)	(3,413)	(1,886)	(4,308)	(5,224)	(3,472)
Basic and diluted net loss per share	(0.05)	(0.03)	(0.05)	(0.06)	(0.04)	(0.08)	(0.09)	(0.07)
(000's Tons)								
Sales	836	773	571	632	535	498	506	484
Aggregate production	866	641	619	511	615	536	590	452

See *Results of Operations* and Seasonality sections for discussion of quarterly and general trends.

Liquidity and Capital Resources

Working Capital

At June 30, 2013, the Company had working capital of $12.3 million that included cash of $10.3 million. Comparatively, at December 31, 2012 the Company had working capital of $7.2 million including cash of $5.5 million.

Operating, Financing and Investing Activities

During the three months ended June 30, 2013 the Company generated positive cash flow from operations of $0.6 million ($0.72 per ton) compared with $1.8 million ($3.44 per ton) during the three months ended June 30, 2012, however, the second quarter of 2012 included a deferred revenue payment of $1.7 million. Operating cash flow as measured by Adjusted EBITDA, showed a significant improvement as the adjusted loss before interest, taxes, depreciation and amortization reduced to $0.7 million, ($0.84 loss per ton) for the three months ended June 30, 2013 compared with a loss of $1.0 million ($1.93 loss per ton) in the three months ended June 30, 2012 (*See Non-IFRS Measures*). Operating activities used cash of $1.4 million in the six months ended June 30, 2013 compared to cash used of $0.8 million in the six months ended June 30, 2012. During the first half of 2013 cash of approximately $1.0 million was used to pay overdue trade accounts from the fourth quarter of 2012, with the balance supporting the Company's operations in the first quarter.

For the three and six months ended June 30, 2013 financing activities provided cash of $7.0 million and $6.9 million, respectively, compared to cash used by financing activities of $0.1 million and cash provided by financing activities of $1.6 million, for the same periods in 2012. During the current quarter of 2013, the Company completed a bought deal financing of 13.2 million common shares, issued at CAD$1.31 per share, for gross proceeds of CAD$17.3 million. Net proceeds, after the deduction of the underwriters' commission and other fees and expenses were CAD$16.3 million. CAD$8.65 million of the proceeds of the financing was used to repay in outstanding long-term debt consisting of the Company's 12% senior secured notes together with accrued interest thereon. The remaining proceeds will be used to facilitate the Company's entry into the Southern California market and for general working capital purposes. The financing completed on June 25, 2013 improved the Company's liquidity position; however, the Company's long term liquidity depends on a number of factors, including continued improvement in the North American economic outlook and the continuing recovery in demand for the Company's products, particularly in California.

Investing activities during the three months ended June 30, 2013, used cash of $0.03 million compared to cash used of $0.5 million for three months ended June 30, 2012. Investing activities during the six months ended June 30, 2013, used cash of $0.6 million compared to cash used of $0.6 million for six months ended June 30, 2012. Investing activities for the three and six months ended June 30, 2013 are mainly attributable to purchases of repair parts used in refurbishing equipment at the Orca quarry.

Contractual Obligations, Commitments and Contingencies

Shipping Tonnage

The Company has a Contract of Affreightment ("NCoA") which is effective from January 1, 2010 with a term of 20 years. The NCoA requires the Company to ship minimum tonnages per year, commencing on January 1, 2010, in the amount of 1,543,000 short tons escalating to 5,787,000 short tons per annum over seven years. The 2013 minimum shipping commitment is 2,979,000 short tons. The Company has the option in any given year to increase or decrease the annual commitment by 10% without penalty. Sales under the Company's supply agreement with a new customer, that commenced February, 2013, are FOB shipping point and are not included toward the Company's minimum shipping commitment. Failure by the Company to ship its annual cargo commitment will result in a dead-freight charge equal to 75% of the freight rate for the unshipped tons. Minimum freight volume penalties are payable annually in the year in which freight volumes do not meet the minimum volume requirements in the NCoA. The Company and its shipper have agreed in principle, subject to definitive documentation, that the penalty rate for 2011 until 2016 can be reduced to 25% if the Company achieves certain revised business targets.

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)	2013	2012	2013	2012
Net loss for the period attributable to shareholders of Polaris	(3,545)	(1,886)	(5,424)	(6,194)
Adjustments				
Share-based employee benefits	522	67	550	142
Loss on settlement of loan	870	-	870	765
Other (gains) and losses	100	34	(16)	6
Adjusted net loss for the period	(2,053)	(1,785)	(4,020)	(5,281)
per share	*(0.03)*	*(0.03)*	*(0.06)*	*(0.10)*
per ton	*(2.46)*	*(3.34)*	*(2.50)*	*(5.11)*

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)	2013	2012	2013	2012
Net loss for the period attributed to shareholders of Polaris	(3,545)	(1,886)	(5,424)	(6,194)
Interest	255	566	517	1,006
Income tax (recovery)	100	(632)	230	(592)
Amortization, depletion and accretion	993	889	2,114	2,511
EBITDA	(2,197)	(1,063)	(2,563)	(3,269)
per share	*(0.03)*	*(0.02)*	*(0.04)*	*(0.06)*
per ton	*(2.62)*	*(1.99)*	*(1.59)*	*(3.16)*
Adjustments				
Share-based employee benefits	522	67	550	142
Loss on settlement of loan	870	-	870	765
Other (gains) and losses	100	(34)	(16)	6
Adjusted EBITDA	(705)	(1,030)	(1,159)	(2,356)
per share	*(0.01)*	*(0.02)*	*(0.02)*	*(0.04)*
per ton	*(0.84)*	*(1.93)*	*(0.72)*	*(2.28)*

Overview of the Company, Operations, Markets and Outlook

MARKET OUTLOOK AND RECENT DEVELOPMENTS

Sales in the first half of 2013 were 1,609,000 tons, an increase of 56% over the first half of 2012. Sales under the Company's two existing long term supply and marketing agreements increased by 23%, with the balance being the contribution from a new supply agreement that commenced in February. Demand in the northern California market is increasing as private housing, private commercial and public infrastructure sectors all continue to recover. On December 13, 2012, the Company entered into a new supply contract with an international construction materials company which was already engaged in importation of aggregates by ocean-going vessels into the San Francisco Bay. The contract is for an initial period of three years with two option periods of three years which, with the agreement of both parties, could extend the contract to a total of nine years. Under this new contract aggregates are loaded at Orca Quarry into vessels chartered by the customer and sales commenced in February 2013.

The continuing strong increase in northern California's demand coupled with the increasing use of the high quality Orca aggregate for high strength concrete requirements is enabling the Company to achieve real price increases. The Company believes that the increasing level of demand being experienced by its California customers is the result of investment factors specific to the greater San Francisco area which have been evident ahead of the broader US construction recovery now underway. On June 29, 2012, Congress passed a Surface and Transportation Reauthorization Bill ("MAP-21") which will fund the nation's roads, bridges and mass transit systems until the end of 2014. This action removed a three-year gridlock during which period funding uncertainty, at both federal and state levels, had contributed to the major decline in construction activity. Additionally States are now able to apply for funding assistance under the Transportation Infrastructure Finance and Innovation Act (TIFIA) which provides $1.75 billion of Federal credit assistance over the next two years for nationally or regionally significant surface transportation projects. Each dollar of Federal funds can provide up to $10 in TIFIA credit assistance, leverage up to $30 in transportation infrastructure investment. In July 2013, the Portland Cement Association noted that 2012 represented "the strongest cement consumption gains in seven years" and projected that cement consumption growth would continue at around a 6.2% annual increase in 2013. The association further suggested continuing growth of 9.2% in 2014. It has to be noted that alongside this unbridled optimism is a caution that US economic factors are still uncertain in many areas.

In respect of private sector construction investment, the Company believes that the encouraging statistics showing a resurgence in private housing will continue although this sector is less influential on the demand for Orca Quarry materials than private commercial investment. Increased multiple occupancy unit construction activity in San Francisco, coupled with strong private commercial activity, particularly in the San Francisco/San Jose corridor is contributing significantly to increasing demand.

Local reserves of construction aggregate continue to decline, albeit at a reduced rate and the development of new replacement quarries is still strongly opposed by local residents in most markets, especially those crucial to our business. The California Geological Survey released a report titled “Aggregate Sustainability in California, 2012”. This is essentially an update to similarly titled reports published in 2002 and 2006. The report contains a considerable amount of data which demonstrates that aggregate shortages remain a major problem such that in a number of major markets in the State, where aggregate resources continue to decline, they are not being replaced, and complete exhaustion can be projected in a decade or so.

Despite these dire predictions, the quarrying industry’s problems in permitting new resources have not changed and it remains extremely difficult, especially around major urban markets, to obtain new permits. Recent examples included the refusal to permit a proposed large new granite quarry in Riverside County north of San Diego and a hard rock quarry proposed near Fresno, both of which have failed due to the high level of public concern about such new operations. The January 2011 San Diego Region Aggregate Supply Study prepared under the direction of SANDAG (San Diego Area Governments) stated; “One of the challenges facing this region is how to meet the increasing demand for aggregate at a time when the local supply is shrinking”, this being particularly with reference to materials necessary to meet planned public sector expenditure. The report highlighted the need for further land based resources, coupled with the requirement to import materials by ship, train or barge and supports the Company’s strategy to supply this market.

In Hawaii, the Company is focusing on major infrastructure projects where the ability of Orca Quarry materials to meet stringent performance requirements provides strong technical and economic justification for their usage. The initial term of the Company’s supply agreement with its Hawaiian customer has expired although sales are continuing at previous levels under normal purchase and supply arrangements. During April, 2013, a major trial at the Hickam Air Force Base was supervised by the US Army Corps of Engineers. The trial involved concrete paving for runway construction made exclusively from Orca aggregate. It is pleasing to note that the results were extremely positive. This will eventually begin to benefit sales although the Company recognizes that the expected increase in volumes would be modest in comparison to California demand.

Relatively small quantities of materials continue to be sold for use in British Columbia or Alaska and are loaded into barges provided by the customers.

OPERATIONS

Quarry Properties

The Orca Quarry is situated to the west of the town of Port McNeill, British Columbia, and commenced shipments of high quality sand and gravel construction aggregates to west coast ready mix concrete producers in March 2007. Mineral extraction takes place from the East Cluxewe deposit which contained a reserve of 134 million tons at the commencement of operations in 2007. Estimates of remaining reserves are contained in the Company’s Annual Information Form.

The Company has also explored additional lands in the Orca Quarry area, over which it has certain rights, referred to as the East Cluxewe Extension and West Cluxewe deposits. After due consideration of the resource, environmental and permitting factors relative to these areas, the Company anticipates that, following completion of extraction of the East Cluxewe deposit, working the East Cluxewe Extension deposit, which is contiguous with its current operations, will the first priority to be followed by the West Cluxewe deposit. The necessary permits for working these additional deposits will be sought much nearer the time when they will be required.

The Company also owns the rights to develop the Eagle Rock Quarry Project, a very large granite resource located on deep tidewater alongside the Alberni Inlet near Port Alberni, British Columbia. The Eagle Rock Quarry received its mine permit in 2003 and in 2008 renewed the Environmental Assessment Certificate from the Province of BC, which now expires in September 2013. The Company has initiated discussion with the Province of BC on the certificate renewal process. The Company continues to seek market outlets which would support the development of the quarry to produce crushed rock construction aggregate products. This high quality aggregate is anticipated to be ideal for asphalt manufacture and over time is expected to be a significant source of coarse aggregate for use in concrete when it will complement Orca Quarry which produces a high proportion of natural sand. The effects of the recession have made it difficult to predict when it might be possible to advance this project to a construction phase.

Marine Terminals

The Company is still at a relatively early stage of development of its marine receiving terminals despite having commenced production in 2007. Opportunities to develop suitable marine terminals are scarce and access, whether through owned and operated or third party facilities, is a key component in the logistical chain. The Company currently delivers construction aggregate to four terminals in San Francisco Bay. The Richmond Terminal, owned and operated by the Company, has a permitted capacity of 1.5 million tons per year and serves the north and east Bay areas. The Redwood City terminal in southwest San Francisco Bay and the Pier 92 terminal near downtown San Francisco are owned and operated by the Company's strategic alliance partner, Cemex, with a combined annual capacity of well over 1.5 million tons. The Landing Way Depot, on the Petaluma River in Sonoma County, owned and operated by Landing Way Depot, Inc., has an annual capacity of approximately 1.25 million tons and serves the requirements of Shamrock Materials Inc.

The Company's strategic objectives include the development of marine terminals in southern California. In the third quarter of 2009, the Company secured an option to lease an existing marine aggregate importing terminal in the Port of Long Beach, California, at Berth D-44 and, in July 2010, exercised this option and entered into a five year lease with renewal at the Company's option for a further three, five-year, periods to a total of 20 years. This 8.3 acre site is privately owned and has operated for many years receiving construction aggregates from barges with storage in open stockpiles. The site, which was permitted to receive and distribute up to 3 million tons of construction aggregates per year, is located on a deep-water channel and is close to Interstate 710, which services the greater Los Angeles area. Previously aggregates were delivered by barges and the Company is now engaged in modifying the permits to enable delivery by Panamax size vessels. The Ports of Long Beach and Los Angeles are currently engaged in major construction projects designed to enhance their ability to receive and efficiently handle much larger container vessels. As a consequence, the demand for concrete aggregate to meet these massive construction projects will increase significantly. To mitigate the already over-congested road access and egress from these Ports, the benefits of marine imported aggregates have been recognized and the Company is increasingly confident that the Berth D-44 terminal will play an important part in meeting future demand as construction activity increases in the Los Angeles Basin area and delivered aggregate prices return to pre-depression levels. During the second quarter of 2013 the Company received a dredging permit from the US Army Corps of Engineers for the maintenance dredging required at Berth D-44 in order to accommodate the Panamax vessels of CSL. It is anticipated that this work will be carried out before December 2013.

In July 2011, the Company's Strategic Alliance Partner, Cemex Inc. formally advised that it would be unable to participate in the development of the Berth D-44 site in Long Beach due to capital investment constraints. The Company had been anticipating this position, which is not unwelcome, and is engaged in reviewing possible alternate marketing relationships that may prove stronger in this particular market area, while maintaining the ability to supply Cemex requirements on an arms-length basis. The eventual capital cost of bringing this terminal into full operation is estimated at $4 million, however, the Company is presently exploring short term options to more economically commence the delivery of aggregates by utilizing part of the site and offsetting leasing costs through short-term sub-let arrangements.

The Company, through its jointly owned subsidiary company, Cemera San Diego, LLC, is also pursuing an opportunity in the Port of San Diego for the development of a marine aggregate terminal to service the San Diego market, which has significant aggregate supply deficiencies. On August 4, 2009, The Port of San Diego granted Cemera San Diego, LLC, an exclusive negotiating agreement (the "ENA") for an option to lease and develop an approximate 100,000 square foot building located at the Tenth Avenue Marine Terminal for the purpose of receiving and distributing aggregates. On February 28, 2010, the ENA expired; however, the Port of San Diego issued a comfort letter in succession to the ENA and the parties continue to negotiate in good faith to agree on the terms of the option to lease. The Company is actively reviewing marketing and development possibilities although it is unlikely that operational status in this unique location will be achieved before 2015/16.

SHIPPING

The Company is currently shipping its products from Vancouver Island, British Columbia, to San Francisco Bay by self-unloading Panamax vessels provided by CSL International Inc ("CSL"). The Company's new customer and existing customers in Hawaii and British Columbia, are supplied on an ex-quarry basis into vessels or barges provided by them.

On arrival in San Francisco Bay, CSL's vessels are partially unloaded while at anchor ("lightered") into barges provided by Shamrock Materials Inc. under the terms of a twenty-year aggregate supply agreement, or onto a barge operated by an independent towing contractor on behalf of Cemex. After lightering, the balance of the cargo may be unloaded at Cemex's Redwood City 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. It is anticipated that the increasing demand for Orca Quarry products in northern California, similar to levels experienced during 2008, will assist in maximizing shipping efficiency.

Sales to Hawaii, Alaska, British Columbia and under the new supply agreement that commenced in the first quarter of 2013, are made on an FOB, basis by loading ships or barges provided and paid for, by the customer.

CUSTOMERS

The Company's Strategic Alliance with Cemex, which was established in 2007, provides for the joint development of new port receiving terminals on the US west coast that will ultimately be required to achieve the Orca Quarry's permitted production of 6.6 million tons per year. Either company may proceed with a legitimate terminal development project should the alliance partner decline the right to participate for any reason. Cemex, a public company, headquartered in 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.

A second long-term supply agreement commenced with Shamrock Materials in 2007. Orca Quarry products are unloaded from Panamax vessels, at anchorage in San Francisco Bay, into Shamrock's own barges for transportation to an aggregate terminal situated at Petaluma, CA. Shamrock Materials is a well-established private company supplying ready mixed concrete in the north San Francisco Bay area.

The Company maintains a close relationship with the management of both Shamrock and Cemex, which together accounted for approximately 93% of the Company's sales in 2012.

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. The agreement has a fixed first period of three years with two, three-year, renewal options requiring mutual agreement to extend. Sales under the agreement commenced in February, 2013.

The Company also supplies customers in Hawaii and British Columbia, which are substantial private companies with whom management maintains a working relationship.

SALES AND 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.

Related Party Transactions

During the three months ended June 30, 2013, the Company accrued for or paid the following services by related parties. Proconsult UK Ltd. ("Proconsult"), a company controlled by a director of subsidiary of the Company, provided to the Company, management and marketing services at a cost of $87,550 (three months ended June 30, 2012 - $88,365). The Company agreed to pay Proconsult a retainer of $26,112 per month plus expenses under the agreement. Effective July 2013, Proconsult's monthly retainer was reduced to $14,500 per month plus expenses. Navigator Management Ltd. ("Navigator"), a company controlled by a director of the Company, provided to the Company, consulting services at a cost of CAD$9,763 (three months ended June 30, 2012 - 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 six months ended June 30, 2013, the Company accrued for or paid, Proconsult for management services at a cost of $176,035 (six months ended June 30, 2012 - $175,109) and Navigator for consulting services at a cost of CAD$19,664 (six months ended June 30, 2012 - $18,295).

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, 2013, accounts payable included; $29,020 due to Proconsult, (December 31, 2012 - $26,585) and CAD$3,021 due to Navigator, (December 31, 2012 - CAD$3,000).

Significant accounting judgments and estimates

The Company's accounting policies are described in Note 3 to the December 31, 2012 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, and estimated reclamation and closure costs, to be significant. There is a full discussion and description of the Company's significant accounting judgments and estimates in the 2012 management discussion and analysis.

Financial Instruments

Cash, trade receivables, security deposits and other receivables 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, trade receivables, security deposits, other receivables, and trade payables, approximate their carrying values due to either their short-term nature or maturities.

Liquidity risk arises from the Company's general and capital financing needs. The Company has planning and budgeting processes to help determine the funding requirements to meet various contractual and other obligations. The equity financing completed on June 25, 2013 improved the Company's liquidity position; however, the Company's long term liquidity depends on a number of factors, including continued improvement in the economic outlook in North America and the continuing recovery in demand for the Company's products, particularly in California.

Capital Stock

As at the date of this report, the Company had unlimited common shares authorized, of which 79,970,602 were issued and outstanding. The Company also has 4,059,209 options outstanding, exercisable into 4,059,209 common shares, of which 3,159,207 are currently vested, and 2,236,250 warrants outstanding, all of which are vested.

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 expects to incur further losses. The following risks are not intended to be a complete list of all risk factors or presented in any assumed order of priority. 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 are disclosed under the heading "Risks and Uncertainties" in the Company's 2012 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, 2012, 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 will require further capital

The quarrying, processing and development of the Company's properties and terminals, including the property at Berth D-44 in the Port of Long Beach and 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.

Current global financial conditions

Current global financial conditions have been subject to increased volatility. These factors may impact the ability of the Company to obtain equity or debt financing in the future and, if obtained, on terms favourable to the Company. If these increased levels of volatility and market turmoil continue, the Company's operations and the value and price of the Common Shares could be adversely affected.

Reliance on Certain Customers

The Company generates the major proportion of its revenue from sales to three customers. The ability of these customers to continue in business 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.

Currency fluctuations may adversely affect the Company's financial performance

The effects on financial performance and, hence, on cash flows, of the foreign exchange rate and the escalation of the Canadian dollar against the U.S. dollar are significant. The Company does not currently have any intention to enter into hedging contracts in connection with foreign currencies. The appreciation of the Canadian dollar against the U.S. dollar would increase Canadian dollar costs, due to stronger Canadian dollars being converted into U.S. dollars, and could materially and adversely 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 amended and restated in March 2010, provides for minimum annual volumes of construction aggregates that increase during the years of the contract. If the Company is unable to secure sufficient sales volumes to meet those minimum freight volumes, its revenues, operations and financial condition could be materially adversely affected.

Additional risk factors

Quarrying involves a high degree of risk and the Company has a limited history of construction aggregate project development or operations. Additionally, certain groups are opposed to quarrying and could attempt to interfere with the Company's operations, whether by legal process, regulatory process or otherwise. The Company's title to its properties may be subject to disputes or other claims, including land title claims of First Nations. Construction aggregate quarrying, processing and development activities are highly regulated and changes to government regulations or interpretation of those regulations may also adversely affect the Company. The Company currently depends on a single property with a construction aggregate reserve that has an estimated life at inception of 25 years. Construction aggregate reserves are estimates only and the assumptions made in the AMEC financial analysis of the Orca Project may no longer be reasonable. In order to maintain its annual production the Company will be required to obtain other construction aggregate resources in the future to bring into production. The Company's operations are subject to environmental risks and the actual costs of reclamation for the property are uncertain. Further, the Company's insurance will not cover all the potential risks associated with a quarrying operation. The Company is principally dependent upon its key personnel and will also be required to recruit and retain personnel to facilitate the growth of the Company.

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 six months ended June 30, 2013 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, 2012, 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.polarmin.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).