Management's Discussion and Analysis
Quarter Ending March 31, 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 May 5, 2016, and should be read in conjunction with the Company's audited annual consolidated financial statements for the year ended December 31, 2015, which have been prepared in accordance with International Financial Reporting Standards ("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

- Long Beach has trended ahead of our initial sales expectations, with the recent completion of the Oceanwide Plaza foundation pour and ongoing daily deliveries for several large projects contributing to Q1 sales
- Q1 2016 sales volumes and revenues were lower than Q1 2015 levels by 28% and 24%, respectively, as a result of heavy rainfalls and planned maintenance at a customer delivery point
- Shipments in April 2016 were approximately 382,000 tons, a significant improvement over March, and consistent with our expectations for the full year
- Net loss in Q1 2016 was $2.5 million compared to income of $0.1 million in Q1 2015, driven primarily by the above noted decline in volumes
- Revenue per ton increased to $15.41 per ton in Q1 2016 from $14.64 per ton in Q1 2015 due to changes in sales mix and underlying price increases, offset in part by the impact of reduced fuel surcharges
- An exploratory drilling program for the Black Bear project was completed in the first quarter of 2016 and results will be incorporated in a National Instrument 43-101 report expected in mid 2016

The Company's Q1 2016 earnings reflect the expected slower sales volumes in this winter quarter and a reversal in the trend of the CAD/USD foreign exchange rate, offset by a reduction in variable logistics costs. While profits declined as a result of the lower overall volumes in the quarter, operating results in March and April 2016 have been robust and supportive of our expectations for the full year. Construction activity both in California and throughout the US continues to show signs of recovery with a significant backlog of projects, particularly in Los Angeles, now showing progress towards the start of construction. Q1 activity levels in California were impacted by wet weather but are expected to be healthy through the remainder of the year. Ongoing discussions at multiple levels in the construction industry value chain have demonstrated the value achievable through the use of high performance concrete containing Orca aggregates and we expect a healthy pricing environment, as well as ongoing cost containment efforts, to contribute to continued margin expansion in 2016.

At Long Beach, we successfully delivered high volumes of material against a demanding schedule for the Oceanwide Plaza project's foundation concrete placements. This type of scheduling and coordination is typically demanded by contractors participating in the larger, high specification projects, on which the Company intends to focus its marketing efforts.

Over the next several months, we will continue to work on sales and logistics with our key customers in the San Francisco Bay Area, with a view to implementing the differentiated marketing strategy, based on our high performance concrete aggregates, which we are employing in southern California.

Market Developments

In northern California, the San Francisco / San Jose corridor remains the largest and most active market that we serve. We have recently seen signs of improving conditions in the northern and eastern Bay Area markets. We are seeing deliveries to most receiving points improving in Q2 2016 versus Q2 2015, with the remainder consistent with prior year volumes. Dredging in the Port of Redwood City has increased allowable drafts in the south Bay and improved logistical flexibility.

Our marketing strategy in southern California continues to be focused on securing supply contracts where our high performance concrete aggregates provide value to end users and peace of mind to construction managers. The pace of construction in Los Angeles has been modestly slower to recover than activity in California generally, but this has only resulted in a greater “infrastructure debt” in this market which we are well positioned to capitalize on. 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 pours at the prestigious Oceanwide Plaza project. Our terminal is well situated to compete on many additional projects in L.A. County over the next several months.

Nationwide, housing starts in March 2016 increased at a double digit pace over March 2015 levels although decreased from very robust February 2016 levels. Construction activity overall declined in Q1 2016 versus Q1 2015, although this data is distorted by several large $500 million plus projects which reached “shovel ready” status early in 2015. 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. Construction activity month over month has shown steady improvement since the start of the year.

On the permitting front, a proposed 2.5 million ton per annum quarry located in Madera County is under consideration. The location is over 125 miles from San Jose, the southernmost Bay Area market served by Polaris. This arguably represents one of the closest potential new projects to the South San Francisco market. This quarry is currently completing its final environmental impact report which will need to address more than 300 comments received via the public review process. Also, the California Coastal Commission gave notice to the Lapis Sand Plant in Marina, CA to cease operations due to regulatory violations. The operator of the plant is expected to submit a statement of defense during May 2016.

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	
	Mar 31	Dec 31	Sept 30	June 30	Mar 31	Dec 31	Sept 30	June 30
Consolidated financial information								
($000’s, except per share amounts)								
Revenue	7,949	11,848	10,395	10,328	10,514	10,038	13,429	13,246
Cost of goods sold	8,257	10,246	8,837	9,277	9,869	9,381	12,709	13,117
Gross profit (loss)	(308)	1,602	1,558	1,051	645	657	720	129
Selling, general and administrative expenses	1,286	1,183	1,280	1,387	1,401	1,838	2,103	1,321
Operating income (loss)	(2,718)	504	1,130	(835)	218	(1,238)	(2,174)	(1,754)
Net income (loss) attributable to shareholders of Polaris	(2,495)	294	954	(847)	90	(1,439)	(2,096)	(1,624)
per share (basic)	(0.03)	0.01	0.01	(0.01)	-	(0.02)	(0.02)	(0.02)
per share (diluted)	(0.03)	0.00	0.01	(0.01)	-	(0.02)	(0.02)	(0.02)
EBITDA	(1,445)	1,408	1,935	238	1,143	(137)	(938)	(453)
Adjusted EBITDA	(1,321)	1,471	2,041	514	1,509	436	688	(280)
Cash flows from (used in) operating activities	(659)	1,670	(1,061)	1,431	(1,372)	1,440	(3,445)	(395)
Cash and cash equivalents	9,752	10,501	9,019	11,343	11,301	14,231	14,762	20,702
Working capital	17,073	17,803	16,874	17,383	17,516	19,025	20,780	23,125
Total assets	77,544	77,501	78,452	79,269	80,094	83,878	87,942	92,027
Total non-current liabilities	4,431	4,268	4,321	4,640	4,655	4,974	4,565	4,379

	2016	2015				2014		
	Mar 31	Dec 31	Sept 30	June 30	Mar 31	Dec 31	Sept 30	June 30
Key performance indicators								
Sales of aggregates (000's tons)	516	830	730	668	718	750	1,032	1,020
Production of aggregates (000's tons)	637	791	957	710	725	789	989	864
Average selling price ($/ton)	15.41	14.27	14.24	15.46	14.64	13.38	13.01	12.99
Cost of goods sold ($/ton)	16.00	12.34	12.11	13.89	13.75	12.51	12.31	12.86
Gross profit (loss) ($/ton)	(0.60)	1.93	2.13	1.57	0.90	0.88	0.70	0.13
Gross margin (loss) (%)	(3.8)	13.5	15.0	10.2	6.1	6.5	5.4	1.0
EBITDA ($/ton)	(2.80)	1.70	2.65	0.36	1.59	(0.18)	(0.91)	(0.44)
Adjusted EBITDA ($/ton)	(2.56)	1.77	2.80	0.77	2.10	0.58	0.67	(0.27)

Review of Quarterly Financial Results

Sales of aggregates

Aggregate sales for the first quarter of 2016 of 516,000 tons were a 28% decrease over 2015. Sales volumes in Q1 2016 were modestly below our expected range of 550,000 to 600,000 tons. Heavy rain in our key markets, as well as scheduled maintenance at one of our Bay Area delivery points impacted volumes. On May 3, the largest aggregate producer in California reported to shareholders that "California shipments fell more than 10 percent [in Q1 2016] from the prior year … wet weather negatively impacted shipments." Sales at Long Beach were better than expected during the quarter and when combined with expectations for several large orders early in Q2, necessitated re-allocating volume from immediate sales to restocking inventory at the Long Beach terminal. Total sales volumes in March 2016 were strong at approximately 314,000 tons which is consistent with our monthly volume expectations for the full year.

Revenue and pricing

Revenue for the first quarter of 2016 decreased by 24% to $7.9 million, compared with $10.5 million in 2015. Despite lower than expected volumes, revenue benefited from positive sales mix with a higher proportion of sales delivered to San Francisco plus the introduction of sales delivered into Long Beach, which both include freight charges as opposed to those sold ex-quarry.

Average selling price ("ASP") during the first quarter of 2016 of $15.41 per ton increased $0.77 per ton from $14.64 per ton in 2015. Compared with 2015, price variance was a favorable 1% due to price increases, offset by an unfavourable variance of 4% due to a reduction in fuel surcharges. A favorable sales mix variance of 6% was due to increased sales to customers with delivered pricing, including our Long Beach terminal.

Revenue and ASP per ton are influenced on an annual basis by; base pricing, shipping fuel surcharges, the distribution of tonnage to the various California terminals, and the percentage between delivered and ex-quarry sales.

Cost of goods sold

Cost of goods sold in the first quarter 2016 decreased by 16% to $8.3 million, compared with $9.9 million in 2015. Cost of goods sold per ton in Q1 2016 increased to $16.00 compared to $13.75 in Q1 2015. Lower than expected volumes reduced overall cost of goods sold, however, fixed costs applied to lower tonnage, higher delivery costs due to increased sales mix to customers that include freight, plus the strengthening of the Canadian dollar (as quarry costs are incurred in Canadian dollars and translated in US dollars for reporting purposes) contributed to higher costs on a per ton basis.

Gross profit (loss) and gross margin

The gross loss for first quarter of 2016 was $0.3 million or $0.60 loss per ton, compared to a gross profit of $0.6 million or $0.90 per ton in 2015. As noted above, the decline is largely due to lower volumes and less favourable foreign exchange rates.

Selling, general and administrative costs

During the quarter ended March 31, 2016, selling, general and administrative ("SG&A") expenses were $1.3 million, including $0.1 million of non-cash stock based compensation, compared with $1.4 million, including $0.4 million of stock based compensation, during 2015. SG&A (net) increased versus the prior year quarter due primarily to the impact of foreign exchange. SG&A during 2016 was 16.2% of sales compared to 13.3% of sales during 2015. Net of non-cash charges for stock based compensation, 2016 SG&A represented 15.2% of sales compared with 9.8% last year. The increase in SG&A (net) as a percent of sales was similarly a result of foreign exchange and lower sales volumes during the quarter.

Net income (loss)

The net loss attributable to shareholders during the quarter ended March 31, 2016 was $2.5 million ($0.03 per share loss) compared to a net profit attributable to shareholders of $0.09 million ($0.00 per share, net profit) during the quarter ended March 31, 2015. The results this quarter were principally attributable to the lower volumes and the significant effect of foreign exchange losses in the current quarter. These foreign exchange losses are a function of U.S. dollar receivables held by Orca Quarry, which has a Canadian dollar functional currency, owing from the Company's U.S. subsidiary, Eagle Rock Aggregates.

EBITDA and Adjusted EBITDA

Adjusted EBITDA and EBITDA for 2016 also declined over year-on-year comparatives (*see Non-IFRS Measures for details)*. Before adjusting for share-based employee benefits, EBITDA for the first quarter of 2016 of negative $1.4 million ($2.80 loss per ton) declined $2.6 million over the prior year comparative of $1.1 million ($1.59 per ton). Similarly, Adjusted EBITDA of negative $1.3 million ($2.56 loss per ton) declined $2.8 million over the prior year comparative of $1.5 million ($2.10 per ton).

Segmented analysis

The Company operates in one segment: the development and operation of construction aggregate properties and projects located in the western North America.

Selling price and fuel surcharge indices

	2016	2015				2014		
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
Selling Price Index (Q1 2013=100)	107.5	109.0	111.4	110.0	112.2	108.3	107.2	106.4
Fuel Surcharge Index (Q1 2013=100)	46.4	57.6	75.6	65.3	92.3	101.4	102.3	100.2

In the first quarter of 2016, the quarter-on-quarter average delivered selling price decreased by 1.3% as a consequence of the pass through of lower shipping fuel surcharges from the fourth quarter of 2015, which reflected the decreasing 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.

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. We continue to plan for the relocation of the pit feed hopper this year and work continued during the quarter. The relocation, which when matched with production demands will decrease scraper cycle times by 25%, removing the need to add more equipment as production continues to grow. The facility loaded 8 ships during Q1 2016, with two of those ships departing near quarter end for deliveries to California that were booked as sales in early Q2.

Marine terminals and ship lightering

Long Beach, California

On February 1st, 2016 the company began commercial operation at its new Long Beach terminal. Our Q1 sales from the terminal totalled nearly 32,000 tons, which included the first of four foundation mat pours at the Oceanwide Plaza project, as well as regular daily sales to other projects where our aggregate products provide measurable value.

The Company's US marketing subsidiary, Eagle Rock Aggregates, Inc., is the exclusive operator of the new Long Beach terminal and directly responsible for sales. There are no formal alliances in this market, which is considered desirable as the market is dominated by several vertically integrated cement and concrete producers. During 2015, an extensive test program of the Orca aggregate in Southern California provided excellent results to support marketing initiatives. The Company focuses its marketing efforts in Los Angeles on early-stage planning for projects where the premium quality of the Orca Quarry sand and gravel can offer cost effective design solutions. This marketing approach requires a longer lead-in time than experienced in Northern California, however, it offers the potential for prices that reflect the value of the aggregate. We continue to work with local ready mix suppliers to specify bids for high specification projects where our products can provide measurable value.

Port of Redwood City, California

Dredging of the Federal Channel in the Port of Redwood City was completed at the end of 2015, and the available drafts have returned to their previous depths. This development will improve the Company's capacity to supply larger deliveries to Redwood City in 2016 and reduce the requirements for lightering and their associated costs. The operating draft of the shipping channel leading into the Port of Redwood City is a very important factor for the Company's logistics. A reduced draft negatively affects the capacity of CSL vessels delivering material into the port terminal and therefore impacts the efficiency and costs of shipping.

Longer term, the Corps of Engineers has completed a study to improve shipping access to Redwood City through additional dredging which includes work over shoals in the Bay itself. The environmental assessment associated with this proposal entered a public comment period at the end of June 2015. Funding of this more ambitious project will still need to be secured from both state and federal sources but if successful it would represent a further significant improvement in the Company's ability to serve this key market.

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. After lightering, the balance of the cargo may be 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 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 and lightering is not required to support this operation.

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 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.

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 their Landing Way aggregate terminal. Shamrock Materials, headquartered in Petaluma, CA, is a well-established private company supplying ready mixed concrete in the north San Francisco Bay area.

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 until December 31, 2016.

Through the established sales contracts, plus existing supply and distribution agreements with our customers, additional third party sales are carried out to quality concrete suppliers in the San Francisco bay area.

Other quarry projects

In 2015, the Company identified a potential source of an igneous hard rock that appears to be 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 letters of support for the project from 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 the sand/stone ratio of production to meet market demand. The long term potential of the deposit could also provide the opportunity for the Company to begin marketing materials specific to the asphalt markets, utilizing the existing Orca infrastructure and ship loading facilities, with the same high quality material properties as the Orca Quarry.

Outlook Update

As a result of actual sales through March and ongoing discussions with our customers in San Francisco and Long Beach, we announced on April 13, 2016 that we expect full year sales volumes in the range of 3.2 to 3.5 million tons.

- San Francisco volumes are currently expected to be 2.9 to 3.1 million tons
- Long Beach volumes are currently expected to be 200,000 to 400,000 tons
- Q2 2016 shipments are currently scheduled in the range of 0.9 to 1.1 million tons, including at least 2 deliveries to Long Beach

We expect to achieve strong gross 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 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.

Non-IFRS Measures

Adjusted net income (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 is a useful indicator for investors. Adjusted loss may not be comparable to other similarly titled measures of other companies.

	Three months ended March 31,	
($000's, except per share and per ton amounts)	2016	2015
Net income (loss) for the period attributable to shareholders of Polaris	(2,495)	90
Adjustments		
Share-based employee benefits	78	371
Other losses	46	(5)
Adjusted net income (loss) for the period	(2,619)	456
per share	*(0.03)*	*0.01*
per ton	*(5.08)*	*0.64*

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 March 31,	
($000's except per share and per ton amounts)	2016	2015
Net income (loss) for the period attributed to shareholders of Polaris	(2,495)	90
Interest expense	13	15
Income tax expense	-	(41)
Amortization, depletion and accretion	1,037	1,079
EBITDA	(1,445)	1,143
per share	*(0.02)*	*0.01*
per ton	*(2.80)*	*1.59*
Adjustments		
Share-based employee benefits	78	371
Other losses	46	(5)
Adjusted EBITDA	(1,321)	1,509
per share	*(0.01)*	*0.02*
per ton	*(2.56)*	*2.10*

Liquidity

Cash and cash equivalents

At March 31, 2016, the Company had cash and cash equivalents of $7.9 million. Comparatively, at December 31, 2015 the Company had cash and cash equivalents of $10.5 million. During the first quarter of 2016, cash and cash equivalents have been used in operations and invested in property, plant, and equipment, mainly at the Orca quarry along with permitting costs for the Black Bear project.

Operating, financing and investing activities

During the quarter ended March 31, 2016 operating activities used cash of $0.7 million ($1.28 per ton), a $0.7 million improvement compared with cash used in operations during the first quarter of 2015 of $1.4 million ($1.91 used per ton). Operating cash flows during the quarter were unfavourably impacted as heavy rain in our key markets, as well as scheduled maintenance at one of our Bay Area delivery points, continued to impact volumes and costs.

For the quarter ended March 31, 2016 financing activities used cash of $0.1 million compared to cash used by financing activities of $0.1 million for the quarter ended March 31, 2015. Financing activities for the current quarter related to principal repayments on equipment finance leases.

Investing activities during the three months ended March 31, 2016, used cash of $0.3 million compared to cash used of $0.7 million for 2015. Investing activities for the current quarter are mainly attributable to additions of plant 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 March 31, 2016, the Company expects it has capital resources and 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 March 31, 2016, the Company was not subject to any externally imposed capital requirements.

Finance Leases

In April 2016, subsequent to quarter-end, the Company leased equipment for $0.4 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 quarter ended March 31, 2016, there were no common share issuances.

Capital Expenditures

During the quarter ended March 31, 2016, the Company invested a total of $0.3 million in plant and equipment, of which the significant amount was related to processing plant equipment at Orca quarry.

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

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

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

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 4,547,542 options outstanding, exercisable into 4,547,542 common shares, of which 4,110,877 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 March 31, 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 March 31, 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.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).