



ARIANNE PHOSPHATE INC.
CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)
THREE MONTHS PERIODS ENDED MARCH 31, 2014 AND MARCH 31, 2013
(in Canadian dollars)

Condensed interim consolidated financial statements for the three month period ended March 31, 2014 haven't been reviewed by the auditors.

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ARIANNE PHOSPHATE INC.
CONSOLIDATED INTERIM STATEMENTS OF FINANCIAL POSITION
AS AT MARS 31, 2014
(In Canadian dollars - unaudited)

| | March 31, 2014 | December 31, 2013 |
|--|-------------------|----------------------|
| | \$ | \$ |
| ASSETS | | |
| Current assets | | |
| Cash and cash equivalents (note 5) | 5,281,709 | 6,896,331 |
| Receivables and other current assets | 145,079 | 235,081 |
| Sales taxes receivable | 468,244 | 376,405 |
| Tax credit related to resources and mining tax credit receivable | 231,144 | 1,609,153 |
| | <u>6,126,176</u> | <u>9,116,970</u> |
| Non-current assets | | |
| Deposit | 200,000 | 200,000 |
| Tax credit related to resources and mining tax credit receivable | 1,335,032 | 1,335,032 |
| Investment property – Outfitters | 429,415 | 441,043 |
| Property, plant and equipment | 144,491 | 82,573 |
| Mining properties | 1,271,635 | 1,241,360 |
| Exploration and evaluation assets (note 7) | 30,433,688 | 27,238,956 |
| | <u>33,814,261</u> | <u>30,538,964</u> |
| Total assets | <u>39,940,437</u> | <u>39,655,934</u> |
| LIABILITIES | | |
| Current liabilities | | |
| Accounts payable and accrued liabilities | 1,203,045 | 538,934 |
| Current portion of credit line | 167,868 | - |
| Flow-through shares liability (note 8) | 270,786 | 722,892 |
| Loan payable (note 9) | - | 1,453,078 |
| | <u>1,641,699</u> | <u>2,714,904</u> |
| Non-current liabilities | | |
| Credit line (note 10) | 11,678,224 | 11,399,817 |
| Deferred income taxes (note 11) | 1,778,942 | 1,457,440 |
| Total liabilities | <u>15,098,865</u> | <u>15,572,161</u> |
| Equity | | |
| Capital stock | 43,647,766 | 40,721,138 |
| Warrants (note 12) | 2,553,029 | 3,794,144 |
| Contributed surplus | 8,990,647 | 8,512,398 |
| Deficit | (30,349,870) | (28,943,907) |
| Total equity | <u>24,841,572</u> | <u>24,083,773</u> |
| Total liabilities and equity | <u>39,940,437</u> | <u>39,655,934</u> |
| GOING CONCERN (note 1) | | |
| COMMITMENTS (note 16) | | |
| SUBSEQUENT EVENTS (note 17) | | |

The accompanying notes are an integral part of these consolidated interim financial statements.

ON BEHALF OF THE BOARD
(s) Siva J. Pillay, Director

(s) L. Derek Lindsay, CFO

ARIANNE PHOSPHATE INC.
CONSOLIDATED INTERIM STATEMENTS OF LOSS
FOR THREE MONTH PERIOD ENDED MARCH 31
(In Canadian dollars - unaudited)

| | 2014 | 2013 |
|--|-------------------|-------------------|
| | \$ | \$ |
| EXPENSES | | |
| Salaries and fringe benefits | 387,717 | 135,953 |
| Share-based compensation | 275,616 | 56,616 |
| Professional and consultant fees | 215,555 | 342,975 |
| Management fees | 77,500 | 72,500 |
| Registration and listing fees | 46,066 | 48,747 |
| Communications | 70,402 | 43,313 |
| Promotion, representation and travel | 111,741 | 83,597 |
| Insurance | 10,052 | 3,437 |
| Rent and office expenses | 58,604 | 24,398 |
| Bank charges | 1,733 | 4,972 |
| Depreciation of property, plant and equipment | 7,072 | 260 |
| Operating loss | <u>1,262,058</u> | <u>816,768</u> |
| OTHER EXPENSES (INCOME) | | |
| Interest income | (28,291) | (93) |
| Interest expense | 185,361 | - |
| Finance expenses | 95,929 | - |
| Foreign exchange loss | (1,624) | - |
| Net loss of investment property – Outfitters (note 6) | 47,388 | 58,949 |
| Loss on disposal of marketable securities classified as available-for-sale | - | 25,502 |
| | <u>298,763</u> | <u>84,358</u> |
| LOSS BEFORE INCOME TAXES | <u>1,560,821</u> | <u>901,126</u> |
| Deferred income taxes (recovery) (note 11) | (154,858) | 1,268,577 |
| NET LOSS FOR THE PERIOD | <u>1,405,963</u> | <u>2,169,703</u> |
| BASIC AND DILUTED LOSS PER SHARE | <u>0.02</u> | <u>0.01</u> |
| WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING | <u>85,507,265</u> | <u>75 604 542</u> |

The accompanying notes are an integral part of these consolidated interim financial statements.

ARIANNE PHOSPHATE INC.
CONSOLIDATED INTERIM STATEMENTS OF COMPREHENSIVE LOSS
FOR THREE MONTH PERIOD ENDED MARCH 31
(in Canadian dollars - unaudited)

| | 2014 | 2013 |
|----------------------------------|------------------|------------------|
| | \$ | \$ |
| NET LOSS FOR THE PERIOD | 1,405,963 | 2,169,703 |
| Other comprehensive loss: | - | - |
| COMPREHENSIVE LOSS | <u>1,405,963</u> | <u>2,169,703</u> |

The accompanying notes are an integral part of these consolidated interim financial statements.

ARIANNE PHOSPHATE INC.
CONSOLIDATED INTERIM STATEMENTS OF CHANGES IN EQUITY
FOR THREE MONTH ENDED MARCH 31
(in Canadian dollars - unaudited)

| | Capital stock | Capital stock | Warrants | Contributed surplus | Accumulated other comprehensive loss | Deficit | Total equity |
|--------------------------------------|---------------|---------------|-----------|---------------------|--------------------------------------|--------------|--------------|
| | common shares | \$ | \$ | \$ | \$ | \$ | \$ |
| Balance as at January 1, 2014 | 85,185,255 | 40,721,138 | 3,794,144 | 8,512,398 | - | (28,943,907) | 24,083,773 |
| Comprehensive loss for the period | | | | | | (1,405,963) | (1,405,962) |
| Share-based compensation | | - | - | 275,616 | - | - | 275,616 |
| Stock options exercised | 430,000 | 170,850 | - | (84,350) | - | - | 86,500 |
| Warrants exercised | 1,472,500 | 2,755,778 | (929,878) | - | - | - | 1,825,900 |
| Warrants expired | | - | (311,237) | 311,237 | - | - | - |
| Deferred income tax | | - | - | (24,254) | - | - | (24,254) |
| Balance as at March 31, 2014 | 87,087,755 | 43,647,766 | 2,553,029 | 8,990,647 | - | (30,349,870) | 24,841,572 |
| Balance as at January 1, 2013 | 75,534,926 | 26,990,815 | 4,390,725 | 9,145,636 | - | (21,225,083) | 19,302,093 |
| Comprehensive loss for the period | - | - | - | - | - | (2,169,703) | (2,169,703) |
| Share-based compensation | - | - | - | 56,616 | - | - | 56,616 |
| Stock options exercised | 380,000 | 283,200 | - | (202,700) | - | - | 80,500 |
| Modification of warrants (1) | - | - | 355,000 | - | - | (355,000) | - |
| Balance as at March 31, 2013 | 75,914,926 | 27,274,015 | 4,745,725 | 8,999,552 | - | (23,749,786) | 17,269,506 |

- (1) In March 2013, the Company amended the terms and conditions of the 4,000,000 warrants granted during the year ended as at December 31, 2011. Each warrant entitled its holder to acquire one common share at a price of \$1.50 per share for a period of two years ending in April 2013. The Company proposed to amend the exercise price to \$1.24. The term of warrants was also extended to September 2013.

The fair value of the warrants have been estimated considering the fair value of the original warrants existing on the date of the modification, after a modification in the duration and of the exercise price of an instrument increases its value should be treated as an exchange of the original instrument against the new and cause additional costs in an amount equal to the incremental value of the new instrument in relation to the value of the old on the date of the change. The fair value of the extended warrants of \$355,000 was estimated considering the fair value of the original warrants existing on the date of the amendment, according to the Black & Scholes model and the following assumptions: expected dividend per share, expected volatility of 122%, a risk free interest rate of 1.25% and an expected maturity of 6 months.

The accompanying notes are an integral part of these consolidated interim financial statements.

ARIANNE PHOSPHATE INC.
CONSOLIDATED INTERIM STATEMENTS OF CASH FLOWS
FOR THREE MONTH PERIOD ENDED MARCH 31, 2014
(In Canadian dollars - unaudited)

| | 2014 | 2013 |
|--|-------------------------|-------------------------|
| | \$ | \$ |
| CASH FLOW FROM OPERATING ACTIVITIES | | |
| Net loss for the period | (1,405,963) | (2,169,703) |
| Adjustments for: | | |
| Share-based payments | 275,616 | 56,616 |
| Depreciation – Investment property - Outfitters | 11,628 | 14,884 |
| Depreciation – Property, plant and equipment | 7,072 | 260 |
| Finance expenses | 46,922 | - |
| Change in fair value of marketable securities | - | 25,502 |
| Income taxes and deferred taxes | (154,858) | 1,268,577 |
| | <u>(1,219,583)</u> | <u>(803,864)</u> |
| Net change in non-cash working capital items (note 13) | 178,801 | (1,431,990) |
| | <u>(1,040,782)</u> | <u>(2,235,854)</u> |
| INVESTING ACTIVITIES | | |
| Tax credit related to resources and mining tax credit received | 1,378,009 | - |
| Grant received - Outfitters | - | 29,850 |
| Acquisition of property, plant and equipment | (18,735) | (15,571) |
| Acquisition of mining properties | (30,275) | (3,967) |
| Exploration and evaluation assets | (2,315,239) | (2,206,102) |
| | <u>(986,240)</u> | <u>(2,195,790)</u> |
| FINANCING ACTIVITIES | | |
| Proceeds from credit line | - | 4,000,000 |
| Payment of loan | (1,500,000) | - |
| Interest on credit line | - | 16,806 |
| Proceeds from the issuance of shares | 1,912,400 | 80,500 |
| | <u>412,400</u> | <u>4,097,306</u> |
| CHANGE IN CASH AND CASH EQUIVALENTS DURING THE PERIOD | <u>(1,614,622)</u> | <u>(334,338)</u> |
| CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD | <u>6,896,331</u> | <u>5,225,976</u> |
| CASH AND CASH EQUIVALENTS, END OF THE PERIOD | <u><u>5,281,709</u></u> | <u><u>4,891,638</u></u> |
| Supplementary cash flow information (note 13) | | |
| Interest received | 28,605 | 16,777 |
| Interest paid | 66,500 | - |

The accompanying notes are an integral part of these consolidated interim financial statements.

ARIANNE PHOSPHATE INC.

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

MARCH 31, 2014 AND 2013

(in Canadian dollars)

1. STATUTE OF INCORPORATION, NATURE OF ACTIVITIES AND GOING CONCERN

Ariane Phosphate Inc. ("the Company") was incorporated under Part IA of the Companies Act (Quebec) and was continued under the Quebec Business Corporations Act (Quebec) (QBCA). The Company is engaged in the acquisition and exploration of mining properties in Quebec, Canada. The Company's objective is to focus on developing a phosphate mine by concentrating its resources on this property. The Company's shares are listed on the TSX Venture Exchange (symbol DAN), on the Frankfurt exchange (symbol JE9N) and on the US Stock Exchange Over-the-Counter QX (OTCQX) (symbol DRRSF). The registered office of the Company is located at 393 Racine Street, Suite 200, Chicoutimi, Quebec, Canada G7H 1T2

Although management has taken steps to verify titles of mining properties in which the Company has an interest, in accordance with industry standards for the current stage of exploration of such properties, these procedures do not guarantee the Company's title. Property title may be subject to unregistered prior agreements and non-compliant with regulatory requirements.

These condensed interim consolidated financial statements have been prepared on the basis of accounting principles applicable to a going concern, which contemplates the realization of assets and settlement of liabilities in the normal course of business as they come due. In assessing whether the going concern assumption is appropriate, management takes into account all available information about the future, which is at least, but not limited to, 12 months from the end of the reporting period. For the period ended March 31, 2014, the Company recorded a net loss of \$ 1,405,963 (2013 – \$2,169,703) and has an accumulated deficit of \$ 30,349,870 as at March 31, 2014 (2012 – \$28,943,907). In addition to ongoing working capital requirements, the Company must secure sufficient funding to meet its obligations and pay general and administration costs.

As at March 31, 2014, the Company had working capital of \$4,484,477 including the cash reserved for exploration and evaluation expenses of \$1,220,846 related to flow through share financings completed in 2013. The management estimates that the working capital will not be sufficient to meet the Company's obligations and budgeted expenditures through December 31, 2014. These circumstances lend significant doubt as to the ability of the Company to meet its obligations as they come due and, accordingly, the appropriateness of the use of accounting principles applicable to a going concern. The Company will need to secure financing in 2014.

Management is aware, in making its assessment, of material uncertainties related to events and conditions that may cast a significant doubt on the Company's ability to continue as a going concern as described in the preceding paragraph and, accordingly, the appropriateness of the use of accounting principles applicable to a going concern. These condensed interim consolidated financial statements do not reflect the adjustments to the carrying values of assets and liabilities, expenses and financial position classifications that would be necessary if the going concern assumption was not appropriate. These adjustments could be material.

Any funding shortfall may be met in the future in a number of ways including, but not limited to, the issuance of new equity or debt financing. While management has been successful in securing financing in the past, there can be no assurance that it will be able to do so in the future or that these sources of funding or initiatives will be available to the Company or that they will be available on terms which are acceptable to the Company. If management is unable to obtain new funding, the Company may be unable to continue its operations, and amounts realized for assets might be less than amounts reflected in the condensed interim consolidated financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

These condensed interim consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") applicable to the preparation of interim financial statements, including IAS 34, Interim Financial Reporting, as issued by the International Accounting Standards Board ("IASB").

The accounting policies followed in these consolidated interim financial statements are consistent with those applied in the Company's annual financial statements for the year ended December 31, 2013, except as noted in note 3. These condensed interim consolidated financial statements should be read in conjunction with the Company annual financial statements for the year ended December 31, 2013 which have been prepared in accordance with IFRS as issued by the IASB.

The Board of Directors approved these consolidated interim financial statements on May 28, 2014.

3. NEW ACCOUNTING STANDARDS ISSUED AND IN EFFECT

IFRIC 21, Levies ("IFRIC 21")

In May 2013, the IASB issued IFRIC 21, which is effective for annual periods beginning on or after January 1, 2014 and is to be applied retrospectively. IFRIC 21 provides guidance on accounting for levies in accordance with IAS 37, Provisions, Contingent Liabilities and Contingent Assets. The interpretation defines a levy as an outflow from an entity imposed by a government in accordance with legislation and confirms that an entity recognizes a liability for a levy only when the triggering event specified in the legislation occurs. The adoption of IFRIC 21 for the annual period beginning January 1, 2014 did not affect the Company's condensed interim consolidated financial statements.

ARIANNE PHOSPHATE INC.

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

MARCH 31, 2014 AND 2013

(in Canadian dollars)

4. CRITICAL ACCOUNTING ESTIMATE AND JUDGMENT

The Company is partially financed through the issuance of flow-through shares and, according to tax rules regarding this type of financing, the Company is engaged in realizing mining exploration work. These tax rules also set deadlines for carrying out the exploration work, which must be performed no later than the earlier of the following dates:

- Two years following the flow-through placements; and
- One year after the Company has renounced the tax deductions relating to the exploration work.

However, there is no guarantee that the Company's exploration expenses will qualify as Canadian exploration expenses, even if the Company is committed to taking all the necessary measures in this regard. Refusal of certain expenses by the tax authorities would have a negative tax impact for investors.

5. CASH AND CASH EQUIVALENTS

| | March 31, 2104 \$ |
|---------------------------|----------------------|
| Cash and cash equivalents | <u>5,281,709</u> |

As at March 31, 2014, cash and cash equivalents comprises cash on hand amounting to \$4,974,983, bearing interest at a fixed rate 1.25% and cash on hand amounting to \$306,726, not bearing interest. This rate is effective as long as the account balance exceeds \$1,000,000.

6. INVESTMENT PROPERTY – OUTFITTERS

The following table summarizes the information related to the net loss of investment property – Outfitters:

| | Three-month period ended March 31, 2014 \$ | Three-month period ended March 31, 2013 \$ |
|---|---|---|
| Outfitters income | - | - |
| Operating expenses: | | |
| Management fees | 30,500 | 33,000 |
| Repair and maintenance | 143 | 4,900 |
| Supplies | - | 1,669 |
| Advertising, promotion and travel | 700 | 600 |
| Taxes and licenses | 2,182 | 1,767 |
| Insurance | 2,091 | 2,044 |
| Interest and bank charges | 144 | 85 |
| Depreciation of property, plant and equipment | 11,628 | 14,884 |
| | <u>47,388</u> | <u>58,949</u> |
| Net loss of investment property – Outfitters | <u>47,388</u> | <u>58,949</u> |

7. EXPLORATION AND EVALUATION ASSETS

| | December 31, 2013 \$ | Additions \$ | Tax credits \$ | Impairments \$ | Disposals \$ | March 31, 2013 \$ |
|---------------|----------------------------|------------------|-------------------|-------------------|-----------------|-------------------------|
| Quebec | | | | | | |
| Lac à Paul | 27,194,177 | 3,194,732 | - | - | - | 30,388,909 |
| Mirepoix | 30,351 | - | - | - | - | 30,351 |
| Phosphore | 14,428 | - | - | - | - | 14,428 |
| | <u>27,238,956</u> | <u>3,194,732</u> | - | - | - | <u>30,433,688</u> |

ARIANNE PHOSPHATE INC.

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

MARCH 31, 2014 AND 2013

(in Canadian dollars)

The three-month period ended March 31, 2014 and 2013, the following expenses have been included in the cost of exploration and evaluation assets:

| | Three-month period ended March 31, 2014 | Three-month period ended March 31, 2013 |
|--|--|--|
| | \$ | \$ |
| Drilling | 408,556 | - |
| Stripping and road repairs | 106,018 | 129,111 |
| Camp, travel and lodging and general expenses | 233,788 | 59,789 |
| Chemical analysis | 63,220 | 24,468 |
| Line cutting and geophysics | 129,092 | - |
| Planning and supervision | 132,672 | 108,347 |
| Professional fees and independent technical reports | 1,836,081 | 2,400,513 |
| Borrowing costs | 278,407 | 282,244 |
| Depreciation of property, plant and equipment | 6,898 | 6,171 |
| | <u>3,194,732</u> | <u>3,010,643</u> |
| Tax credits related to resources and mining tax credit | - | (473,154) |
| | <u>3,194,732</u> | <u>2,537,489</u> |
| Balance – Beginning of period | 27,238,956 | 13,644,534 |
| Balance – End of period | <u>30,433,688</u> | <u>16,182,023</u> |

8. FLOW-THROUGH SHARES LIABILITY

| | Three-month ended March 31, 2014 | Three-month ended March 31, 2013 |
|---------------------------------------|---|---|
| | \$ | \$ |
| Balance – Beginning of period | 722,892 | - |
| Decrease related to expenses incurred | (452,106) | - |
| Balance – The end of period | <u>270,786</u> | <u>-</u> |

In December 2013, the Company issued 1,790,952 flow-through shares at a price of \$1.80 per share for a gross total of \$3,223,714. As at March 31, 2014, the Company has incurred exploration and evaluation expenses of \$2,016,153 and has \$1,220,846 in cash reserved for exploration and evaluation activities related to this flow-through financing.

9. LOAN PAYABLE

On February 28, 2014, the Company made the repayment of its loan payable including its capital and interest of \$1,500,000 and \$66,500 respectively.

ARIANNE PHOSPHATE INC.

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

MARCH 31, 2014 AND 2013

(in Canadian dollars)

10. CREDIT LINE

In August 2012, the Company entered into an agreement to obtain a non-revolving credit line for an authorized amount of \$10 million to finance a feasibility study for the Lac à Paul property and to cover the general and administrative expenditures related to this property.

On July 29, 2013, the Company obtained a second non-revolving credit line amounting to \$2,500,000. Terms and conditions are essentially the same as those in the August 2012 credit line of \$10,000,000.

The July, 2013 credit line and all unpaid interest will be repayable in full on December 31, 2015.

The credit line has a current portion of \$167,868 at the end of March 31, 2014 and a non-current portion of \$11,678,224.

| | Three-month period ended March 31, 2014 | Three-month period ended March 31, 2013 |
|---------------------------------------|---|---|
| | \$ | |
| Balance – Beginning of period | 11,399,817 | - |
| Proceeds from credit lines | - | 9,400,000 |
| Transaction costs | - | (2,038,829) |
| Capitalized interest | 40,004 | 213,426 |
| Interest expense | 167,868 | |
| Amortization of transaction costs | 238,403 | - |
| Balance – End of period | <u>11,846,092</u> | <u>7,754,597</u> |
| Less : Current portion of credit line | <u>167,868</u> | <u>-</u> |
| | <u>11,678,224</u> | <u>7,754,597</u> |

11. DEFERRED INCOME TAX

The deferred tax recovery for the three months ended March 31, 2014, is attributable to additional deferred tax liabilities relating to Quebec mining duties offset by a deferred tax recovery related to the amortization of the flow through shares liability as some expenditures renounced have been incurred.

12. STOCK OPTIONS, WARRANTS AND OPTIONS GRANTED TO BROKERS

Stock options

The following table reflects the continuity of stock options for the three month period ended March 31, 2014:

| | Three-month period ended March 31, 2014 | | |
|--------------------------------------|--|---|-------------------|
| | Number | Weighted average exercise price \$ | Remaining life |
| Balance – Beginning of period | 6,165,000 | 1.10 | 8,6 years |
| Expired | (25,000) | 1.18 | 7,9 years |
| Exercised | (430,000) | 0.20 | 6,4 years |
| Balance – End of period | <u>5,710,000</u> | 1.17 | 7,6 years |
| Exercisable at the end of the period | <u>3,868,333</u> | 1.15 | 7,8 years |

ARIANNE PHOSPHATE INC.

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

MARCH 31, 2014 AND 2013

(in Canadian dollars)

Warrants

The following table reflects the continuity of warrants for the three months ended March 31, 2014:

| | Three-month period ended March 31, 2014 | | |
|-------------------------------|--|--|-------------------|
| | Number | Weighted average exercise price \$ | Remaining life |
| Balance – Beginning of period | 7,440,500 | 1.24 | 1.8 years |
| Exercised | (1,472,500) | 1.24 | - |
| Expired | (750,500) | 1.21 | - |
| Balance – End of period | <u>5,217,500</u> | 1.24 | 1.7 years |

Options granted to brokers

The following table reflects the continuity of options granted to brokers for the three month period ended March 31, 2014:

| | Three-month period ended March 31, 2014 | | |
|-------------------------------|--|--|-------------------|
| | Number | Weighted average exercise price \$ | Remaining life |
| Balance – Beginning of period | 432,909 | 1.15 | 1.2 years |
| Balance – End of period | <u>432,909</u> | 1.15 | 1.2 years |

13. SUPPLEMENTARY INFORMATIONS RELATED TO CASH FLOWS

| | Three-month period ended March 31, 2014 \$ | Three-month period ended March 31, 2013 \$ |
|---|--|--|
| Net change in non-cash working capital items for the three month period ended | | |
| Receivable and other current assets | 90,001 | (49 945) |
| Sales taxes receivable | (91 838) | (471 646) |
| Accounts payable and accrued liabilities | 180,638 | (910 399) |
| | <u>178,801</u> | <u>1 431 990</u> |

Items not affecting cash and cash equivalents not otherwise disclosed elsewhere in the condensed interim consolidated financial statements:

| | Three-month period ended March 31, 2014 \$ | Three-month period ended March 31, 2013 \$ |
|---|--|--|
| Addition to Property, plant and equipment assets not yet paid | 57,153 | - |
| Addition to exploration and evaluation assets not yet paid | 711,328 | 516,126 |

ARIANNE PHOSPHATE INC.

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

MARCH 31, 2014 AND 2013

(in Canadian dollars)

14. RELATED PARTY TRANSACTIONS

The table below shows related party transactions and balances payable for each of the Company's related parties:

| | Three-month period ended March 31, 2014 | Three-month period ended March 31, 2013 |
|---|--|--|
| Transactions with a Company controlled by the former Chief Executive Officer | | |
| Exploration and evaluation assets | - | 9,900 |
| Office expenses | - | 1,117 |
| Balance included in accounts payable and accrued liabilities | - | 11,017 |
| | \$ | \$ |
| Key management compensation ⁽¹⁾ | | |
| Government defined contributions plans | - | 7,671 |
| Share-based compensation | 93,351 | - |
| Management fees | 77,500 | 72,500 |
| | 170,851 | 80,171 |
| Salaries and fringe benefits ⁽²⁾ | 236,918 | 125,454 |
| | 407,769 | 205,625 |

(1) The key management is composed of the Chief Executive Officer (CEO), Chief Operations Officer (COO), Chief Financial Officer (CFO), President and Vice-President.

(2) Salaries and fringe benefits are capitalized to exploration and evaluation assets included an amount to \$ 51,122.

The Company has entered into employment and management contracts with its key executives whose estimated annual remuneration amounts to \$955,000. The agreements with the Company's key executives contain provisions that apply in case of termination without cause or change of control. If all executive team members had been dismissed without cause on March 31, 2014, the Company would have had to pay a total amount of \$955,000 as severance. If a change of control had occurred on March 31, 2014, the total amounts payable to the executive team in respect of severance would have totaled \$1,585,000

15. FINANCIAL INSTRUMENTS AND FINANCIAL RISKS

Classification

The Company's financial instruments as at March 31, 2014 and December 31, 2013 consist of cash and cash equivalents, receivable and other current assets, marketable securities, loan payable and credit line. The fair value of these financial instruments approximates their carrying value due to their short-term maturity, to current market rates or they bear interest at variable rates.

The fair value of available-for-sale assets and financial assets at FVTPL is established using the closing price on the most beneficial active market for this instrument that is readily available to the Company.

The classification of financial instruments is summarized as follows:

| | Classification | Carrying value | |
|-------------------------------------|-----------------------|----------------|-------------------------|
| | | March 31, 2014 | As at December 31, 2013 |
| | | \$ | \$ |
| Financial assets | | | |
| Cash and cash equivalents | Loans and receivables | 5,281,709 | 6,896,331 |
| Receivable and other current assets | Loans and receivables | 46,837 | 15,000 |
| | | 5,328,546 | 6,911,331 |
| | | | Carrying value |

ARIANNE PHOSPHATE INC.

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

MARCH 31, 2014 AND 2013

(in Canadian dollars)

| | Classification | March 31, 2014 | As at December 31, 2013 |
|--|---|-------------------|-------------------------|
| Financial liabilities | | | |
| Accounts payable and accrued liabilities | Financial liabilities at amortized cost | 1,203,045 | 538,934 |
| Credit line and current portion of credit line | Financial liabilities at amortized cost | 11,846,092 | 11,399,817 |
| Loan payable | Financial liabilities at amortized cost | - | 1,453,078 |
| | | <u>13,049,137</u> | <u>13,391,829</u> |

The Company defines the fair value hierarchy under which its financial instruments are valued as follows: level 1 includes unadjusted quoted prices in active markets for identical assets or liabilities; level 2 includes inputs other than quoted prices in level 1 that are observable for assets or liabilities, either directly or indirectly; and level 3 includes inputs for the asset or liability that are not based on observable market data.. There was no transfer of hierarchy level during the period ended March 31, 2014 and December 31, 2013.

Financial risks

The Company has exposure to various financial risks, such as credit risk, liquidity risk, interest rate risk and currency risk from its use of financial instruments.

Credit risk

The Company's credit risk is primarily attributable to cash and cash equivalents and receivable and other current assets. Cash and cash equivalents are deposited in Canadian chartered bank accounts or invested in a diversified manner in securities having an investment-grade rating (AA-), from which management believes the risk of loss to be minimal.

Liquidity risk

Liquidity risk is the risk that the Company will not have sufficient cash resources to meet its financial obligations as they come due. The Company's liquidity and operating results may be adversely affected if the Company's access to the capital market is hindered, whether as a result of a downturn in stock market conditions generally or related to matters specific to the Company. The Company generates cash flow primarily from its financing activities. As at March 31, 2014 the Company has cash and cash equivalents of \$5,281,709 (\$6,896,331 as at December 31, 2013) to settle current liabilities of \$1,641,699 (\$2,714,904 as at December 31, 2013). The cash reserved for exploration and evaluation expenses amounts to \$1,220,846. The Company regularly evaluates its cash position to ensure preservation and security of capital as well as maintenance of liquidity (Refer to note 1 for the use of the going concern assumption).

The following are the contractual maturities of financial liabilities, including interest where applicable as at March 31, 2014:

| | Carrying amount \$ | Contractual cash flows \$ | 0 to 12 months \$ | 12 to 24 months \$ | More than 24 months \$ |
|--|-----------------------|------------------------------|----------------------|-----------------------|---------------------------|
| Accounts payable and accrued liabilities | 1,203,045 | 1,203,045 | 1,203,045 | - | - |
| Credit line | 11,846,092 | 14,962,237 | 594,182 | 14,368,055 | |

Interest rate risk

Interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company has not entered into any derivative contracts to manage this risk. The Company's policy as it relates to its cash balances is to invest excess cash in financial instruments held with a Canadian chartered bank.

As at March 31, 2014, the Company's exposure to interest rate risk is summarized as follows:

| | |
|--|--|
| Cash and cash equivalents | Fixed interest rate & Non-interest bearing |
| Accounts payable and accrued liabilities | Non-interest bearing |
| Credit line | Variable interest rate |

Since cash and cash equivalents is subject to fixed interest rates, a fluctuation in interest rates will have no impact on their cash flows.

The Company's interest rate risk arises from credit lines. Credit lines issued at variable rates expose the Company to cash flow risk. A variation of $\pm 1\%$ on the credit line would have an impact of 13,167\$ on the exploration and evaluation assets for 2014.

Currency risk

ARIANNE PHOSPHATE INC.

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

MARCH 31, 2014 AND 2013

(in Canadian dollars)

As at March 31, 2014, the Company has a bank account in US dollars for an amount of \$ 9,701 (\$ 13,708 in December 31, 2013). The Company estimates that a variation of $\pm 10\%$ in exchange rates on that date would have resulted in a variation of approximately \$ 970 as at March 31, 2014 (\$ 1,370 in December 31, 2013) in net loss.

16. COMMITMENTS

- a) In May 2012, the Company committed to pay, for a period of three years, an annual contribution of \$9,000 to Université de Laval to collaborate on research on the use of phosphorus.
- b) The Company has granted the lender of the August, 2012 credit line a royalty of \$1 per ton of phosphate concentrate sales from the Lac à Paul project. This royalty may be redeemed at any time through a lump-sum payment of \$6 million. In July 2013, the Company has also granted the lender of the second credit line a royalty of \$0.25 per ton of phosphate concentrate sales from the Lac à Paul project. This royalty may be redeemed at any time through a lump-sum payment of \$1.5 million. This royalty will have to be redeemed by the Company for the same amount in the event of a change of control where at least 90% of the issued and outstanding shares of the Company are acquired, purchased or held by a third party, either through a tender offer or other transaction with the same result.
- c) The Company's future minimum operating lease payments for the rent in Chicoutimi and Montreal offices , trucks rental and Lac A Paul camp are as follows:

| | Within 1 year | 1 to 5 years | After 5 years | Total |
|----------------|---------------|--------------|---------------|-----------|
| March 31, 2014 | \$111,307 | 363,825 | - | \$475,132 |

17. SUBSEQUENT EVENTS

- a) On April 2, 2014, the Company sold to Virginia Mines Inc. its remaining 50% of rights and interests of the Opinaca and Black Dog properties in consideration of the issuance of 15,000 shares of Virginia Mines Inc. representing a value of \$ 180,000 at the transaction date.
- b) In April 2014, the Company issued a total of 445,000 stock options to its Board members with an exercise price of \$1.30 per share and with a ten year term. The stock options vest on a basis of 33% every year on a three-year period from the date of grant.
- c) April 10, 2014, the Company has committed to pay to Torrey Hills Capital for investor relations consulting services a monthly fee of US\$ 6,000 for a three month period. In accordance with the Company's Stock Option Plan, 150,000 stock options were granted at an exercise price of \$1.30 per share and with a three year term. The vesting conditions of stock options awarded to consultants are as follows: 25% three months after the date of grant, 25% six months after the date of grant, 25% nine months after the date of grant and 25% one year after the date of grant.