



ARIANNE PHOSPHATE INC.
CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012
(in Canadian dollars)

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February 27, 2014

Independent Auditor's Report

To the Shareholders of Arianne Phosphate Inc.

We have audited the accompanying consolidated financial statements of Arianne Phosphate Inc., which comprise the consolidated statements of financial position as at December 31, 2013 and the consolidated statements of loss, comprehensive loss, changes in equity and cash flows for the year then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audit is sufficient and appropriate to provide a basis for our audit opinion.

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**Opinion**

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Arianne Phosphate Inc. as at December 31, 2013 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Emphasis of matter

Without qualifying our opinion, we draw attention to note 1 in the consolidated financial statements which describes matters and conditions that indicate the existence of a material uncertainty that may cast significant doubt about Arianne Phosphate Inc.'s ability to continue as a going concern.

Other matter

The consolidated financial statements of Arianne Phosphate Inc. as at December 31, 2012 and for the year then ended were audited by another auditor who expressed an unmodified opinion on those statements on April 23, 2013.

PricewaterhouseCoopers LLP¹

¹ CPA auditor, CA, permit No. A122718

ARIANNE PHOSPHATE INC.
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
AS AT DECEMBER 31
(In Canadian dollars)

	2013	2012
	\$	\$
ASSETS		
Current assets		
Cash and cash equivalents (note 5)	6,896,331	5,225,976
Marketable securities (note 6)	-	73,385
Receivables and other current assets	235,081	54,789
Sales taxes receivable	376,405	397,887
Grant receivable	-	59,700
Tax credit related to resources and mining tax credit receivable	1,609,153	2,502,426
	<u>9,116,970</u>	<u>8,314,163</u>
Non-current assets		
Deposit	200,000	-
Tax credit related to resources and mining tax credit receivable	1,335,032	-
Investment property – Outfitters (note 7)	441,043	498,572
Property, plant and equipment (note 8)	82,573	82,286
Mining properties (note 9)	1,241,360	1,399,212
Exploration and evaluation assets (note 10)	27,238,956	13,644,534
	<u>30,538,964</u>	<u>15,624,604</u>
Total assets	<u><u>39,655,934</u></u>	<u><u>23,938,767</u></u>
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities	538,934	1,361,127
Flow-through shares liability (note 11)	722,892	-
Loan payable (note 13)	1,453,078	-
	<u>2,714,904</u>	<u>1,361,127</u>
Non-current liabilities		
Credit line (note 12)	11,399,817	3,275,547
Deferred income taxes (note 16)	1,457,440	-
Total liabilities	<u>15,572,161</u>	<u>4,636,674</u>
Equity		
Capital stock (note 14)	40,721,138	26,990,815
Warrants (note 15)	3,794,144	4,390,725
Contributed surplus	8,512,398	9,145,636
Deficit	(28,943,907)	(21,225,083)
Total equity	<u>24,083,773</u>	<u>19,302,093</u>
Total liabilities and equity	<u><u>39,655,934</u></u>	<u><u>23,938,767</u></u>
GOING CONCERN (note 1)		
COMMITMENTS (note 19)		
SUBSEQUENT EVENTS (note 22)		

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

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

(s) L. Derek Lindsay, CFO

ARIANNE PHOSPHATE INC.
CONSOLIDATED STATEMENTS OF LOSS
FOR THE YEARS ENDED DECEMBER 31
(In Canadian dollars)

	2013	2012
	\$	\$
EXPENSES		
Salaries and fringe benefits	1,272,316	501,204
Share-based compensation	579,174	1,565,883
Professional and consultant fees	1,262,720	309,919
Management fees	382,500	237,500
Registration and listing fees	131,263	72,049
Annual shareholders' meeting	31,487	18,980
Communications	374,211	224,188
Promotion, representation and travel	382,366	284,252
Insurance	39,526	13,542
Rent and office expenses	123,477	58,607
Impairment of mining properties (note 9)	66,082	768,658
Impairment of exploration and evaluation assets (note 10)	174,838	1,291,022
Bank charges	9,591	6,517
Loss on disposal of mining properties (note 9)	20,926	-
Depreciation of property, plant and equipment	1,426	-
Operating loss	<u>4,851,903</u>	<u>5,352,321</u>
OTHER EXPENSES (INCOME)		
Interest income	(31,564)	(37,909)
Interest expense	49,007	-
Foreign exchange loss	14,115	11,395
Net loss of investment property – Outfitters (note 7)	159,883	173,953
Loss on disposal of marketable securities classified as available-for-sale (note 6)	12,877	-
Change in fair value of marketable securities classified as fair value through profit or loss	62,771	(53,173)
	<u>267,089</u>	<u>94,266</u>
LOSS BEFORE INCOME TAXES	<u>5,118,992</u>	<u>5,446,587</u>
Deferred income taxes (recovery)	1,288,844	(44,000)
NET LOSS FOR THE YEAR	<u>6,407,836</u>	<u>5,402,587</u>
BASIC AND DILUTED LOSS PER SHARE	<u>0.08</u>	<u>0.08</u>
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING	<u>77,986,506</u>	<u>68,476,427</u>

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

ARIANNE PHOSPHATE INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS
FOR THE YEARS ENDED DECEMBER 31
(in Canadian dollars)

	2013	2012
	\$	\$
NET LOSS FOR THE YEAR	6,407,836	5,402,587
Other comprehensive loss:		
Item that may be reclassified to net loss:		
Changes in fair value of available-for-sale assets (note 6)	12,877	-
Reclassification of accumulated other comprehensive loss to net loss related to marketable securities sold	(12,877)	-
COMPREHENSIVE LOSS	<u>6,407,836</u>	<u>5,402,587</u>

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

ARIANNE PHOSPHATE INC.
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31
(in Canadian dollars)

	Capital stock	Capital stock	Warrants	Contributed surplus	Accumulated other comprehensive loss	Deficit	Total equity
	common shares	\$	\$	\$	\$	\$	\$
Balance as at January 1, 2013	75,534,926	26,990,815	4,390,725	9,145,636	-	(21,225,083)	19,302,093
Net loss for the year		-	-	-	-	(6,407,836)	(6,407,836)
Other comprehensive loss							
Changes in fair value of available-for-sale assets		-	-	-	(12,877)	-	(12,877)
Reclassification from accumulated other comprehensive loss to net loss related to marketable securities sold		-	-	-	12,877	-	12,877
Comprehensive loss for the year						(6,407,836)	(6,407,836)
Share-based compensation (note 15)		-	-	579,174	-	-	579,174
Value assigned to warrants (note 15)		-	731,108	-	-	-	731,108
Options granted to brokers (note 15)		-	-	101,718	-	-	101,718
Flow-through shares financing (notes 11 and 14)	2,415,452	3,104,736	-	-	-	-	3,104,736
Private placement (note 14)	2,435,000	2,368,040	-	-	-	-	2,368,040
Share issuance expenses	-	-	-	-	-	(585,988)	(585,988)
Stock options exercised (note 15)	1,005,000	1,403,210	-	(709,960)	-	-	693,250
Warrants exercised (note 15)	3,127,000	5,570,167	(2,052,689)	-	-	-	3,517,478
Common shares granted to employees (note 14)	37,877	50,000	-	-	-	-	50,000
Options granted to brokers exercised (note 15)	630,000	1,234,170	-	(604,170)	-	-	630,000
Modification of warrants (note 15)	-	-	725,000	-	-	(725,000)	-
Balance as at December 31, 2013	85,185,255	40,721,138	3,794,144	8,512,398	-	(28,943,907)	24,083,773
Balance as at January 1, 2012	66,337,383	23,157,474	3,155,339	7,886,096	-	(15,680,785)	18,518,124
Comprehensive loss for the year		-	-	-	-	(5,402,587)	(5,402,587)
Flow-through financing (note 11)	1,100,000	968,000	-	-	-	-	968,000
Value assigned to warrants (note 15)		-	1,940,500	-	-	-	1,940,500
Warrants exercised (note 15)	5,688,553	1,791,075	(705,114)	-	-	-	1,085,961
Share-based compensation (note 15)		-	-	1,743,050	-	-	1,743,050
Stock options exercised (note 15)	1,265,000	661,285	-	(272,135)	-	-	389,150
Options granted to brokers granted (note 15)		-	-	41,448	-	(41,448)	-
Options granted to brokers exercised (note 15)	1,143,990	412,981	-	(252,823)	-	-	160,158
Share issuance expenses		-	-	-	-	(100,263)	(100,263)
Balance as at December 31, 2012	75,534,926	26,990,815	4,390,725	9,145,636	-	(21,225,083)	19,302,093

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

ARIANNE PHOSPHATE INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31
(In Canadian dollars)

	2013	2012
	\$	\$
CASH FLOW FROM OPERATING ACTIVITIES		
Net loss for the year	(6,407,836)	(5,402,587)
Adjustments for:		
Share-based payments	629,174	1,565,883
Loss on disposal of marketable securities	12,877	54,081
Loss on disposal of mining properties	20,926	-
Impairment of mining properties	66,082	768,658
Impairment of exploration and evaluation assets	174,838	1,291,022
Interest on loan payable	49,007	-
Depreciation – Investment property - Outfitters	59,729	65,059
Depreciation – Property, plant and equipment	1,426	-
Change in fair value of marketable securities	62,771	(107,254)
Income taxes and deferred taxes	1,288,844	(44,000)
	<u>(4,042,162)</u>	<u>(1,809,138)</u>
Net change in non-cash working capital items (note 17)	<u>(1,098,143)</u>	<u>992,042</u>
	<u>(5,140,305)</u>	<u>(817,096)</u>
INVESTING ACTIVITIES		
Temporary investments	-	3,000,000
Proceeds from disposal of marketable securities	77,737	816,743
Deposit	(200,000)	-
Proceeds from disposal of mining properties	30,000	22,325
Tax credit related to resources and mining tax credit received	86,978	912,383
Grant received - Outfitters	59,700	-
Acquisition of property, plant and equipment - Outfitters	(2,200)	(130,737)
Acquisition of property, plant and equipment	(26,821)	(87,279)
Acquisition of mining properties	(12,116)	(175,046)
Exploration and evaluation assets	(12,678,627)	(8,839,750)
	<u>(12,665,349)</u>	<u>(4,481,361)</u>
FINANCING ACTIVITIES		
Proceeds from credit line	7,100,000	5,400,000
Proceeds from loan	1,500,000	-
Transaction costs	(155,181)	(409,698)
Interest on credit line	-	18,939
Proceeds from the issuance of shares	11,617,244	2,647,269
Share issuance expenses	(586,054)	(100,263)
	<u>19,476,009</u>	<u>7,556,247</u>
CHANGE IN CASH AND CASH EQUIVALENTS DURING THE YEAR	<u>1,670,355</u>	<u>2,257,790</u>
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>5,225,976</u>	<u>2,968,186</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>6,896,331</u>	<u>5,225,976</u>
Supplementary cash flow information (note 17)		
Interest received	71,401	80,121

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

ARIANNE PHOSPHATE INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2013 AND 2012

(in Canadian dollars)

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

Ariane Phosphate Inc. ("the Company"), previously known as Ariane Resources Inc. and, having changed its name during the second quarter of 2013, 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. During the year, the Company completed a feasibility study on the Lac à Paul property. 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 30 Racine Street, Suite 160, Chicoutimi, Quebec, Canada G7H 1P5.

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 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 year ended December 31, 2013, the Company recorded a net loss of \$6,407,836 (2012 – \$5,402,587) and has an accumulated deficit of \$28,943,907 as at December 31, 2013 (2012 – \$21,225,083). 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 December 31, 2013, the Company had working capital of \$6,402,066. 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. Management estimates that the working capital available as the end of 2013 will not be sufficient to meet the Company's obligations and budgeted expenditures through December 31, 2014. The Company will need to secure financing for 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 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 consolidated financial statements.

2. NEW ACCOUNTING STANDARDS

ADOPTED NEW ACCOUNTING STANDARDS

The Company has adopted the following new and revised standards, along with any consequential amendments, effective January 1, 2013. These changes were made in accordance with the applicable transitional provisions.

The International Accounting Standards Board (IASB) issued or amended the following new or amended standards which are relevant: International Financial Reporting Standard (IFRS) 10, Consolidated Financial Statements; IFRS 13, Fair Value Measurement; IAS 28, Investments in Associates and Joint Ventures; IFRS 7, Financial Instruments: Disclosures; International Accounting Standard (IAS) 16, Property, Plant and Equipment; and IAS 1, Presentation of Financial Statements.

The following is a brief summary of the new standards or amendments:

IFRS 10, Consolidated Financial Statements (IFRS 10)

IFRS 10 requires an entity to consolidate an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Under existing IFRS, consolidation is required when an entity has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. IFRS 10 replaces SIC 12, Consolidation – Special Purpose Entities, and parts of IAS 27, Consolidated and Separate Financial Statements. The Company has assessed its consolidation conclusions on January 1, 2013 and determined that the adoption of IFRS 10 did not result in any change in its previous consolidation conclusions.

ARIANNE PHOSPHATE INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012
(in Canadian dollars)

IFRS 13, Fair Value Measurement (IFRS 13)

IFRS 13 provides a single framework for measuring fair value. The measurement of the fair value of an asset or liability is based on assumptions that market participants would use when pricing the asset or liability under current market conditions, including assumptions about risk. The Company adopted IFRS 13 on January 1, 2013 on a prospective basis. The adoption of IFRS 13 did not require any adjustments to the valuation techniques used by the Company to measure fair value and did not result in any measurement adjustments as at January 1, 2013; however, additional disclosures on financial instruments have been provided.

Amendments to other standards

In addition, there have been amendments to existing standards, including IAS 28, Investments in Associates and Joint Ventures ("IAS 28"). IAS 28 has been amended to include joint ventures in its scope and to address the changes in IFRS 10 to IFRS 13. The Company assessed that the impact of these amendments on its consolidated financial statements is not significant.

The amendments to IFRS 7 are effective to disclose information about rights of offset and related arrangements (such as collateral posting requirements) for financial instruments under an enforceable master netting agreement or similar arrangement.

The amendments to IFRS 7 were adopted retrospectively. The Company assessed that the impact of these amendments on its consolidated financial statements is not significant.

Moreover, amendments to IAS 1 have been made to require entities to segregate items within other comprehensive income between those that may be reclassified to net loss and those that may not be so reclassified. The Company has grouped such items in its consolidated statement of comprehensive loss beginning January 1, 2013.

The amendments to IAS 16 clarify that spare parts, stand-by equipment and servicing equipment should be classified as property, plant and equipment when they meet the definition of property, plant and equipment in IAS 16 and as inventory otherwise. The Company assessed that the impact of these amendments on its consolidated financial statements is not significant.

New accounting standards not yet adopted

The Company has not yet adopted certain standards, interpretations to existing standards and amendments which have been issued but have an effective date of later than January 1, 2013. Many of these updates are not relevant to the Company and are therefore not discussed herein.

IFRS 9, Financial Instruments – Classification and Measurement (IFRS 9)

IFRS 9 was initially issued in November 2009. In November 2013, the IASB decided to temporarily defer the mandatory effective date of IFRS 9 and early adoption still being permitted. The Company is monitoring the progress of the IASB's work.

IFRS 9 addresses classification and measurement of financial assets and replaces the multiple category and measurement models for debt instruments in IAS 39, Financial Instruments: Recognition and Measurement, with a new mixed measurement model with only two categories: amortized cost and fair value through profit or loss. IFRS 9 also replaces the models for measuring equity instruments, and such instruments are either recognized at fair value through profit or loss or at fair value through other comprehensive income. Where such equity instruments are measured at fair value through other comprehensive income, dividends, to the extent not clearly representing a return of investment, are recognized in profit or loss; however, other gains and losses (including impairments) associated with such instruments remain in accumulated comprehensive income indefinitely.

Requirements for financial liabilities were added in October 2010 and they largely carried forward existing requirements in IAS 39, except that fair value changes due to credit risk for liabilities designated at fair value through profit and loss would generally be recorded in other comprehensive income. Requirements for hedge accounting were added in November 2013. The Company has not yet assessed the impact of the standard or determined whether it will adopt the standard early.

IFRIC 21, Levies (IFRIC 21)

In May 2013, the IASB issued International Financial Reporting Interpretations Committee (IFRIC) 21, Levies. IFRIC 21 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 Company will adopt IFRIC 21 in its consolidated financial statements for the annual period beginning January 1, 2014. The extent of the impact of adoption of IFRIC 21 has not yet been determined.

ARIANNE PHOSPHATE INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012
(in Canadian dollars)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies used in the preparation of these consolidated financial statements are described below.

Basis of preparation

These consolidated financial statements have been prepared in accordance with IFRS, as issued by the IASB. Except as stated in note 2, the Company has consistently applied the accounting policies used in the preparation of its IFRS consolidated financial statements, including the comparative figures. The accounting policies applied in these consolidated financial statements are based on IFRS effective for the year ended December 31, 2013, as issued and outstanding as of February 27, 2014, the date when the Board of Directors approved the consolidated financial statements.

Basis of measurement

These consolidated financial statements have been prepared on a historical cost basis except for the revaluation of certain financial instruments to fair value.

Functional and presentation currency

The presentation currency and the functional currency of all operations of the Company and its subsidiaries is the Canadian dollar, since it represents the currency of the primary economic environment in which the Company and its subsidiaries operate.

Transactions in foreign currencies are translated at the exchange rates prevailing at the time they are incurred. At each closing date, assets and liabilities denominated in foreign currencies are converted at the closing exchange rate. Exchange differences are recorded in the consolidated statements of loss for the year.

Basis of consolidation

These consolidated financial statements incorporate the accounts of the Company and accounts of entities it controls, including Oroplata Exploration Inc., Phosphate Canada Inc. and 9252-5880 Québec Inc., which are all wholly owned subsidiaries. Oroplata Exploration Inc. also incorporates the accounts of Minera Ariana S.A. de C.V., a wholly owned subsidiary in Mexico that is inactive and in liquidation.

Control is defined by the authority to direct the financial and operating policies of a business in order to obtain benefits from its activities.

The amounts presented in the consolidated financial statements of subsidiaries have been adjusted, if necessary, so that they meet the accounting policies adopted by the Company.

Profit or loss or other comprehensive loss of subsidiaries set up, acquired or sold during the year are recorded from the actual date of acquisition or until the effective date of the sale, if any. All intercompany transactions, balances, income and expenses are eliminated at consolidation.

Financial instruments

Financial assets and financial liabilities are recognized when the Company becomes a party to the contractual provisions of the instrument. Financial assets are derecognized when the rights to receive cash flows from the assets have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership.

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated statements of financial position when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously.

At initial recognition, the Company classifies its financial instruments in the following categories, depending on the purpose for which the instruments were acquired.

Available-for-sale assets

Available-for-sale assets are non-derivative financial assets that are designated as available-for-sale, or that are not classified as loans and receivables, or at fair value through profit or loss (FVTPL). Available-for-sale assets are recognized initially at fair value plus transaction costs and are subsequently carried at fair value. Changes in fair value are recognized in the other comprehensive loss. The Company has designated some marketable securities as available-for-sale. Available-for-sale assets are classified as non-current, unless the investment matures within twelve (12) months, or management expects to dispose of them within twelve (12) months. When an available-for-sale asset is sold or impaired, the accumulated gains or losses are moved from accumulated other comprehensive loss to the consolidated statements of loss.

ARIANNE PHOSPHATE INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2013 AND 2012

(in Canadian dollars)

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. The Company's loans and receivables comprise cash and cash equivalents and receivables and other current assets, and are included in current assets.

Loans and receivables are initially recognized at the amount expected to be received less, when material, a discount to reduce the loans and receivables to fair value. Subsequently, loans and receivables are measured at amortized cost using the effective interest method less a provision for impairment.

Fair value through profit or loss (FVTPL)

Financial assets at FVTPL include financial assets held by the Company for short-term profit, derivatives not in a qualifying hedging relationship and assets voluntarily classified in this category, with any resulting gain or loss recognized in the consolidated statements of loss. The Company has designated some marketable securities as financial assets at FVTPL.

Financial liabilities at amortized cost

Financial liabilities at amortized cost are initially recognized at fair value less transaction costs directly attributable. Thereafter, they are measured at amortized cost using the effective interest method and include all financial liabilities other than derivative instruments. Accounts payable and accrued liabilities, credit line and loan payable are classified as financial liabilities at amortized cost.

Transaction costs

Transaction costs related to financial assets at FVTPL are recognized as expenses as incurred. Transaction costs related to available-for-sale assets and loans and receivables are added to the carrying value of the asset, and transaction costs related to financial liabilities at amortized cost are netted against the carrying value of the liability. They are then recognized over the expected life of the instrument using the effective interest method.

Transaction costs include fees and commissions paid to agents, advisers, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Transaction costs do not include debt premiums or discounts, financing costs or internal administrative or holding costs.

Effective interest method

The effective interest method is a method of calculating the amortized cost of a financial asset/liability and of allocating interest income/expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash flows (including transaction costs) through the expected life of the financial asset/liability, or, if appropriate, a shorter period.

Impairment of financial assets

At each reporting date, the Company assesses whether there is objective evidence that a financial asset is impaired. If such evidence exists, the Company recognizes an impairment loss, as follows:

- a) Financial assets carried at amortized cost: The loss is the difference between the amortized cost of the financial asset and the present value of the estimated future cash flows, discounted using the instrument's original effective interest rate. The carrying amount of the asset is reduced by this amount either directly or indirectly through the use of an allowance account. Impairment losses are reversed in subsequent periods if the amount of the loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized.
- b) Available-for-sale assets: The impairment loss is the difference between the original cost of the asset and its fair value at the measurement date, less any impairment losses previously recognized in the consolidated statements of loss. This amount represents the cumulative loss in accumulated other comprehensive loss that is reclassified to loss. Impairment losses on available-for-sale assets are not reversed.

Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, bank balances and highly liquid short-term investments with original maturities of three (3) months or less from the date of purchase and which are readily convertible to known amounts of cash.

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Tax credit related to resources and mining tax credit

The Company is entitled to a tax credit related to resources of 35% on eligible exploration expenses incurred in the province of Quebec. In addition, the Company is entitled to a mining tax credit equal to 16% of 50% of eligible exploration expenditures, reduced by the tax credit related to resources. These amounts are based on estimates made by management and that the Company is reasonably certain that they will be received. At this time, the tax credit related to resources and mining tax credit are recorded as a reduction of exploration and evaluation assets.

Investment property – Outfitters

Investment property is a property (land or a building – or part of a building – or both) held to earn rentals or for capital appreciation or both, rather than for (a) use in the production or supply of goods or services or for administrative purposes; or (b) sale in the ordinary course of business. An investment property is measured initially at cost. Transaction costs are included in the initial measurement. The Company uses the cost model as its accounting policy on all of its investment property. After recognition, an investment property is carried at its cost less any accumulated depreciation and any accumulated impairment losses.

Each property, plant and equipment part comprised in investment property – Outfitters is depreciated separately over its useful life (separate depreciation by significant component of the cost of each property, plant and equipment, when applicable).

Rental income and direct operating expenses arising from investment property – Outfitters, including depreciation of property, plant and equipment, are recognized in the consolidated statements of loss as “net loss of investment property – Outfitters”.

Depreciation of property, plant and equipment comprised in the investment property – Outfitters is calculated using the declining balance method on the basis of the following rates:

Category	Rates
Buildings	4%
Leasehold improvements	20%
Computer equipment	30%
Equipment and furniture	30%

Property, plant and equipment

Property, plant and equipment are accounted for at historical cost less any accumulated depreciation charge and impairment losses. Historical cost includes expenditures that are directly attributable to the acquisition of the asset. Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost can be measured reliably.

Depreciation of tools and equipment is calculated using the declining method at a rate of 30% and depreciation of leasehold improvements is calculated using the declining method at a rate of 20%.

Gains or losses on disposal of property, plant and equipment are determined by comparing the net proceeds with the net carrying amount of the asset and are included in the consolidated statement of loss.

Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments under an operating lease are charged to the consolidated statements of loss on a straight-line basis over the period of the lease. Related expenses, such as maintenance and insurance expenses, are charged to the consolidated statements of loss as incurred.

The economic ownership of a leased asset is transferred to the lessee if the lessee bears substantially all the risks and rewards related to the ownership of the leased asset. The related asset is then recognized at the inception of the lease as the fair value of the leased asset or, if lower, the present value of the lease payments. A corresponding amount is recognized as a finance leasing liability, irrespective of whether some of these lease payments are payable up-front at the date of inception of the lease.

Impairment of non-financial assets

Property, plant and equipment, investment property – Outfitters, mining properties and exploration and evaluation assets are reviewed for impairment if there is any indication that the carrying amount may not be recoverable. Exploration and evaluation assets and mining properties are reviewed by area of interest. If any such indication is present, the recoverable amount of the asset is estimated in order to determine whether impairment exists. Where the asset does not generate cash flows that are independent from other assets, the Company estimates the recoverable amount of the asset group to which the asset belongs.

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An asset's recoverable amount is the higher of fair value less costs to dispose of and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value, using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset or asset group is estimated to be less than its carrying amount, the carrying amount is reduced to the recoverable amount. Impairment is recognized immediately in the consolidated statements of loss. Where an impairment subsequently reverses, the carrying amount is increased to the revised estimate of recoverable amount but only to the extent that this does not exceed the carrying value that would have been determined if no impairment had previously been recognized. A reversal is recognized as a reduction in the impairment charge for the period.

Mining properties and exploration and evaluation assets

All expenditures incurred prior to securing the legal rights to explore an area are expensed immediately.

Mining properties includes rights in mining properties, paid or acquired through a business combination or an acquisition of assets, and costs related to the initial search for mineral deposits with economic potential or to obtain more information about existing mineral deposits. Mining rights are recorded at acquisition cost less accumulated impairment losses.

Exploration and evaluation expenditures for each separate area of interest are capitalized. Exploration and evaluation expenditures include the cost of but are not limited to:

- establishing the volume and grade of deposits through drilling of core samples, trenching and sampling activities in an ore body;
- determining the optimal methods of extraction and metallurgical and treatment processes;
- studies related to surveying, transportation and infrastructure requirements;
- permitting activities; and
- economic evaluations to determine whether development of the mineralized material is commercially justified, including scoping, prefeasibility and feasibility studies.

Exploration and evaluation expenditures include overhead expenses directly attributable to the related activities.

Upon transfer of "Mining properties and exploration and evaluation assets" into "Mine development," all subsequent expenditure on the construction, installation or completion of infrastructure facilities is capitalized within "Mine development." After production starts, all assets included in "Mine development" are transferred to "Producing mines." At such time as commercial production commences, these costs will be charged to operations on a unit of production method based on proven and probable reserves.

Borrowing costs

Borrowing costs attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognized in the consolidated statements of loss in the year in which they are incurred.

Grants

Grants are recognized only when there is a reasonable assurance that the grants will be received, once the Company has complied with the terms of such grants.

Grants related to property, plant and equipment are deducted from the cost of those assets. Grants related to expenses are deducted from them.

Provisions

A provision is a liability for which the maturity or the amount is uncertain. A provision is recognized if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably and it is more likely than not that an outflow of economic benefits will be required to settle the obligation.

Provisions for environmental restoration, restructuring costs and legal claims, where applicable, are recognized when (i) the Company has a present legal or constructive obligation as a result of past events; (ii) it is probable that an outflow of resources will be required to settle the obligation; and (iii) the amount can be reliably estimated.

Provisions are measured at management's best estimate of the expenditure required to settle the obligation at the end of the reporting period, and are discounted to present value where the effect is material. The increase in the provision due to passage of time is recognized as finance costs. Changes in assumptions or estimates are reflected in the period in which they occur.

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Provision for environmental restoration represents the legal and constructive obligations associated with the eventual closure of the Company's property and equipment. These obligations consist of costs associated with reclamation and monitoring of activities and the removal of tangible assets. The discount rate used is based on a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability, excluding the risks for which future cash flow estimates have already been adjusted.

Share-based payment transactions

The fair value of stock options granted to employees is recognized as an expense, or capitalized to exploration and evaluation assets over the vesting period with a corresponding increase in the contributed surplus. An individual is classified as an employee when the individual is an employee for legal or tax purposes (direct employee) or provides services similar to those performed by a direct employee, including directors of the Company.

The fair value is measured at the grant date and recognized over the period during which the options vest. The fair value of the options granted is measured using the Black-Scholes pricing model, taking into account the terms and conditions upon which the options were granted. At each consolidated statement of financial position reporting date, the amount recognized as an expense is adjusted to reflect the actual number of share options that are expected to vest.

Equity-settled share-based payment transactions

For transactions with parties other than employees, the Company measures the goods or services received, and the corresponding increase in equity, directly, at the fair value of the goods or services received, unless that fair value cannot be estimated reliably. When the Company cannot estimate reliably the fair value of the goods or services received, it measures their value, and the corresponding increase in equity, indirectly, by reference to the fair value of the equity instruments granted.

All equity-settled share-based compensation (except brokers options) are ultimately recognized as an expense in the consolidated statements of loss with a corresponding credit to contributed surplus, in equity. Equity-settled share-based compensation to brokers, in respect of an equity or debt financing, are recognized respectively as issuance cost of the equity instruments with a corresponding credit to deficit or against the financial liabilities.

Flow-through shares

The Company finances some exploration and evaluation expenditures through the issuance of flow-through shares. The resource expenditure deductions for income tax purposes are renounced to investors in accordance with the appropriate income tax legislation. The Company recognizes a deferred tax liability for flow-through shares and a deferred tax expense at the moment the eligible expenditures are incurred. The difference between the quoted price of the common shares and the amount the investors paid for the shares (the premium), measured in accordance with the residual value method, is recognized as flow-through shares liability which is reversed into the consolidated statements of loss as a deferred tax recovery when eligible expenditures have been made.

Warrants

As part of its financing activities, the Company may grant warrants. Each warrant entitles its holder to purchase a determined number of shares at a price determined at grant for a certain period of time. Proceeds from unit placements are allocated between shares and warrants issued using the relative fair value method on a pro rata basis. The Company uses the Black-Scholes pricing model to determine the fair value of warrants issued.

Share issuance expenses

Share issuance expenses are recorded as an increase of the deficit in the year in which they are incurred.

Basic and diluted loss per share

The basic net loss per share is calculated using the weighted average of shares outstanding during the year. The diluted net loss per share, which is calculated with the treasury method, is equal to the basic net loss per share, due to the anti-dilutive effect of stock options, warrants and options granted to brokers.

Deferred taxes

Deferred taxes are recognized in respect of temporary differences between the carrying amounts of assets and liabilities and the amounts used for taxation purposes, except when deferred income results from an initial recognition of goodwill or from initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss at the time of the transaction.

Deferred taxes are measured at the tax rates that are expected to be applied to temporary differences when they will reverse, based on the laws that have been enacted or substantively enacted by the end of the reporting year and which are expected to apply to taxable income in the years during which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets, liabilities and equity of a change in tax rates is recognized in income or loss in the year that includes the enactment date. Income tax on the profit or loss for the periods presented comprises current and deferred taxes. Income tax is recognized in profit or loss except to the extent that it relates to items recognized directly in other comprehensive loss or in equity, in which case it is recognized in other comprehensive loss or in equity,

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respectively.

A deferred tax asset is recognized for unused tax losses and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be used. At the end of each financial reporting period, the Company reassesses the deferred tax asset not recognized. Where appropriate, the Company records a deferred tax asset that had not been recorded previously to the extent it has become probable that future taxable profits will recover the deferred tax asset.

Segment disclosures

The Company currently operates in a single segment: the acquisition, exploration and development of mining properties. All of the Company's activities are conducted in Canada.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

The preparation of consolidated financial statements in accordance with IFRS requires management to make estimates and assumptions that affect the application of accounting policies as well as the carrying amounts of assets, liabilities, revenues and expenses. Actual results may differ from those estimates.

The estimates and underlying assumptions are reviewed regularly. Any revisions to accounting estimates are recognized in the period during which the estimates are revised and in future periods affected by these revisions.

Critical judgments in applying accounting policies

a) Going concern

The assessment of the Company's ability to execute its strategy by funding future working capital and exploration and evaluation activities involves judgment. Estimates and assumptions are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Areas of significant judgments in assessing whether the going concern assumption is appropriate relate to the expected timing of collecting the tax credits receivable from the Quebec government or to secure its financing on a timely basis.

b) Recognition of deferred income tax assets and the measurement of income tax expense

Periodically, the Company evaluates the likelihood of whether some portion of the deferred tax assets will not be realized. Once the evaluation is completed, if the Company believes that it is probable that some portion of the deferred tax assets will fail to be realized, it records only the remaining portion for which it is probable that there will be available future taxable profit against which the temporary differences can be utilized. Assessing the recoverability of deferred income tax assets requires management to make significant judgment. To the extent that future cash flows and taxable income differ significantly from estimates, the ability of the Company to realize the net deferred tax assets recorded at the consolidated statement of financial position date could be impacted.

c) Borrowing costs

During the year ended December 31, 2013, the Company capitalized borrowing costs that were directly attributable to the acquisition, construction or production of a qualifying asset, Lac à Paul project, as management determined that it is probable that they will result in future economic benefits to the Company and the costs can be measured reliably.

Critical judgments in applying accounting estimates

a) Impairment of non-financial assets

The Company's recoverable amount measurements with respect to the carrying amount of non-financial assets are based on numerous assumptions and may differ significantly from actual recoverable amounts. The recoverable amounts are based, in part, on certain factors that may be partially or totally outside of the Company's control. This evaluation involves a comparison of the estimated recoverable amounts of non-financial assets to their carrying values. The estimated recoverable amounts may differ from actual recoverable amounts, and these differences may be significant and could have a material impact on the Company's financial position and results of operations. Non-financial assets are reviewed for an indication of impairment at each consolidated statement of financial position date. This determination requires significant judgment. Factors which could trigger an impairment review include, but are not limited to, significant negative industry or economic trends, interruptions in exploration and evaluation activities and significant drop in commodity prices. The Company reviews exploration and evaluation assets for impairment indicators considering the following:

- The period for which the Company has the right to explore in the specific area has expired during the period or will expire in the near future, and is not expected to be renewed.
- Substantive expenditure on further exploration for and evaluation of mineral resources in the specific area is neither budgeted nor planned.

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- Exploration for and evaluation of mineral resources in the specific area have not led to the discovery of commercially viable quantities of mineral resources, and the entity has decided to discontinue such activities in the specific area.
- Sufficient data exist to indicate that, although a development in the specific area is likely to proceed, the carrying amount of the exploration and evaluation asset is unlikely to be recovered in full from successful development or by sale.

Based on an impairment analysis performed in 2013 and given that no exploration and evaluation expenses are budgeted and to reflect the Company's orientation to focus on properties with phosphoric potential, the Opinaca property was impaired for a total of \$66,082 and the corresponding exploration and evaluation assets for a total of \$174,838.

In 2012, the Company has impaired the following properties: Héva, La Dauversière (R-14), Moly Hill, Black Dog, Chico, Dulain, Terres rares and Mazatlan-El Rey, for a total of \$768,658 and corresponding exploration and evaluation assets for a total of \$1,292,022.

b) Uncertain tax positions

The Company received a notice of assessment from Revenu Québec in February 2014 for the year ended December 31, 2012, disallowing certain expenditures in the calculation of its fiscal year 2012 tax credit related to mining resources, amounting to approximately \$722,000 for 2012. The Company is in disagreement with the notice of assessment, and management intends to dispute the notice and justify its original claims. The Company estimates the potential exposure to be a reduction of the credits for mining duties refundable for losses of an aggregate amount of \$485,000 as at December 31, 2013.

Credits for mining duties refundable for losses for the current and prior periods are measured at the amount expected to be recovered from Revenu Québec, using the tax rates and tax laws that have been enacted or substantively enacted at the consolidated statement of financial position date.

Uncertainties exist with respect to the interpretation of tax regulations, including mining duties for losses, and the amount and timing of their collection. The calculation of the Company's credits for mining duties refundable for losses necessarily involves a degree of estimation and judgment in respect of certain items whose tax treatment cannot be finally determined until resolution of an opposition process has been reached with the relevant taxation authority or, as appropriate, through a formal legal process. Differences arising between the actual results following final resolution of some of these items and the assumptions made, or future changes to such assumptions, could necessitate adjustments to credits for mining duties refundable for losses and income tax expense in future periods. The resolution of issues can, and often does, take many years to resolve. The inherent uncertainty regarding the outcome of these items means that eventual resolution could differ from the accounting estimates and therefore impact the Company's financial position and its financial performance and cash flows.

Those credits for mining duties refundable for losses are classified as current assets.

c) Impairment of financial assets

The Company follows the guidance of IAS 39 to determine when an available-for-sale equity investment is impaired. This determination requires significant judgment. In making this judgment, the Company evaluates, among other factors, whether there is a significant or prolonged decline in the fair value of the investment which is considered as evidence of impairment. Significant decline is defined as a decrease of at least 50% of its fair value, and a prolonged decline is a decline under its cost for over two (2) consecutive fiscal periods. Financial health of short-term business outlook for the investee, including factors such as industry and sector performance and operational and financing cash flows, are considered as well by the Company in its evaluation.

5. CASH AND CASH EQUIVALENTS

	2013	2012
	\$	\$
Cash and cash equivalents	<u>6,896,331</u>	<u>5,225,976</u>

As at December 31, 2013, cash and cash equivalents comprises cash on hand amounting to \$6,172,825, bearing interest at 1.25% and cash on hand amounting to \$723,506, not bearing interest. This rate is effective as long as the account balance exceeds \$1,000,000.

As at December 31, 2012, bank balances included an amount of \$5,204,599, bearing interest at 1.25%. This rate was effective as long as the account balance exceeded \$1,000,000.

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6. MARKETABLE SECURITIES

	2013 \$	2012 \$
Nil shares of NQ Exploration Inc. (200,000 shares in 2012 at a cost of \$15,750)	-	5,000
Nil shares of Galaxy Resources Ltd. (formerly Lithium One Inc.) (94,080 shares in 2012 at a cost of \$73,920)	-	38,385
Nil shares of Threegold Resources Inc. (500,000 shares in 2012 at a cost of \$160,000)	-	30,000
	<u>-</u>	<u>73,385</u>

Financial assets through profit or loss

During the year ended December 31, 2013, the Company sold 200,000 shares of NQ Exploration Inc. for total proceeds on disposal of \$1,958, sold 500,000 shares of Threegold Resources Inc. for total proceeds of \$4,875 and sold 94,080 shares of Galaxy Resources Ltd. (formerly Lithium One Inc.) for total proceeds of \$3,781. The change in fair value of these investments between January 1st, 2013 and the respective date of disposal amounted to a loss of \$ 62,771.

Available-for-sale assets

During the year ended December 31, 2013, the Company sold 60,000 shares of Midland Exploration Inc. at a cost of \$60,000 for proceeds on disposal of \$57,331, realizing a loss on disposal of \$2,669. These shares were obtained through the sale of the Héva property. Also, the Company sold 1,000,000 shares of NQ Exploration Inc. at a cost of \$20,000 for proceeds on disposal of \$9,792, realizing a loss of \$10,208. On sale of available-for-sale assets, an amount of \$12,877 was reclassified from accumulated other comprehensive loss to net loss.

7. INVESTMENT PROPERTY – OUTFITTERS

Property, plant and equipment of investment property – Outfitters are as follows:

	Buildings \$	Leasehold improvements \$	Equipment and furniture \$	Computer equipment \$	Total \$
Cost					
Balance as at December 31, 2011	335,533	49,490	104,994	2,577	492,594
Acquisition ⁽¹⁾	9,132	-	61,905	-	71,037
Balance as at December 31, 2012	344,665	49,490	166,899	2,577	563,631
Acquisition	-	-	2,200	-	2,200
Balance as at December 31, 2013	<u>344,665</u>	<u>49,490</u>	<u>169,099</u>	<u>2,577</u>	<u>565,831</u>
Accumulated depreciation					
Balance as at December 31, 2011 ⁽²⁾	-	-	-	-	-
Depreciation	13,604	9,898	40,784	773	65,059
Balance as at December 31, 2012	13,604	9,898	40,784	773	65,059
Depreciation	13,243	7,918	38,027	541	59,729
Balance as at December 31, 2013	<u>26,847</u>	<u>17,816</u>	<u>78,811</u>	<u>1,314</u>	<u>124,788</u>
Net book value					
Balance as at December 31, 2012	<u>331,061</u>	<u>39,592</u>	<u>126,115</u>	<u>1,804</u>	<u>498,572</u>
Balance as at December 31, 2013	<u>317,818</u>	<u>31,674</u>	<u>90,288</u>	<u>1,263</u>	<u>441,043</u>

⁽¹⁾ During the year 2012, acquisition of property, plant and equipment for an amount of \$130,737 entitled the Company to a grant of \$59,700.

⁽²⁾ No depreciation was recorded during the year ended December 31, 2011, as property, plant and equipment were not yet in use.

As at December 31, 2013, the fair value of investment property approximates its carrying value. This fair value is classified as a level 3. Level 3 includes inputs for the asset or liability that are not based on observable market data (note 20).

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

	2013	2012
	\$	\$
Outfitters income	103,396	102,280
Operating expenses:		
Management fees	132,000	132,000
Professional fees	17,568	1,076
Repair and maintenance	23,573	16,297
Supplies	4,166	10,204
Selling fees	9,227	21,399
Advertising, promotion and travel	1,100	15,747
Taxes and licenses	7,065	5,135
Communications	414	225
Insurance	8,111	7,575
Office expenses	-	1,195
Interest and bank charges	326	321
Depreciation of property, plant and equipment	59,729	65,059
	<u>263,279</u>	<u>276,233</u>
Net loss of investment property – Outfitters	<u>159,883</u>	<u>173,953</u>

8. PROPERTY, PLANT AND EQUIPMENT

	Leasehold improvements	Tools and equipment	Total
	\$	\$	\$
Cost			
Balance as at December 31, 2011	-	-	-
Acquisition	-	87,279	87,279
Balance as at December 31, 2012	-	87,279	87,279
Acquisition	15,571	11,250	26,821
Balance as at December 31, 2013	<u>15,571</u>	<u>98,529</u>	<u>114,100</u>
Accumulated depreciation			
Balance as at December 31, 2011	-	-	-
Depreciation	-	4,993	4,993
Balance as at December 31, 2012	-	4,993	4,993
Depreciation	1,426	25,108	26,534
Balance as at December 31, 2013	<u>1,426</u>	<u>30,101</u>	<u>31,527</u>
Net book value			
Balance as at December 31, 2012	-	82,286	82,286
Balance as at December 31, 2013	<u>14,145</u>	<u>68,428</u>	<u>82,573</u>

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9. MINING PROPERTIES

	Royalties (NSR) %	Balance as at December 31, 2012 \$	Additions \$	Impairment \$	Disposal \$	Balance as at December 31, 2013 \$
Properties in Quebec						
Lac à Paul (100%)	0.75	1,185,593	4,561	-	-	1,190,154
Opinaca (50%)	-	66,082	-	(66,082)	-	-
Penaroya-Brouillan (100%)	-	103,886	-	-	(103,886)	-
Mirepoix (100%)	-	3,150	2,760	-	-	5,910
Phosphore (100%)	-	40,501	4,795	-	-	45,296
		<u>1,399,212</u>	<u>12,116</u>	<u>(66,082)</u>	<u>(103,886)</u>	<u>1,241,360</u>

In April 2013, the Company disposed of its mining property Héva to Midland Exploration for a total of \$30,000 in cash and 60,000 shares, for a total consideration of \$90,000 measured at the fair value using the closing price of the shares received at the date of the transaction. The carrying value of the property was nil at the date of the sale, resulting in a gain on disposal of \$90,000.

In April 2010, the Company entered into an option agreement on the Penaroya-Brouillan property. The agreement provided for the Company to sell a 50% interest in the property in consideration of the issuance of 700,000 common shares of the public company NQ Exploration Inc. as follows: 50,000 shares at the signature date (condition fulfilled); 50,000 shares on the first anniversary (condition fulfilled); 100,000 shares on the second anniversary (condition fulfilled); and 200,000 and 300,000 respectively in the next subsequent two years. In April 2013, the Company disposed of the mining property Penaroya-Brouillan to NQ Exploration Inc. in exchange for 1,000,000 shares, for a total consideration of \$20,000 measured at the fair value established using the market closing price of the shares received at the date of the transaction. The loss on disposal is \$110,926.

In April 2011, the Company granted to Virginia Inc. ("Virginia") a sale option of 50% of the Opinaca property in consideration for 26,330 common shares of Virginia. Exploration expenses totaling \$878,000 had to be incurred by Virginia by no later than April 2016. In 2013, the Company reviewed all its non-phosphate properties, and the Company has decided to fully impair the Opinaca property.

	Royalties (NSR) %	Balance as at December 31, 2011 \$	Additions \$	Impairments \$	Disposals \$	Balance as at December 31, 2012 \$
Properties in Quebec						
Lac à Paul (100%)	0.75	1,109,524	76,069	-	-	1,185,593
Héva (100%)	2.00	133,126	1,537	(134,663)	-	-
La Dauversière (R-14) (100%)	1.00	104,131	2,556	(106,687)	-	-
Opinaca (50%)	-	79,674	8,733	-	(22,325)	66,082
Penaroya-Brouillan (100%)	-	108,788	848	-	(5,750)	103,886
Moly Hill (100%)	1.50	-	1,906	(1,906)	-	-
Black Dog (100%)	-	9,501	2,829	(12,330)	-	-
Mirepoix (100%)	-	2,832	318	-	-	3,150
Chico (100%)	-	22,440	162	(22,602)	-	-
Dulain (100%)	-	2,120	53	(2,173)	-	-
Phosphore (100%)	-	35,466	5,035	-	-	40,501
Terres rares (100%)	1.50	17,102	-	(17,102)	-	-
Property in Mexico						
Mazatlan-El Rey	2.00	396,195	75,000	(471,195)	-	-
		<u>2,020,899</u>	<u>175,046</u>	<u>(768,658)</u>	<u>(28,075)</u>	<u>1,399,212</u>

In 2012, the Company decided to focus its financial and human resources on its phosphate properties (Lac à Paul and Mirepoix). After a review of all its non-phosphate properties, the Company decided to fully impair these properties (Héva, La Dauversière (R-14), Moly Hill, Black Dog, Chico, Dulain, Terres rares and Mazatlan-El Rey), except the Opinaca and Penaroya-Brouillan properties, which are subject to specific agreements with exploration partners.

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10. EXPLORATION AND EVALUATION ASSETS

	Balance as at December 31, 2012	Additions	Tax credits	Impairments	Disposals	Balance as at December 31, 2013
	\$	\$	\$	\$	\$	\$
Quebec						
Lac à Paul	13,397,877	14,325,037	(528,737)	-	-	27,194,177
Opinaca	174,838	-	-	(174,838)	-	-
Penaroya-Brouillan	27,040	-	-	-	(27,040)	-
Mirepoix	30,351	-	-	-	-	30,351
Phosphore	14,428	-	-	-	-	14,428
	<u>13,644,534</u>	<u>14,325,037</u>	<u>(528,737)</u>	<u>(174,838)</u>	<u>(27,040)</u>	<u>27,238,956</u>
	Balance as at December 31, 2011	Additions	Tax credits	Impairments	Disposals	Balance as at December 31, 2012
	\$	\$	\$	\$	\$	\$
Quebec						
Lac à Paul	6,699,736	9,193,638	(2,495,497)	-	-	13,397,877
Héva	371,942	1,200	(6,619)	(366,523)	-	-
La Dauversière (R-14)	493,590	19,303	(2,748)	(510,145)	-	-
Opinaca	177,002	-	(2,164)	-	-	174,838
Penaroya-Brouillan	27,659	-	(619)	-	-	27,040
Black Dog	4,990	-	-	(4,990)	-	-
Dulain	16,075	1,389	(59)	(17,405)	-	-
Chico	4,415	-	-	(4,415)	-	-
Mirepoix	25,904	6,013	(1,566)	-	-	30,351
Phosphore	13,552	1,185	(309)	-	-	14,428
Terres rares	9,206	-	-	(9,206)	-	-
Mexico						
Mazatlan-El Rey	372,350	5,988	-	(378,338)	-	-
	<u>8,216,412</u>	<u>9,228,716</u>	<u>(2,509,581)</u>	<u>(1,291,022)</u>	<u>-</u>	<u>13,644,534</u>

In March 2012, the Company received an amount of \$105,474 representing an adjustment to the mining tax credit attributable to the year ended December 31, 2009. The adjustment was recorded as a reduction of related exploration and evaluation assets (Lac à Paul, Opinaca, Héva, La Dauversière (R-14), Penaroya-Brouillan).

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For the years ended December 31, 2013 and 2012, the following expenses, related to discovery of mineral resources, have been included in the cost of exploration and evaluation assets:

	2013	2012
	\$	\$
Drilling	-	2,418,416
Stripping and road repairs	380,452	82,572
Geologic survey	-	22,766
Camp, travel and lodging and general expenses	459,331	817,970
Chemical analysis	92,275	535,043
Line cutting and geophysics	-	141,660
Planning and supervision	547,424	678,117
Professional fees and independent technical reports	11,345,092	4,143,206
Borrowing costs	1,475,355	206,806
Depreciation of property, plant and equipment	25,108	4,993
Share-based compensation	-	177,167
	<u>14,325,037</u>	<u>9,228,716</u>
Tax credits related to resources and mining tax credit	(528,737)	(2,509,581)
Impairment of exploration and evaluation assets	(174,838)	(1,291,022)
Exploration and evaluation assets related to mining properties disposed of	<u>(27,040)</u>	<u>-</u>
	13,594,422	5,428,113
Balance – Beginning of year	<u>13,644,534</u>	<u>8,216,421</u>
Balance – End of year	<u><u>27,238,956</u></u>	<u><u>13,644,534</u></u>

11. FLOW-THROUGH SHARES LIABILITY

	2013	2012
	\$	\$
Balance – Beginning of year	-	-
Increase of the year	891,488	44,000
Decrease related to expenses incurred	<u>(168,596)</u>	<u>(44,000)</u>
Balance – The end of year	<u><u>722,892</u></u>	<u><u>-</u></u>

The increase represents the excess of the proceeds received from flow-through shares issued over the fair market value of the shares issued, net of issue costs. On July 12, 2013 and December 18, 2013, 624,500 and 1,790,952 flow-through common shares, respectively, were issued at the price of \$1.40 and \$1.80 per share, respectively, for total proceeds of \$4,098,014. The flow-through share liability is reduced as the Company incurs qualifying flow-through expenses. Share issuance expenses are presented based on a pro rata basis as an increase in deficit and as a reduction of the flow-through shares liability.

As at December 31, 2013, the Company has \$3,223,714 in cash reserved for exploration and evaluation activities. As at December 31, 2012, the Company has incurred all amounts reserved in exploration and evaluation expenses.

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12. 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. This credit line was gradually disbursed until May 2013, following written draw requests from the Company. Any repayment of capital may not be borrowed subsequently and shall reduce the authorized amount.

The credit line bears interest at a variable rate on the basis of three-month CDOR plus 500 basis points. Interest is capitalized quarterly until the earlier of the following dates: (a) December 31, 2013 or (b) the date the Company raises cumulative net cash proceeds of at least \$21 million by way of equity, debt or other instruments.

Subsequently, interest will be payable quarterly until maturity.

The credit line and all unpaid interest will be repayable in full on the earlier of the following dates: (a) December 31, 2015; (b) the date the Company raises cumulative net cash proceeds of at least \$51 million by way of equity, debt or other instruments; and (c) the date of change of control of the Company.

The Company provided as guarantee a first mortgage on Mirepoix and Lac à Paul property claims, up to an aggregate amount of \$17 million. The wholly owned subsidiary, 9252-5880 Québec Inc., has guaranteed jointly and severally the credit line.

Under this agreement, the Company is subject to restrictions related to disposal of assets and equity issuance through financing.

The conditions of the credit line will remain effective as long as the Company meets milestones established with the lender related to obtain specific studies and specific permits (Certificates of Authorization for Construction and Exploitation).

The agreement also provides a royalty (see note 19).

In connection with obtaining the credit line, the Company granted 2,500,000 warrants at an exercise price of \$0.88 per warrant and 1,500,000 warrants at an exercise price of \$1.32 per warrant, which represent the only warrants granted during the year ended December 31, 2012. Some warrants are subject to an acceleration clause (see note 15). The Company was not able to reliably determine the fair value of the services received and therefore used the fair value of the warrants as calculated using the Black-Scholes pricing model. The fair value of warrants was estimated at \$1,940,500 (see note 15).

If the lender is unable to provide any amount available for drawdown under the credit line, all fees including the royalty will be reduced pro rata accordingly to reflect the actual amount of facility then available. The lender will reimburse the Company all fees overpaid. Furthermore, the Company will be entitled to cancel a number of warrants on a pro rata basis.

Transaction costs related to the credit line amount to \$2,350,197 for the year ended December 31, 2012 and consist of fair value of warrants and fees paid in cash amounting to \$409,698. Transaction costs are amortized at an effective rate of 8.56%, representing \$907,810 for the year ended December 31, 2013 (2012 – \$134,935).

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 second credit line bears interest at a variable rate on the basis of CDOR rate plus 500 basis points. Interest will be capitalized quarterly until June 30, 2014. Subsequently, interest will be payable quarterly until maturity. The second credit line includes a royalty of \$0.25. (see note 19) This royalty may be redeemed at any time through a lump-sum payment of \$1.5 million.

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

In connection with obtaining the credit line, the Company granted 375,000 warrants at an exercise price of \$1.77 per warrant and 625,000 warrants at an exercise price of \$1.18 per warrant, which are subject to a four-month holding period. The fair value of warrants was estimated at \$378,986 using the Black-Scholes pricing model. The Company was not able to reliably determine the fair value of the services received and therefore used the fair value of the warrants as calculated using the Black-Scholes pricing model.

Transaction costs related to the July 2013 credit line amount to \$479,901 and consist of the fair value of warrants and fees paid in cash amounting to \$100,914. Transaction costs are amortized at an effective rate of 9.37%, representing \$71,105 for the year ended December 31, 2013.

Combined transaction costs amount to \$2,830,098 (2012 – \$206,806).

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12. CREDIT LINE (continued)

	2013	2012
	\$	\$
Balance – Beginning of year	3,275,547	-
Proceeds from credit lines	7,100,000	5,400,000
Transaction costs	(479,901)	(2,350,197)
Capitalized interests	660,195	90,809
Amortization of transaction costs	843,975	134,935
Balance – End of year	<u>11,399,817</u>	<u>3,275,547</u>
Summary	2013	2012
	\$	\$
Credit lines including capitalized interests	13,251,005	5,490,809
Transaction costs	(1,851,188)	(2,215,262)
Balance of credit line – End of year	<u>11,399,817</u>	<u>3,275,547</u>

13. LOAN PAYABLE

	2013	2012
	\$	\$
Increase	1,500,000	-
Capitalized interest	49,007	-
Transaction costs unamortized	(95,929)	-
Balance – End of year	<u>1,453,078</u>	<u>-</u>

On July 11, 2013, the Company was granted a loan of \$1,500,000 by an investment company. This loan bears interest at an annual rate of 7%. The loan is secured by tax credits receivable from Revenue Québec for the years 2010, 2011, 2012 and 2013, in connection with exploration and evaluation expenditures amounting to \$2,372,446. The Company must repay the loan on the earlier of the following dates: February 28, 2014 or the date of receipt of the tax credits. In connection with the loan, the Company issued 350,000 warrants to the investment company to subscribe for 350,000 common shares of the Company at a price of \$1.18 per share with an expiration date of February 28, 2014. The Company was not able to reliably determine the fair value of the services received and therefore used the fair value of the warrants as calculated using the Black-Scholes pricing model. These warrants were recorded at a fair value of \$0.17 per warrant, or \$41,662. Transaction costs paid in cash amounting to \$54,267 were also incurred.

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14. CAPITAL STOCK

Authorized

Unlimited number of common shares without par value

Unlimited number of preferred shares, without par value, issuable in series: Series A includes 500,000 preferred shares, non-voting, non-cumulative dividend of 8% redeemable by the Company at the amount paid-in.

Changes in the Company's common shares were as follows:

	Number	2013 Amount \$	Number	2012 Amount \$
Balance – Beginning of year	75,534,926	26,990,815	66,337,383	23,157,474
Flow-through shares ⁽¹⁾	2,415,452	3,104,736	1,100,000	968,000
Private placement ⁽²⁾	2,435,000	2,368,040	-	-
Warrants exercised ⁽³⁾	3,127,000	5,570,167	5,688,553	1,791,075
Stock options exercised ⁽⁴⁾	1,005,000	1,403,210	1,265,000	661,285
Options granted to brokers exercised ⁽⁵⁾	630,000	1,234,170	1,143,990	412,981
Bonus in common shares granted to employees ⁽⁶⁾	37,877	50,000	-	-
Balance – End of year	<u>85,185,255</u>	<u>40,721,138</u>	<u>75,534,926</u>	<u>26,990,815</u>

As at December 31, 2013, 85,185,255 shares are issued and fully paid (2012 – 75,534,926).

- (1) Value of flow-through shares is presented net of flow-through shares premium amounting to \$993,278 (2012 – \$44,000).
- (2) Value of capital stock paid in cash (private placement) is presented net of fair value of units (each unit entitles its holder to acquire one common share of the Company at a price of \$1.10 per share and one-half of one common share purchase warrant, each warrant entitling its holder to acquire one common share at a price of 1.45 per share for a two-year period following the closing) amounting to \$310,460 (2012 – nil).
- (3) This amount includes fair value of exercised warrants amounting to \$2,052,689 (2012 – \$705,114).
- (4) This amount includes fair value of stock options exercised amounting to \$709,960 (2012 – \$272,135).
- (5) This amount includes fair value of brokers options exercised amounting to \$604,170 (2012 – \$252,823).
- (6) The Company was not able to reliably determine the fair value of the services received and therefore used the fair value of the shares based on share closing price of \$1.32 per share on December 6, 2013.

Year ended December 31, 2013

On July 12, 2013, the Company issued 624,500 flow-through shares at a price of \$1.40 per share for total proceeds of \$874,300. The Company issued 214,165 options granted to brokers; each option entitles its holder to acquire one common share at a price of \$1.10 per share for a two-year period following the closing.

On December 18, 2013, the Company issued 1,790,952 flow-through shares at a price of \$1.80 per share for total proceeds of \$3,223,714. The Company issued 130,744 options granted to brokers; each option entitles its holder to acquire one common share at a price of \$1.40 per share for a two-year period following the closing.

Year ended December 31, 2012

In September 2012, the Company issued 1,100,000 flow-through shares at a price of \$0.92 per share for total proceeds of \$1,012,000. The Company issued 88,000 brokers options; each option entitles its holder to acquire one common share at a price of \$0.92 per share for a two-year period following the closing.

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15. STOCK OPTIONS, WARRANTS AND OPTIONS GRANTED TO BROKERS

Stock options

In November 2012, the Company's Board of Directors approved a new policy related to the grant of stock options, without substituting the existing plan. Under this new policy, each share purchase option granted under this policy is vested by its holder on a basis of 33% every year on a three-year period from the date of grant.

The shareholders of the Company approved on June 25, 2013 a stock option (the "plan") whereby the Board of Directors may grant stock options of the Company to directors, officers, employees and suppliers. The terms of stock option are determined by the Board of Directors.

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.

Stock options expire no later than ten years after being granted. The exercise price of each share purchase option is determined by the Board of Directors and may not be lower than the market price of the common shares at the time of grant.

The plan provides that (i) the maximum number of common shares in the capital of the Company that may be reserved for issuance under the plan shall be equal to 10% common shares (2012 – 6,780,000 common shares); (ii) the maximum number of common shares which may be reserved for issuance to an employee, officer or director may not exceed 5% of the outstanding common shares at the time of grant; and (iii) the maximum number of shares which may be reserved for issuance to consultants and investors representative may not exceed 2% of the outstanding common shares at the time of grant.

Any share purchase option is settled in shares in accordance with Company policies.

The Company currently estimates the volatility of its common shares based on comparable information derived from the trading history of companies in a similar situation.

During 2013, 1,765,000 stock options were granted to employees. The fair value of stock options granted amounted to \$ 1,784,296 and was estimated using the Black-Scholes pricing model with the following weighted average assumptions:

	2013	2012
Weighted average price of share at time of grant	\$1.24	\$0.92
Weighted average risk-free interest rate	2.42%	1.50%
Weighted average expected volatility	105%	108%
Weighted average expected life	6.0 years	7.5 years
Weighted average expected dividend yield	0%	0%
	2013	2012
	\$	\$
Weighted average fair value of options granted	0.95	0.84

Changes in Company stock options were as follows:

	2013		2012	
	Number	Weighted average exercise price \$	Number	Weighted average exercise price \$
Balance – Beginning of year	5,730,000	1.01	5,495,000	0.82
Granted	1,765,000	1.21	2,050,000	1.14
Expired	(325,000)	1.34	(550,000)	1.26
Exercised	(1,005,000)	0.69	(1,265,000)	0.31
Balance – End of year	<u>6,165,000</u>	1.10	<u>5,730,000</u>	1.01
Exercisable at the end of the year	<u>5,235,000</u>	1.07	<u>5,455,000</u>	1.01

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The following tables summarize the information relating to the stock options granted under the plan.

Exercise price \$	Options outstanding as at December 31, 2012	Weighted average remaining contractual life	Granted	Expired	Exercised	Options outstanding as at December 31, 2013	Weighted average remaining contractual life
0.19	50,000	0.9 years	-	-	(50,000)	-	-
0.15	410,000	7.3 years	-	-	(280,000)	130,000	6.3 years
0.15	345,000	7.5 years	-	-	-	345,000	6.5 years
0.14	100,000	7.6 years	-	-	(50,000)	50,000	6.6 years
0.37	500,000	8.1 years	-	-	(100,000)	400,000	7.1 years
0.58	150,000	8.1 years	-	-	-	150,000	7.1 years
1.40	100,000	8.4 years	-	(100,000)	-	-	-
1.25	200,000	8.4 years	-	-	-	200,000	7.4 years
1.37	1,750,000	8.6 years	-	(150,000)	-	1,600,000	7.6 years
1.76	250,000	8.8 years	-	-	-	250,000	7.8 years
1.18	100,000	1.1 years	-	(75,000)	-	25,000	0.1 years
1.16	500,000	9.3 years	-	-	-	500,000	8.3 years
1.15	1,025,000	9.7 years	-	-	(450,000)	575,000	8.7 years
1.07	250,000	9.9 years	-	-	(75,000)	175,000	8.9 years
1.12	-	-	50,000	-	-	50,000	9.0 years
1.25	-	-	225,000	-	-	225,000	9.4 years
1.22	-	-	200,000	-	-	200,000	9.4 years
1.19	-	-	400,000	-	-	400,000	9.6 years
1.10	-	-	400,000	-	-	400,000	9.5 years
1.24	-	-	100,000	-	-	100,000	9.8 years
1.32	-	-	390,000	-	-	390,000	10.0 years
	<u>5,730,000</u>		<u>1,765,000</u>	<u>(325,000)</u>	<u>(1,005,000)</u>	<u>6,165,000</u>	

Exercise price \$	Options outstanding as at December 31, 2011	Weighted average remaining contractual life	Granted	Expired	Exercised	Options outstanding as at December 31, 2012	Weighted average remaining contractual life
0.19	50,000	1.9 years	-	-	-	50,000	0.9 years
0.11	10,000	7.6 years	-	-	(10,000)	-	-
0.15	675,000	8.3 years	-	-	(265,000)	410,000	7.3 years
0.15	875,000	8.5 years	-	-	(530,000)	345,000	7.5 years
0.14	200,000	8.6 years	-	-	(100,000)	100,000	7.6 years
0.37	700,000	9.1 years	-	-	(200,000)	500,000	8.1 years
0.58	150,000	9.1 years	-	-	-	150,000	8.1 years
1.13	160,000	9.1 years	-	-	(160,000)	-	-
1.40	100,000	9.4 years	-	-	-	100,000	8.4 years
1.25	275,000	9.4 years	-	(75,000)	-	200,000	8.4 years
1.37	2,050,000	9.6 years	-	(300,000)	-	1,750,000	8.6 years
1.76	250,000	9.8 years	-	-	-	250,000	8.8 years
1.07	-	-	175,000	(175,000)	-	-	-
1.18	-	-	100,000	-	-	100,000	1.1 years
1.16	-	-	500,000	-	-	500,000	9.3 years
1.15	-	-	1,025,000	-	-	1,025,000	9.7 years
1.07	-	-	250,000	-	-	250,000	9.9 years
	<u>5,495,000</u>		<u>2,050,000</u>	<u>(550,000)</u>	<u>(1,265,000)</u>	<u>5,730,000</u>	

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Warrants

During 2013, 2,567,500 warrants were granted. The fair value of warrants granted amounted to \$ 729,306 and was estimated using the Black-Scholes pricing model with the following weighted average assumptions:

	2013	2012
Weighted average price of share at time of grant	\$1.11	\$0.88
Weighted average risk-free interest rate	1.16%	1.25%
Weighted average expected volatility	66%	98%
Weighted average expected life	1.98 years	2.70 years
Weighted average expected dividend yield	0%	0%
	2013	2012
	\$	\$
Weighted average fair value of warrants granted	0.28	0.49

Changes in Company warrants were as follows:

	2013		2012	
	Number	Weighted average exercise price \$	Number	Weighted average exercise price \$
Balance – Beginning of year	8,000,000	1.27	9,689,106	0.73
Granted	2,567,500	1.39	4,000,000	1.05
Exercised	(3,127,000)	1.12	(5,688,553)	0.19
Expired	-	-	(553)	0.20
Balance – End of year	7,440,500	1.24	8,000,000	1.27

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The following table summarizes the information relating to the warrants granted:

Exercise price \$	Expiry date	Warrants outstanding as at December 31, 2012	Granted	Expired	Exercised	Warrants outstanding as at December 31, 2013
1.50 ⁽¹⁾	February 2014	4,000,000	-	-	(2,127,000)	1,873,000
0.88	December 2015	2,500,000	-	-	(1,000,000)	1,500,000
1.32	December 2015	1,500,000	-	-	-	1,500,000
1.45	July 2015	-	1,217,500	-	-	1,217,500
1.18	February 2014	-	350,000	-	-	350,000
1.77	December 2015	-	375,000	-	-	375,000
1.18	December 2015	-	116,525	-	-	116,525
1.18	December 2015	-	508,475	-	-	508,475
		<u>8,000,000</u>	<u>2,567,500</u>	<u>-</u>	<u>(3,127,000)</u>	<u>7,440,500</u>

⁽¹⁾ During the year ended December 31, 2013, the Company amended the terms and conditions of the 4,000,000 warrants granted during the year ended 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. These warrants were amended initially in March 2013: the exercise price was modified to \$1.24 and the warrants' expiration date was extended to September 2013. In September 2013, the Company further amended the expiration date to February 1, 2014 while all other terms and conditions remained similar.

The Company calculated the fair value of the warrants prior and after the 2013 amendments. The fair value of the amended warrants was estimated at \$725,000 considering the fair value of the original warrants existing on the date of the amendment, according to the Black-Scholes pricing model, and it was recorded as an increase in deficit for the year ended December 31, 2013.

⁽²⁾ Starting January 1, 2013, if the trading price is higher than \$1.32 during a period of 20 consecutive trading days, 1,000,000 warrants will have to be exercised within 30 days, or they will be cancelled. Those warrants were exercised in 2013.

Exercise price \$	Expiry date	Warrants outstanding as at December 31, 2011	Granted	Expired	Exercised	Warrants outstanding as at December 31, 2012
0.20	June 2012	359,531	-	(553)	(358,978)	-
0.20	November 2012	154,575	-	-	(154,575)	-
0.19	December 2012	5,175,000	-	-	(5,175,000)	-
1.50 ⁽¹⁾	April 2013	4,000,000	-	-	-	4,000,000
0.88	December 2015	-	2,500,000	-	-	2,500,000
1.32	December 2015	-	1,500,000	-	-	1,500,000
		<u>9,689,106</u>	<u>4,000,000</u>	<u>(553)</u>	<u>(5,688,553)</u>	<u>8,000,000</u>

⁽¹⁾ During the year ended December 31, 2013, the Company amended the terms and conditions of the 4,000,000 warrants granted during the year ended 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. These warrants were amended initially in March 2013: the exercise price was modified to \$1.24 and the warrants' expiration date was extended to September 2013. In September 2013, the Company further amended the expiration date to February 1, 2014 while all other terms and conditions remained similar.

The Company calculated the fair value of the warrants prior and after the 2013 amendments. The fair value of the amended warrants was estimated at \$725,000 considering the fair value of the original warrants existing on the date of the amendment, according to the Black-Scholes pricing model, and it was recorded as an increase in deficit for the year ended December 31, 2013.

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Options granted to brokers

During 2013, 344,909 options to brokers were granted. The fair value of warrants granted amounted to \$ 101,718 and was estimated using the Black-Scholes pricing model with the following weighted average assumptions:

	2013	2012
Weighted average price of share at time of grant	\$1.19	\$0.88
Weighted average risk-free interest rate	1.14%	1.17%
Weighted average expected volatility	64%	95%
Weighted average expected life	2 years	2 years
Weighted average expected dividend yield	0%	0%
	2013	2012
	\$	\$
Weighted average fair value of warrants granted	0.29	0.47

Changes in Company options granted to brokers options were as follows:

	Number	2013 Weighted average exercise price \$	Number	2012 Weighted average exercise price \$
Balance – Beginning of year	718,000	0.99	1,773,990	0.45
Granted	344,909	1.21	88,000	0.92
Exercised	(630,000)	1.0	(1,143,990)	0.14
Balance – End of year	<u>432,909</u>	1.15	<u>718,000</u>	0.99

The following table summarizes the information relating to the brokers options granted

Exercise price \$	Expiry date	Brokers options outstanding as at December 31, 2012		Brokers options outstanding as at December 31, 2013	
		Granted	Exercised	Granted	Exercised
1.00	April 2013	630,000	-	(630,000)	-
0.92	September 2014	88,000	-	-	88,000
1.10	July 2015	-	214,165	-	214,165
1.40	December 2015	-	130,744	-	130,744
		<u>718,000</u>	<u>344,909</u>	<u>(630,000)</u>	<u>432,909</u>
Exercise price \$	Expiry date	Brokers options outstanding as at December 31, 2011		Brokers options outstanding as at December 31, 2012	
		Granted	Exercised	Granted	Exercised
0.14	December 2012	1,143,990	-	(1,143,990)	-
1.00	April 2013	630,000	-	-	630,000
0.92	September 2014	-	88,000	-	88,000
		<u>1,773,990</u>	<u>88,000</u>	<u>(1,143,990)</u>	<u>718,000</u>

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16. DEFERRED TAXES

In 2013, the Company reviewed its estimate with respect to the expected manner of recovery of its mining assets, as there are indications that its exploration and evaluation assets could probably be recovered through use rather than through sale. Accordingly, the Company recorded a deferred income tax liability of \$1,457,440 with respect to Quebec mining duties and a corresponding deferred tax expense in the consolidated statements of loss for the year ended December 31, 2013.

The major components of deferred income tax expense are as follows:

	2013
	\$
Deferred tax expense relating to the origination and reversal of temporary differences	1,288,844
Total deferred income tax expense	1,288,844

The Company's income tax provision consists of the following:

	2013
	\$
Loss before income taxes	(5,118,993)
Income tax computed at Canadian statutory rate of 26.9%	(1,377,009)
Non-refundable tax credits	(124,161)
Non-deductible expenses	162,062
Income tax benefit of mining duties	(392,051)
Unrecognized tax benefits	1,523,292
Tax effect of renounced flow-through share expenditures	235,187
Amortization of flow-through share premiums	(168,597)
Adjustments from prior years	(37,494)
Quebec mining duty tax	1,457,440
Other	10,175
Income tax expense	1,288,844
Income tax expense	
Current	-
Deferred	1,288,844
	1,288,844

The analysis of deferred income tax assets and liabilities as at December 31, 2013 is as follows:

	2012	Loss	2013
	\$	\$	\$
Deferred income tax assets			
Non-capital losses carried forward	537,172	2,818,055	3,355,227
	<u>537,172</u>	<u>2,818,055</u>	<u>3,355,227</u>
Deferred income tax liabilities			
Exploration and evaluation assets	(500,134)	(2,825,192)	(3,325,326)
Mining properties	(37,038)	7,137	(29,901)
Mining duties tax	-	(1,457,440)	(1,457,440)
	<u>(537,172)</u>	<u>(4,275,495)</u>	<u>(4,812,667)</u>
Total deferred income tax liabilities	<u>-</u>	<u>(1,457,440)</u>	<u>(1,457,440)</u>

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The ability to realize the tax benefits is dependent upon a number of factors, including the future profitability of operations. Deferred tax assets are recognized only to the extent that it is probable that sufficient taxable profits will be available to allow the asset to be recovered. Accordingly, some deferred tax assets have not been recognized; these deferred tax assets not recognized amount to \$3,876,777.

As at December 31, 2013, the Company had unrecognized deferred tax assets as follows:

	2013
	\$
Non-capital losses carried forward	2,471,472
Mining properties	68,913
Non-refundable tax credits	528,624
Income tax benefit of mining duties	392,051
Capital losses carried forward	55,391
Share issue costs	213,032
Other assets	147,294
	<u>3,876,777</u>

As at December 31, 2013, the Company had accumulated non-capital losses for tax purposes of approximately \$24,329,284 (2012 – \$8,858,461) which can be used to reduce taxable income in future years as follows:

The Company has accumulated non-capital losses for income tax purposes as at December 31, 2013.

These losses will expire as follows:

	Federal	Provincial
	\$	\$
2014	131,006	-
2015	199,462	-
2026	357,018	140,186
2027	554,979	206,152
2028	829,462	-
2029	623,080	264,454
2030	623,519	568,161
2031	1,259,966	-
2032	4,279,969	1,736,552
2033	15,470,823	15,381,187
	<u>24,329,284</u>	<u>18,296,692</u>

* The deferred income tax on non-capital losses has been partially recorded.

The Company has also accumulated capital losses for tax purposes of approximately \$411,827 (2012 – 159,894), and these losses can be carried forward indefinitely.

The Company is subject to federal and provincial income taxes and provincial mining taxes. Tax laws are complex and can be subject to different interpretations. The Company has prepared its tax provision based on the interpretation of tax laws which it believes represents the probable outcome. The Company may be required to change its provision for income taxes if the tax authorities ultimately are not in agreement with the Company's interpretation.

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The reconciliation of the income tax expense for 2012 calculated using the combined federal and Quebec provincial statutory tax rate to the income tax expense per the consolidated financial statements is as follows:

	2012
	\$
Loss before income taxes	<u>(5,446,587)</u>
Income tax at a combined federal and provincial rate of 26.9%	(1,465,132)
Loss (gain) on disposal of assets	(14,304)
Deductible share issuance expenses	(94,134)
Share-based compensation	421,223
Impairment of mining properties and exploration and evaluation assets	554,054
Recovery of costs of cumulative development expenses on the disposal of mining properties	-
Tax credits related to resources and mining tax credit (at a rate of 11.9% – Quebec only)	298,640
Deductible exploration and evaluation assets	(554,047)
Non-deductible expenses	5,055
Current tax losses for which no deferred income tax asset was recognized – Federal	641,995
Current tax losses for which no deferred income tax asset was recognized – Quebec	206,650
Recognition of a deferred tax asset relating to tax losses	-
Impact on deferred tax balances due to the change in the rate of income tax	-
Net change in deferred tax liabilities	-
Fulfillment of obligations related to flow-through financing	<u>(44,000)</u>
Income tax recovery	<u>(44,000)</u>

Significant components of the deferred tax assets and liabilities as at December 31, 2012 are as follows:

	2012
	\$
Deferred tax assets	
Losses carried forward	1,542,999
Share issuance expenses	254,413
Mining properties	59,918
Exploration and evaluation assets	405,304
Unused tax credits	553,300
Other deferred tax assets	21,776
Gross deferred tax assets	<u>2,837,710</u>
Valuation allowance	<u>(2,300,538)</u>
Net deferred tax assets	537,172
Deferred tax liabilities	
Mining properties	(37,038)
Exploration and evaluation assets	<u>(500,134)</u>
	<u>-</u>

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17. Supplementary informations related to cash flows

	2013	2012
	\$	\$
Net change in non-cash working capital items		
Receivable and other current assets	(180,292)	17,459
Sales taxes receivable	21,482	(148,115)
Accounts payable and accrued liabilities	(939,333)	1,122,698
	<u>(1,098,143)</u>	<u>992,042</u>

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

	2013	2012
	\$	\$
Disposal of mining properties in exchange of marketable securities	-	5,750
Non-cash share issuance expenses	101,725	41,448
Bonus paid in common shares	50,000	
Addition to exploration and evaluation assets not yet paid	117,140	-

18. RELATED PARTY TRANSACTIONS

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

	2013	2012
	\$	\$
Company controlled by the previous chief executive officer (CEO) ⁽¹⁾		
Exploration and evaluation expenditure	27,900	547,219
Insurance and other	14,445	12,000
Management fees	8,333	-
	<u>50,678</u>	<u>559,219</u>
Balance included in accounts payable and accrued liabilities	<u>-</u>	<u>28,201</u>
	2013	2012
	\$	\$
Key management compensation ⁽²⁾		
Share-based compensation ⁽³⁾	364,650	1,498,935
Management fees	382,500	237,500
	<u>747,150</u>	<u>1,736,435</u>
Salaries and fringe benefits ⁽⁴⁾	715,974	606,911
	<u>1,463,124</u>	<u>2,343,346</u>
Balance included in accounts payable and accrued liabilities	<u>-</u>	<u>-</u>

(1) The previous CEO was considered a related party until he left on May 29, 2013.

(2) The key management is composed of the CEO, Chief Operations Officer (COO), Chief Financial Officer (CFO), president, vice-presidents and directors.

(3) An amount of nil is capitalized to exploration and evaluation assets (2012 – \$117,928).

(4) Salaries and fringe benefits capitalized to exploration and evaluation assets amount to \$182,236 (2012 – \$308,528).

The Company has entered into employment and management contracts with its key executives whose estimated annual remuneration amounts to \$1,190,000. These contracts are renewable annually. 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 December 31, 2013, the Company would have had to pay a total amount of \$1,027,500 as severance. If a change of control had occurred on December 31, 2013, the total amounts payable to the executive team in respect of severance would have totaled \$1,892,500 (assuming they left after a change of control and each named executive opted to receive such compensation).

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19. COMMITMENTS

- a) In May 2012, the Company has 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
December 31, 2013	\$82,267	-	-	\$82,267

20. FINANCIAL INSTRUMENTS AND FINANCIAL RISKS

Classification

The Company's financial instruments as at December 31, 2013 and 2012 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	
		As at December 31, 2013 \$	As at December 31, 2012 \$
Financial assets			
Cash and cash equivalents	Loans and receivables	6,896,331	5,225,976
Receivable and other current assets	Loans and receivables	15,000	-
Marketable securities	FVTPL	-	73,385
		<u>6,911,331</u>	<u>5,299,361</u>
Financial liabilities			
Accounts payable and accrued liabilities	Financial liabilities at amortized cost	538,934	1,361,127
Credit line	Financial liabilities at amortized cost	11,399,817	3,275,547
Loan payable	Financial liabilities at amortized cost	1,453,078	-
		<u>13,391,829</u>	<u>4,636,674</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. Marketable securities were considered a level 1. There was no transfer of hierarchy level during the years ended December 31, 2013 and 2012.

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Financial risks

The Company has exposure to various financial risks, such as credit risk, liquidity risk, interest rate risk, equity 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 December 31, 2013, the Company had cash and cash equivalents of \$6,896,331 (\$5,225,976 as at December 31, 2012) to settle current liabilities of \$2,714,904 (\$1,361,127 as at December 31, 2012). 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 December 31, 2013:

	Carrying amount \$	Contractual cash flows \$	0 to 12 months \$	12 to 24 months \$	More than 24 months \$
Accounts payable and accrued liabilities	538,934	538,934	538,934	-	-
Credit line	11,399,817	14,962,237	766,918	14,195,319	-
Loan payable	1,453,078	1,566,534	1,566,534	-	-

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 December 31, 2013, 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
Loan payable	Fixed interest rate

Since cash and cash equivalents and loan payable are 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. Loan payable issued at fixed rates expose the Company to fair value risk. A variation of $\pm 1\%$ on the credit line would have an impact of \$81,146 on the exploration and evaluation assets for 2013.

Equity risk

Equity risk is the risk that the fair value of a financial instrument varies due to equity market changes. Changes in fair value of available-for-sale assets are recorded in other comprehensive loss when an impairment was not previously recorded. These amounted to nil in 2013 (2012 – \$73,385). A variation of $\pm 10\%$ on the stock price would have an impact on net loss of nil in 2013 (\$7,338 in 2012).

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Currency risk

As at December 31, 2013, the Company has a bank account in US dollars for an amount of \$13,708 (\$2,390 in 2012). The Company estimates that a variation of $\pm 10\%$ in exchange rates on that date would have resulted in a variation of approximately \$1,370 in 2013 (\$239 in 2012) in net loss.

21. POLICIES AND PROCESSES FOR MANAGING CAPITAL

As at December 31, 2013, the capital of the Company consists of equity amounting to \$24,083,773. The Company's capital management objective is to have sufficient capital to be able to meet its exploration and mining development plan in order to ensure the growth of its activities. It also has the objective to have sufficient cash to finance the exploration and evaluation expenses, the investing activities and the working capital requirements. The variation of capital components is explained in the consolidated statements of changes in equity.

There were no significant changes in the Company's approach to capital management during the year ended December 31, 2013.

The Company is subject to regulatory requirements related to the use of funds obtained by flow-through share financing. These funds have to be incurred for eligible exploration and evaluation assets. During the year, the Company has respected all of its regulatory requirements. The Company has no dividend policy.

As at December 31, 2013 the Company has \$3,223,714 in cash reserved for exploration and evaluation activities (note 11).

The Company is also subject to restriction regarding equity issuance through financing (note 12).

22. SUBSEQUENT EVENTS

- a) Since January 1, 2014, the Company issued 430,000 common shares pursuant to the exercise of stock options and received a total of \$86,500. The Company also issued 1,472,500 common shares pursuant to the exercise of warrants and received a total of \$1,825,900.
- b) In January 2014, the Company renewed an agreement to maintain its website with RBL Communications for a period of one year. Monthly fees amount to \$3,450.
- c) In February 2014, a management contract for a one-year period was signed with Gestion F.A.G. Inc., pursuant to which it will operate the Pourvoirie du Lac-Paul, owned by its subsidiary 9252-5880 Québec Inc., for a monthly fee of \$10,167.
- d) In January 2014, the Company granted contracts for further exploration and evaluation activities and other expenses for \$3,185,000.