



**ARIANNE PHOSPHATE INC.**  
**CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2014 AND 2013**  
(in Canadian dollars)

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April 2, 2015

## **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, 2014 and 2013 and the consolidated statements of loss, comprehensive loss, changes in equity and cash flows for the years 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 audits is sufficient and appropriate to provide a basis for our audit opinion.

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"PwC" refers to PricewaterhouseCoopers LLP, an Ontario limited liability partnership.



**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, 2014 and 2013 and their financial performance and their cash flows for the years 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.

*PricewaterhouseCoopers LLP<sup>1</sup>*

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<sup>1</sup> CPA auditor, CA, public accountancy permit No. A123642

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

	2014	2013
	\$	\$
<b>ASSETS</b>		
<b>Current assets</b>		
Cash and cash equivalents (note 5)	3,837,720	6,896,331
Receivables and other current assets	63,872	235,081
Sales taxes receivable	193,083	376,405
Tax credit related to resources and mining tax credit receivable	309,954	1,609,153
	<u>4,404,629</u>	<u>9,116,970</u>
<b>Non-current assets</b>		
Deposit	-	200,000
Tax credit related to resources and mining tax credit receivable	1,501,843	1,335,032
Investment property – Outfitters (note 7)	394,530	441,043
Property, plant and equipment (note 8)	363,937	82,573
Intangible assets (note 9)	150,451	-
Mining properties (note 10)	1,215,907	1,241,360
Exploration and evaluation assets (note 11)	36,62	27,238,956
	<u>3,579</u>	<u>27,238,956</u>
	<u>40,250,247</u>	<u>30,538,964</u>
<b>Total assets</b>	<u>44,654,876</u>	<u>39,655,934</u>
<b>LIABILITIES</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities	1,191,290	538,934
Provision	50,000	-
Current portion of the credit line (note 13)	12,605,641	-
Flow-through shares liability (note 12)	-	722,892
Loan payable (note 14)	-	1,453,078
	<u>13,846,931</u>	<u>2,714,904</u>
<b>Non-current liabilities</b>		
Credit line (note 13)	-	11,399,817
Deferred income taxes (note 17)	2,034,817	1,457,440
<b>Total liabilities</b>	<u>15,881,748</u>	<u>15,572,161</u>
<b>Equity</b>		
Capital stock (note 15)	51,593,734	40,721,138
Warrants (note 16)	2,816,369	3,794,144
Contributed surplus	9,636,224	8,512,398
Deficit	(35,273,199)	(28,943,907)
<b>Total equity</b>	<u>28,773,128</u>	<u>24,083,773</u>
<b>Total liabilities and equity</b>	<u>44,654,876</u>	<u>39,655,934</u>

**GOING CONCERN** (note 1)

**COMMITMENTS** (note 20)

**EVENT AFTER REPORTING PERIOD** (note 24)

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

ON BEHALF OF THE BOARD

(s) Siva J. Pillay, Director

(s) Dino Fuoco, CFO

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

	<b>2014</b>	<b>2013</b>
	\$	\$
<b>EXPENSES</b>		
Salaries and fringe benefits	1,888,067	1,272,316
Share-based compensation	929,743	579,174
Professional and consultant fees	1,126,851	1,262,720
Management fees	390,168	382,500
Registration and listing fees	82,476	131,263
Annual shareholders' meeting	79,549	31,487
Communications	446,879	374,211
Promotion, representation and travel	433,075	382,366
Insurance	50,012	39,526
Rent and office expenses	225,360	123,477
Depreciation of property, plant and equipment	34,398	1,426
Loss (Gain) on disposal of mining properties (note 10)	(197,000)	20,926
Bank charges	15,941	9,591
Other	5,370	-
Impairment of mining properties (note 10)	54,575	66,082
Impairment of exploration and evaluation assets (note 11)	44,779	174,838
<b>Operating loss</b>	<u>5,610,243</u>	<u>4,851,903</u>
<b>OTHER EXPENSES (INCOME)</b>		
Interest income	( 61,939)	(31,564)
Interest expense	115,087	49,007
Foreign exchange loss	15,709	14,115
Net loss of investment property – Outfitters (note 7)	186,575	159,883
Loss (gain) on disposal of marketable securities classified as available-for-sale (note 6)	(14,090)	12,877
Change in fair value of marketable securities classified as fair value through profit or loss	-	62,771
	<u>241,342</u>	<u>267,089</u>
<b>LOSS BEFORE INCOME TAXES</b>	<u>5,851,585</u>	<u>5,118,992</u>
Deferred income taxes (recovery)	(189,445)	1,288,844
<b>NET LOSS FOR THE YEAR</b>	<u>5,662,140</u>	<u>6,407,836</u>
<b>BASIC AND DILUTED LOSS PER SHARE</b>	<u>0.06</u>	<u>0.08</u>
<b>WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING</b>	<u>89,902,157</u>	<u>77,986,506</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)

	<b>2014</b>	<b>2013</b>
	\$	\$
<b>NET LOSS FOR THE YEAR</b>	5,662,140	6,407,836
<b>Other comprehensive loss:</b>		
Item that may be reclassified to net loss:		
Changes in fair value of available-for-sale assets (note 6)	(14,090)	12,877
Reclassification of accumulated other comprehensive loss to net loss related to marketable securities sold	14,090	(12,877)
<b>COMPREHENSIVE LOSS</b>	<u>5,662,140</u>	<u>6,407,836</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	\$	\$	\$	\$	\$	\$
<b>Balance as at January 1, 2014</b>	85,185,255	40,721,138	3,794,144	8,512,398	-	(28,943,907)	24,083,773
Net loss for the year						(5,662,140)	(5,662,140)
<b>Other comprehensive loss</b>							
Changes in fair value of available-for-sale assets	-	-	-	-	-	-	-
Reclassification of accumulated other comprehensive loss (gain) to net loss related to marketable securities sold	-	-	-	-	14,090	-	14,090
	-	-	-	-	(14,090)	-	(14,090)
Comprehensive loss for the year	-	-	-	-	-	(5,662,140)	(5,662,140)
Share-based compensation (note 16)	-	-	-	929,743	-	-	929,743
Value assigned to warrants (note 16)	-	-	263,340	-	-	-	263,340
Options granted to brokers (note 16)	-	-	-	75,798	-	-	75,798
Private placement (note 15)	8,000,000	7,736,660	-	-	-	-	7,736,660
Share issuance expenses	-	-	-	-	-	(667,152)	(667,152)
Stock options exercised (note 16)	580,000	257,750	-	(127,250)	-	-	130,500
Warrants exercised (note 16)	1,472,500	2,755,778	(929,878)	-	-	-	1,825,900
Warrants expired (note 16)	-	-	(311,237)	311,237	-	-	-
Deferred income tax	-	-	-	(24,254)	-	-	(24,254)
Options granted to brokers exercised (note 16)	88,000	122,408	-	(41,448)	-	-	80,960
<b>Balance as at December 31, 2014</b>	<b>95,325,755</b>	<b>51,593,734</b>	<b>2,816,369</b>	<b>9,636,224</b>	<b>-</b>	<b>(35,273,199)</b>	<b>28,773,128</b>
<b>Balance as at January 1, 2013</b>	<b>75,534,926</b>	<b>26,990,815</b>	<b>4,390,725</b>	<b>9,145,636</b>	<b>-</b>	<b>(21,225,083)</b>	<b>19,302,093</b>
Net loss for the year						(6,407,836)	(6,407,836)
<b>Other comprehensive loss</b>							
Changes in fair value of available-for-sale assets							
Reclassification of accumulated other comprehensive loss (gain) to net loss related to marketable securities sold					(12,877)	-	(12,877)
					12,877	-	12,877
Comprehensive loss for the year						(6,407,836)	(6,407,836)
Share-based compensation (note 16)				579,174			579,174
Value assigned to warrants (note 16)			731,108				731,108
Options granted to brokers (note 16)				101,718			101,718
Flow-through shares financing (notes 12 and 15)	2,415,452	3,104,736					3,104,736
Private placement (note 15)	2,435,000	2,368,040					2,368,040
Share issuance expenses						(585,988)	(585,988)
Stock options exercised (note 16)	1,005,000	1,403,210		(709,960)			693,250
Warrants exercised (note 16)	3,127,000	5,570,167	(2,052,689)				3,517,478
Common shares granted to employees (note 15)	37,877	50,000					50,000
Options granted to brokers exercised (note 16)	630,000	1,234,170		(604,170)			630,000
Modification of warrants (note 16)			725,000			(725,000)	
<b>Balance as at December 31, 2013</b>	<b>85,185,255</b>	<b>40,721,138</b>	<b>3,794,144</b>	<b>8,512,398</b>	<b>-</b>	<b>(28,943,907)</b>	<b>24,083,773</b>

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



**ARIANNE PHOSPHATE INC.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2014 AND 2013**  
(in Canadian dollars)

**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED DECEMBER 31**  
(In Canadian dollars)

	<b>2014</b>	<b>2013</b>
	\$	\$
<b>CASH FLOW FROM (USED IN)</b>		
<b>OPERATING ACTIVITIES</b>		
Net loss for the year	(5,662,140)	(6,407,836)
Adjustments for:		
Share-based payments	929,743	629,174
Loss (gain) on disposal of marketable securities	(14,090)	12,877
Loss (gain) on disposal of mining properties	(197,000)	20,926
Impairment of mining properties	54,575	66,082
Impairment of exploration and evaluation assets	44,779	174,838
Interest on loan payable	46,922	49,007
Depreciation – Investment property - Outfitters	46,513	59,729
Depreciation – Property, plant and equipment	34,398	1,426
Change in fair value of marketable securities	-	62,771
Tax on investment property – outfitter	19,676	-
Income taxes and deferred taxes	(189,445)	1,288,844
	<u>(4,886,069)</u>	<u>(4,042,162)</u>
Net change in non-cash working capital items (note 18)	<u>722,729</u>	<u>(1,098,143)</u>
	<u>(4,163,340)</u>	<u>(5,140,305)</u>
<b>INVESTING ACTIVITIES</b>		
Proceeds from disposal of marketable securities	194,090	77,737
Deposit	-	(200,000)
Proceeds from disposal of mining properties	17,000	30,000
Tax credit related to resources and mining tax credit received	1,378,009	86,978
Grant received – Outfitters	-	59,700
Acquisition of property, plant and equipment - Outfitters	-	(2,200)
Acquisition of property, plant and equipment	(342,378)	(26,821)
Acquisition of intangible assets	(51,179)	-
Acquisition of mining properties	(29,122)	(12,116)
Exploration and evaluation assets	(8,007,697)	(12,678,627)
	<u>(6,841,277)</u>	<u>(12,665,349)</u>
<b>FINANCING ACTIVITIES</b>		
Proceeds from credit line	-	7,100,000
Proceeds from (repayment of) loan	(1,500,000)	1,500,000
Transaction costs	-	(155,181)
Proceeds from the issuance of shares	10,037,360	11,617,244
Share issuance expenses	(591,354)	(586,054)
	<u>7,946,006</u>	<u>19,476,009</u>
<b>CHANGE IN CASH AND CASH EQUIVALENTS DURING THE YEAR</b>	<u>(3,058,611)</u>	<u>1,670,355</u>
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	<u>6,896,331</u>	<u>5,225,976</u>
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<u>3,837,720</u>	<u>6,896,331</u>
Supplementary cash flow information (note 18)		
Interest received	61,939	71,401
Interest paid	657,848	-

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

# **ARIANNE PHOSPHATE INC.**

## **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

### **DECEMBER 31, 2014 AND 2013**

(in Canadian dollars)

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

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Ariane Phosphate Inc. ("the Company"), was incorporated under Part IA of the Companies Act (Quebec) and was continued under the Quebec Business Corporations Act (Quebec) (QBCA). The Company is engaged in the acquisition and exploration of mining properties in Quebec, Canada. During 2013, the Company completed a feasibility study on its 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 393 Racine Street, Suite 200, Chicoutimi, Quebec, Canada G7H 1T2.

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

These 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, 2014, the Company recorded a net loss of \$5,662,139 (2013 – \$6,407,836) and has an accumulated deficit of \$35,273,199 as at December 31, 2014 (2013 – \$28,943,907). In addition to ongoing working capital requirements, the Company must secure sufficient funding to meet its obligations and pay general and administration costs.

As at December 31, 2014, the Company had a negative working capital of \$ 9,442,302 (positive working capital of \$6,402,066 in 2013). Management estimates that the working capital will not be sufficient to meet the Company's obligations and budgeted expenditures through December 31, 2015. These circumstances lend significant doubt as to the ability of the Company to meet its obligations as they come due and, accordingly, the appropriateness of the use of accounting principles applicable to a going concern. The Company will need to secure financing for 2015.

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, debt financing or extending the term of the current loan arrangement. 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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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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 International Financial Reporting Standards (IFRS), as issued by the International Accounting Standards Board (IASB). 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, 2014, as issued and outstanding as of April 2, 2015, 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.

##### **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.

# ARIANNE PHOSPHATE INC.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### DECEMBER 31, 2014 AND 2013

(in Canadian dollars)

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#### **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.

##### *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.

##### *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.

**ARIANNE PHOSPHATE INC.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2014 AND 2013**  
(in Canadian dollars)

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**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.

**Tax credit related to resources and mining tax credit**

The Company is entitled to a tax credit related to resources of 28% (35% in 2013) 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 rental income 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 included 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.

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Depreciation of tools and equipment, rolling equipment and computer equipment are 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.

#### **Intangible assets**

Intangible assets composed of a mine planning software 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 intangible assets is calculated using the linear method over 5 years.

Gains or losses on intangible assets 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.

#### **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 expenditures on the construction, installation or completion of infrastructure facilities are 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.

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#### **Impairment of non-financial assets**

Property, plant and equipment, intangible assets, 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.

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.

#### **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.

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.

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#### 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, 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.

### 3. NEW ACCOUNTING STANDARDS

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#### Adopted new accounting standards issued and in effect

##### IFRIC 21, *Levies* ("IFRIC 21")

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

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#### Amendments to other standards

IAS 36 has been effective on January 1, 2014 in order to add disclosure regarding the measurement of the recoverable amount of impaired assets. The Company has provided additional disclosures in its consolidated financial statements as a result of adopting amendments to IAS 36. The Company assessed that the impact of these amendments on its consolidated financial statements is not significant.

Other standards, amendments and interpretations which are effective for the financial year beginning on January 1, 2014 are not material to the Company's consolidated financial statements.

#### New accounting standards issued but not yet in effect

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, 2014. Many of these updates are not relevant to the Company and are therefore not discussed herein.

##### IFRS 9, *Financial Instruments* ("IFRS 9")

In July 2014, the IASB issued IFRS 9 – *Financial Instruments*. The IASB has previously published versions of IFRS 9 that introduced new classification and measurement requirements (in 2009 and 2010) and a new hedge accounting model (in 2013). The July 2014 publication represents the final version of the Standard, replaces earlier versions of IFRS 9 and substantially completes the IASB's project to replace IAS 39 – *Financial Instruments: Recognition and Measurement*.

This standard replaces the current multiple classification and measurement models for financial assets and liabilities with a single model that has only three classification categories: amortized cost and fair value through other comprehensive income and fair value through profit or loss. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset or liability. The standard introduces a new, expected loss impairment model that will require more timely recognition of expected credit losses. Specifically, the new Standard requires entities to account for expected credit losses from when financial instruments are first recognised and it lowers the threshold for recognition of full lifetime expected losses. The new standard also introduces a substantially-reformed model for hedge accounting with enhanced disclosures about risk management activity and aligns hedge accounting more closely with risk management. The new standard is effective for annual periods beginning on or after January 1, 2018 with early adoption permitted. The extent of the impact of the adoption of IFRS 9 has not yet been determined.

#### 4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

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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, 2014, the Company capitalized borrowing costs that were directly attributable to the acquisition, construction or production of a qualifying asset, the 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.



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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.
- 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 2014 the Mirepoix and Phosphore properties were impaired for a total of \$54,575 and the corresponding exploration and evaluation assets for a total of \$44,779 representing a total impairment of \$99,354 (nil in 2013) given that no or limited exploration and evaluation expenses are budgeted and that some claims were abandoned or are not expected to be renewed as well as to reflect the Company's orientation to focus on the Lac à Paul project. In 2013, the Company has impaired the Opinaca property for a total of \$66,082 and corresponding exploration and evaluation assets for a total of \$174,838 for a total impairment of \$240,920.

The estimation of the impairment charge requires judgment from the management.

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, 2014 and 2013.

Credits for mining duties refundable for losses for the current and prior periods are measured at the amount expected to be recovered from Revenue 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 non-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.

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**5. CASH AND CASH EQUIVALENTS**

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	<b>2014</b>	<b>2013</b>
	<b>\$</b>	<b>\$</b>
Cash and cash equivalents	<u>3,837,720</u>	<u>6,896,331</u>

As at December 31, 2014, cash and cash equivalents comprises cash on hand amounting to \$3,683,555, bearing interest at 1.25% and cash on hand amounting to \$154,165, not bearing interest. This rate is effective as long as the account balance exceeds \$1,000,000.

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, 2014 an amount of \$30,000 is restricted in connection with the Company's credit card agreement (nil in 2013).

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**6. MARKETABLE SECURITIES**

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**Available-for-sale assets**

During the year ended December 31, 2014, the Company sold to Virginia Mines Inc. ("Virginia") its remaining 50% of rights and interests of the Opinaca and Black Dog properties in consideration of the issuance of 15,000 shares of Virginia (the "Virginia shares") representing a value of \$180,000 at the transaction date. These properties had been fully impaired in 2013 and 2012 respectively. A gain on disposal of mining property of \$180,000 was then recognized.

In August 2014, the Company sold the Virginia shares for a net proceeds of \$194,010 thus realizing a gain on disposal of marketable securities classified as available-for-sale of \$ 14,090.

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.

**Financial assets though 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 1, 2013 and the respective date of disposal amounted to a loss of \$ 62,771.

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**7. INVESTMENT PROPERTY – OUTFITTERS**

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

	Buildings \$	Leasehold improvements \$	Equipment and furniture \$	Computer equipment \$	Total \$
<b>Cost</b>					
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	344,665	49,490	169,099	2,577	565,831
Balance as at December 31, 2014	344,665	49,490	169,099	2,577	565,831
<b>Accumulated depreciation</b>					
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	26,847	17,816	78,811	1,314	124,788
Depreciation	12,713	6,335	27,086	379	46,513
Balance as at December 31, 2014	39,560	24,151	105,897	1,693	171,301
<b>Net book value</b>					
Balance as at December 31, 2013	317,818	31,674	90,288	1,263	441,043
Balance as at December 31, 2014	305,105	25,339	63,202	884	394,530

As at December 31, 2014, 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 22).

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

	2014 \$	2013 \$
Outfitters income	55,845	103,396
Operating expenses:		
Management fees	81,329	132,000
Professional fees	-	17,568
Repair and maintenance	7,500	23,573
Supplies	500	4,166
Selling fees	-	9,227
Advertising, promotion and travel	-	1,100
Taxes and licenses	7,779	7,065
Communications	2,465	414
Insurance	10,026	8,111
Provision	65,000	-
Bad debt expense	1,396	-
Interest and bank charges	236	326
Depreciation of property, plant and equipment	46,513	59,729
Tax on investment property – outfitter	19,676	-
Net loss of investment property – Outfitters	186,575	159,883

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### 8. PROPERTY, PLANT AND EQUIPMENT

	Leasehold improvements	Tools and equipment	Rolling equipment	Computer equipment	Total
	\$	\$	\$	\$	\$
<b>Cost</b>					
Balance as at December 31, 2012	-	87,279	-	-	87,279
Acquisition	15,571	11,250	-	-	26,821
Balance as at December 31, 2013	15,571	98,529	-	-	114,100
Acquisition	289,872	30,211	10,376	11,919	342,378
Balance as at December 31, 2014	305,443	128,740	10,376	11,919	456,478
<b>Accumulated depreciation</b>					
Balance as at December 31, 2012	-	4,993	-	-	4,993
Depreciation	1,426	25,108	-	-	26,534
Balance as at December 31, 2013	1,426	30,101	-	-	31,527
Depreciation	33,418	25,060	1,556	980	61,014
Balance as at December 31, 2014	34,844	55,161	1,556	980	92,541
<b>Net book value</b>					
Balance as at December 31, 2013	14,145	68,428	-	-	82,573
Balance as at December 31, 2014	270,599	73,579	8,820	10,939	363,937

### 9. INTANGIBLE ASSETS

	Intangible assets
	\$
<b>Cost</b>	
Balance as at January 1, 2014	-
Acquisition	167,168
Balance as at December 31, 2014	167,168
<b>Accumulated depreciation</b>	
Balance as at January 1, 2014	-
Depreciation	16,717
Balance as at December 31, 2014	16,717
<b>Net book value</b>	
Balance as at December 31, 2013	-
Balance as at December 31, 2014	150,451

### 10. MINING PROPERTIES

	Royalties (NSR)	Balance as at December 31, 2013	Additions	Impairments	Disposal	Balance as at December 31, 2014
	%	\$	\$	\$	\$	\$
<b>Properties in Quebec</b>						
Lac à Paul (100%)	0.75	1,190,154	25,753	-	-	1,215,907
Mirepoix (100%)	-	5,910	328	(6,238)	-	-
Phosphore (100%)	-	45,296	3,041	(48,337)	-	-
		1,241,360	29,122	(54,575)	-	1,215,907

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In April 2014, the Company disposed of its mining properties Opinaca and Black Dog to Virginia Mines Inc. (refer to note 6).

In December 2014, the Company disposed of its mining property Dulain to Calcite du Nord Inc. for a total consideration of \$15,000 paid in cash. The carrying value of the property was nil at the date of the sale, resulting in a gain on disposal of \$15,000. The property had been impaired in 2012.

In December 2014, the Company disposed of its mining property La Dauversière (R-14) for a total consideration of \$2,000 paid in cash. The carrying value of the property was nil at the date of the sale, resulting in a gain on disposal of \$2,000. The property had been impaired in 2012.

	Royalties (NSR) %	Balance as at December 31, 2012 \$	Additions \$	Impairment \$	Disposals \$	Balance as at December 31, 2013 \$
<b>Properties in Quebec</b>						
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 Inc. ("Midland") for a total of \$30,000 in cash and 60,000 shares of Midland, for a total consideration of \$90,000, the shares having been 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 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 was \$110,926.

In 2013, the Company reviewed all its non-phosphate properties, and the Company decided to fully impair the Opinaca property.

**11. EXPLORATION AND EVALUATION ASSETS**

	Balance as at December 31, 2013 \$	Additions \$	Tax credits \$	Impairments \$	Disposals \$	Balance as at December 31, 2014 \$
<b>Quebec</b>						
Lac à Paul	27,194,177	9,675,023	(245,621)	-	-	36,623,579
Mirepoix	30,351	-	-	(30,351)	-	-
Phosphore	14,428	-	-	(14,428)	-	-
	<u>27,238,956</u>	<u>9,675,023</u>	<u>(245,621)</u>	<u>(44,779)</u>	<u>-</u>	<u>36,623,579</u>

# ARIANNE PHOSPHATE INC.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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	Balance as at December 31, 2012	Additions	Tax credits	Impairments	Disposals	Balance as at December 31, 2013
	\$	\$	\$	\$	\$	\$
<b>Quebec</b>						
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>

For the years ended December 31, 2014 and 2013, the following expenses, related to discovery of mineral resources, have been included in the cost of exploration and evaluation assets:

	2014	2013
	\$	\$
Drilling	600,227	-
Stripping and road repairs	401,357	380,452
Camp, travel and lodging and general expenses	570,028	459,331
Chemical analysis	227,906	92,275
Line cutting and geophysics	129,091	-
Planning and supervision	552,350	547,424
Professional fees and independent technical reports	5,353,426	11,345,092
Borrowing costs	1,797,303	1,475,355
Depreciation of property, plant and equipment	26,618	25,108
Depreciation of intangible asset	16,717	-
	<u>9,675,023</u>	<u>14,325,037</u>
Tax credits related to resources and mining tax credit	(245,621)	(528,737)
Impairment of exploration and evaluation assets	(44,779)	(174,838)
Exploration and evaluation assets related to mining properties disposed of	-	(27,040)
	<u>9,384,623</u>	<u>13,594,422</u>
Balance – Beginning of year	27,238,956	13,644,534
Balance – End of year	<u><u>36,623,579</u></u>	<u><u>27,238,956</u></u>

## 12. FLOW-THROUGH SHARES LIABILITY

	2014	2013
	\$	\$
Balance – Beginning of year	722,892	-
Increase of the year	-	891,488
Decrease related to expenses incurred	(722,892)	(168,596)
Balance –End of year	<u><u>-</u></u>	<u><u>722,892</u></u>

The increase in 2013 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, 2014, the Company has nil in cash reserved for exploration and evaluation activities (\$3,223,714 in 2013)

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**13. CREDIT LINE**

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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 the 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 obtaining specific studies and specific permits (Certificates of Authorization for Construction and Exploitation). The agreement also provides a royalty (see note 20).

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. Some warrants are subject to an acceleration clause. 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.

If the lender is unable to provide any amount available for drawdown under the credit line, all fees including the royalty will be reduced on a pro rata basis accordingly so as 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.

Initial transaction costs related to the credit line amount to \$2,350,197 and consisted 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 \$1,656,281 for the year ended December 31, 2014 (2013 – \$907,810).

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 of 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 was capitalized quarterly until June 30, 2014. Subsequently, interest is payable quarterly until maturity. The second credit line includes a royalty of \$0.25 (see note 20). 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 in July 2013, 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 were 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 \$279,758 for the year ended December 31, 2014 (\$71,105 in 2013).

Combined transaction costs amount to nil in 2014 (2013 – \$2,830,098).

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	<b>2014</b>	<b>2013</b>
	<b>\$</b>	<b>\$</b>
Balance – Beginning of year	11,399,817	3,275,547
Proceeds from credit lines	-	7,100,000
Transaction costs	-	(479,901)
Capitalized interests	81,125	660,195
Interests payable	171,827	-
Amortization of transaction costs	952,872	843,975
Balance – End of year	<u>12,605,641</u>	<u>11,399,817</u>

Summary	<b>2014</b>	<b>2013</b>
	<b>\$</b>	<b>\$</b>
Nominal amount of credit lines including capitalized interests	13,503,957	13,251,005
Unamortized transaction costs	(898,316)	(1,851,188)
Balance of credit line – End of year	<u>12,605,641</u>	<u>11,399,817</u>
Current portion		
Non-current portion	<u>12,605,641</u>	-
	-	<u>11,399,817</u>

**14. LOAN PAYABLE**

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 was 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. 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. On February 28, 2014 the loan was fully repaid for an amount of 1,566,500 including the principal amount of \$1,500,000 and related interests of \$66,500.



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**15. 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:

	2014		2013	
	Number	Amount \$	Number	Amount \$
<b>Balance – Beginning of year</b>	85,185,255	40,721,138	75,534,926	26,990,815
Flow-through shares <sup>(1)</sup>	-	-	2,415,452	3,104,736
Private placement <sup>(2)</sup>	8,000,000	7,736,660	2,435,000	2,368,040
Warrants exercised <sup>(3)</sup>	1,472,500	2,755,778	3,127,000	5,570,167
Stock options exercised <sup>(4)</sup>	580,000	257,750	1,005,000	1,403,210
Options granted to brokers exercised <sup>(5)</sup>	88,000	122,408	630,000	1,234,170
Bonus in common shares granted to employees <sup>(6)</sup>	-	-	37,877	50,000
<b>Balance – End of year</b>	<u>95,325,755</u>	<u>51,593,734</u>	<u>85,185,255</u>	<u>40,721,138</u>

As at December 31, 2014, 95,325,755 shares are issued and fully paid (2013 – 85,185,255).

- (1) Value of flow-through shares is presented net of flow-through shares premium amounting to nil (2013 – \$993,278).
- (2) Value of capital stock paid in cash (private placement) is presented net of fair value of units amounting to \$263,340 (2013 – 310,460) – refer to description below.
- (3) This amount includes fair value of exercised warrants amounting to \$929,878 (2013 – \$2,052,689).
- (4) This amount includes fair value of stock options exercised amounting to \$127,250 (2013 – \$709,960).
- (5) This amount includes fair value of brokers options exercised amounting to \$41,448 (2013 – \$604,170).
- (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, 2014**

On July 31, 2014, the Company issued 5,631,000 units (each unit entitles its holder to acquire one common share of the Company at a price of \$1.00 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 1.25 per share for a two-year and an haft period following the closing). The Company issued 422,325 options granted to a broker which is a related party; each option entitles its holder to acquire one common share at a price of \$1.00 per share for a two-year period following the closing.

On October 25, 2014, the Company issued 2,369,000 units (each unit entitles its holder to acquire one common share of the Company at a price of \$1.00 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 1.25 per share for a two-year and an haft period following the closing). The company issued 25,425 options granted to a broker which is a related party; each option entitles its holder to acquire one common share at a price of \$1.00 per share for a two-year period following the closing.

Under the terms of the private placement (“Offering”), the Company issued 8,000,000 units at a price of \$1.00 per unit in two separate tranches. Each unit comprises one common share and one half of one common share purchase warrant (“Unit”). Each warrant entitles its holder to purchase one common share at a price of \$1.25 per share until July 31, 2016 for 2,815,500 warrants and until October 14, 2016 for 1,184,500 warrants. If at any time after four months and one day following the closing date, the trading price of the common shares on the Exchange is equal to or exceeds \$1.75 for a period of twenty consecutive trading days, as evidenced by the price at the close of market, the Company shall be entitled to notify the holders of warrants of its intention to force the exercise of the warrants. Upon receipt of such notice, the holders of the warrants shall have 30 days to exercise the warrants, failing which the warrants will automatically expire.

In connection with the Offering, the Company issued 447,750 options granted to broker to Windermere Capital (“Windermere”), a related party company further described in note 19. The fair value of these options granted to broker is \$75,798. Finder’s fees amounting to \$447,441 were also paid to Windermere and included as share issue expenses.

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In July 2013, the Company issued 2,435,000 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 and an haft period following the closing). The Company issued 214,165 options granted to a broker which is a related party; 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 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.

**16. 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 options 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; (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 historical data from the Company.

During 2014, 1,445,000 stock options were granted to directors, managers, employees and consultants (1,765,000 in 2013). The Company was not able to reliably determine the fair value of the services received from consultants and therefore used the fair value of the stock options as calculated using the Black-Scholes pricing model. The fair value of stock options granted to employees and consultants respectively amounted to \$740,141 (\$1,784,296 in 2013) and \$74,531 (nil in 2013) and was estimated using the Black-Scholes pricing model with the following weighted average assumptions:

	<b>2014</b>	<b>2013</b>
Weighted average price of share at time of grant	\$0.97	\$1.24
Weighted average risk-free interest rate	1.73%	2.42%
Weighted average expected volatility	71%	105%
Weighted average expected life	6.0 years	6.0 years
Weighted average expected dividend yield	0%	0%
	<b>2014</b>	<b>2013</b>
	<b>\$</b>	<b>\$</b>
Weighted average fair value of options granted	0.56	0.95

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Changes in Company stock options were as follows:

	2014		2013	
	Number	Weighted average exercise price \$	Number	Weighted average exercise price \$
<b>Balance – Beginning of year</b>	6,165,000	1.07	5,730,000	1.01
Granted	1,445,000	1.12	1,765,000	1.21
Expired	(1,010,833)	1.26	(325,000)	1.34
Exercised	(580,000)	0.23	(1,005,000)	0.69
<b>Balance – End of year</b>	<u>6,019,167</u>	1.02	<u>6,165,000</u>	1.10
Exercisable at the end of the year	<u>3,755,000</u>	1.17	<u>5,235,000</u>	1.07

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

Exercise price \$	Options outstanding as at December 31, 2013	Weighted average remaining contractual life	Granted	Expired	Exercised	Options outstanding as at December 31, 2014	Weighted average remaining contractual life
0.15	130,000	6.3 years	-	-	(70,000)	60,000	5.3 years
0.15	345,000	6.5 years	-	-	(260,000)	85,000	5.5 years
0.14	50,000	6.6 years	-	-	(50,000)	-	5.6 years
0.37	400,000	7.1 years	-	-	(200,000)	200,000	6.1 years
0.58	150,000	7.1 years	-	-	-	150,000	6.1 years
1.25	200,000	7.4 years	-	-	-	200,000	6.4 years
1.37	1,600,000	7.6 years	-	(450,000)	-	1,150,000	6.6 years
1.76	250,000	7.8 years	-	-	-	250,000	6.8 years
1.18	25,000	0.1 years	-	(25,000)	-	-	-
1.16	500,000	8.3 years	-	-	-	500,000	7.3 years
1.15	575,000	8.7 years	-	(75,000)	-	500,000	7.7 years
1.07	175,000	8.9 years	-	(60,000)	-	115,000	7.9 years
1.12	50,000	9.0 years	-	-	-	50,000	8.0 years
1.25	225,000	9.4 years	-	-	-	225,000	8.4 years
1.22	200,000	9.4 years	-	-	-	200,000	8.4 years
1.19	200,000	9.7 years	-	-	-	200,000	8.7 years
1.17	200,000	9.5 years	-	-	-	200,000	8.5 years
1.10	400,000	9.5 years	-	(266,666)	-	133,334	8.5 years
1.24	100,000	9.8 years	-	-	-	100,000	8.8 years
1.32	390,000	10.0 years	-	(134,167)	-	255,833	9.0 years
1.30	-	-	595,000	-	-	595,000	9.3 years
1.00	-	-	850,000	-	-	850,000	9.8 years
	<u>6,165,000</u>		<u>1,445,000</u>	<u>(1,010,833)</u>	<u>(580,000)</u>	<u>6,019,167</u>	

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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>	

### Warrants

During 2014, 4,000,000 warrants were granted (2,567,500 in 2013). 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 granted amounted to \$263,340 (\$731,108 in 2013) and was estimated with the following weighted average assumptions:

	2014	2013
Weighted average price of share at time of grant	\$1.00	\$1.11
Weighted average risk-free interest rate	1.04%	1.16%
Weighted average expected volatility	43%	66%
Weighted average expected life	2 years	1.98 years
Weighted average expected dividend yield	0%	0%
	<b>2014</b>	<b>2013</b>
	<b>\$</b>	<b>\$</b>
Weighted average fair value of warrants granted	0.03	0.28

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Changes in Company warrants were as follows:

	Number	2014 Weighted average exercise price \$	Number	2013 Weighted average exercise price \$
<b>Balance – Beginning of year</b>	7,440,500	1.24	8,000,000	1.27
Granted	4,000,000	1.25	2,567,500	1.39
Exercised	(1,472,500)	1.24	(3,127,000)	1.12
Expired	(750,500)	1.21	-	-
<b>Balance – End of year</b>	9,217,500	1.24	7,440,500	1.24

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

Exercise price \$	Expiry date	Warrants outstanding as at December 31, 2013	Granted	Expired	Exercised	Warrants outstanding as at December 31, 2014	Weighted average remaining contractual life as at December 31, 2014
1.50 <sup>(1)</sup>	February 2014	1,873,000	-	(400,500)	(1,472,500)	-	-
0.88	December 2015	1,500,000	-	-	-	1,500,000	1.0
1.32	December 2015	1,500,000	-	-	-	1,500,000	1.0
1.45	July 2015	1,217,500	-	-	-	1,217,500	0.6
1.18	February 2014	350,000	-	(350,000)	-	-	-
1.77	December 2015	375,000	-	-	-	375,000	1.0
1.18	December 2015	116,525	-	-	-	116,525	1.0
1.18	December 2015	508,475	-	-	-	508,475	1.0
1.25	December 2016	-	4,000,000	-	-	4,000,000	1.6
		7,440,500	4,000,000	(750,500)	(1,472,500)	9,217,500	

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Exercise price \$	Expiry date	Warrants outstanding as at December 31, 2012	Granted	Expired	Exercised	Warrants outstanding as at December 31, 2013	Weighted average remaining contractual life as at December 31, 2013
1.50 <sup>(1)</sup>	February 2014	4,000,000	-	-	(2,127,000)	1,873,000	0.2
0.88	December 2015	2,500,000	-	-	(1,000,000)	1,500,000	2.0
1.32	December 2015	1,500,000	-	-	-	1,500,000	2.0
1.45	July 2015	-	1,217,500	-	-	1,217,500	1.6
1.18	February 2014	-	350,000	-	-	350,000	0.2
1.77	December 2015	-	375,000	-	-	375,000	2.0
1.18	December 2015	-	116,525	-	-	116,525	2.0
1.18	December 2015	-	508,475	-	-	508,475	2.0
		<u>8,000,000</u>	<u>2,567,500</u>	<u>-</u>	<u>(3,127,000)</u>	<u>7,440,500</u>	

<sup>(1)</sup> 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.

**Options granted to brokers**

During 2014, 447,750 options to brokers (344,909 in 2013) were granted to Windermere, a related party, in connection with the Offering. The Company was not able to reliably determine the fair value of the services received from Windermere and therefore used the fair value of the options granted to warrants as calculated using the Black-Scholes pricing model. The fair value of options granted to brokers granted amounted to \$75,798 (\$101,718 in 2013) and was estimated using the following weighted average assumptions:

	2014	2013
Weighted average price of share at time of grant	0.96	\$1.19
Weighted average risk-free interest rate	1.09%	1.14%
Weighted average expected volatility	37%	64%
Weighted average expected life	2 years	2 years
Weighted average expected dividend yield	0%	0%
	<b>2014</b>	<b>2013</b>
	<b>\$</b>	<b>\$</b>
Weighted average fair value of warrants granted	0.17	0.29

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

	Number	2014 Weighted average exercise price \$	Number	2013 Weighted average exercise price \$
<b>Balance – Beginning of year</b>	432,909	1.15	718,000	0.99
Granted	447,750	1.00	344,909	1.21
Exercised	(88,000)	0.92	(630,000)	1.00
<b>Balance – End of year</b>	<u>792,659</u>	<u>1.09</u>	<u>432,909</u>	<u>1.15</u>

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

Exercise price \$	Expiry date	Brokers options outstanding as at December 31, 2013	Granted	Exercised	Brokers options outstanding as at December 31, 2014
0.92	September 2014	88,000	-	(88,000)	-
1.10	July 2015	214,165	-	-	214,165
1.40	December 2015	130,744	-	-	130,744
1.00	July 2016	-	422,325	-	422,325
1.00	October 2016	-	25,425	-	25,425
		432,909	447,750	(88,000)	792,659

  

Exercise price \$	Expiry date	Brokers options outstanding as at December 31, 2012	Granted	Exercised	Brokers options outstanding as at December 31, 2013
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
		718,000	344,909	(630,000)	432,909

### 17. DEFERRED TAXES

In 2014, the Company recorded a deferred income tax liability of \$2,034,817 with respect to Quebec mining duties and a corresponding deferred tax expense in the consolidated statements of loss for the year ended December 31, 2014.

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

	2014 \$	2013 \$
Deferred tax expense (recovery) relating to the origination and reversal of temporary differences	(189,445)	1,288,844
<b>Total deferred income tax expense (recovery)</b>	<b>(189,445)</b>	<b>1,288,844</b>

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

	2014 \$	2013 \$
Loss before income taxes	(5,851,585)	(5,118,993)
Income tax computed at Canadian statutory rate of 26.9%	(1,574,076)	(1,377,009)
Non-refundable tax credits	-	(124,161)
Non-deductible expenses	259,528	162,062
Income tax benefit of mining duties	(150,022)	(392,051)
Unrecognized tax benefits	553,822	1,523,292
Tax effect of renounced flow-through share expenditures	867,179	235,187
Amortization of flow-through share premiums	(722,892)	(168,597)
Adjustments from prior years	21,209	(37,494)
Expired losses	35,241	-
Quebec mining duty tax	557,701	1,457,440
Other	(1,894)	10,175
Income tax expense	<u>(189,445)</u>	<u>1,288,844</u>
Income tax expense		
Current	-	-
Deferred	<u>(189,445)</u>	<u>1,288,844</u>

The analysis of deferred income tax assets and liabilities as at December 31, 2014 is as follows:

	2013 \$	Loss \$	2014 \$
<b>Deferred income tax assets</b>			
Non-capital losses carried forward	3,355,227	2,276,854	5,632,081
	<u>3,355,227</u>	<u>2,276,854</u>	<u>5,632,081</u>
<b>Deferred income tax liabilities</b>			
Exploration and evaluation assets	(3,325,326)	(2,306,755)	(5,632,081)
Mining properties	(29,901)	29,901	-
Mining duties tax	(1,457,440)	(557,701)	(2,015,141)
Tax on investment property – outfitter	-	(19,676)	(19,676)
	<u>(4,812,667)</u>	<u>(2,854,231)</u>	<u>(7,666,898)</u>
<b>Total deferred income tax liabilities</b>	<u>(1,457,440)</u>	<u>(577,377)</u>	<u>(2,034,817)</u>

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 \$4,577,089.

As at December 31, 2014, the Company had unrecognized deferred tax assets as follows:

	2014 \$	2013 \$
Non-capital losses carried forward	2,675,796	2,471,472
Mining properties	436,044	68,913
Non-refundable tax credits	462,638	528,624
Income tax benefit of mining duties	542,073	392,051
Capital losses carried forward	29,242	55,391
Share issue costs	264,689	213,032
Other assets	166,606	147,294
	<u>4,557,089</u>	<u>3,876,777</u>



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As at December 31, 2014, the Company had accumulated non-capital losses for tax purposes of approximately \$33,455,371 (2013 – \$23,750,991) 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, 2014.

These losses will expire as follows:

	<b>Federal</b>	<b>Provincial</b>
	<b>\$</b>	<b>\$</b>
2015	199,462	199,462-
2016	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	14,892,530	14,782,740
2034	9,835,386	9,745,750
	<u>33,455,371</u>	<u>,27,643,457</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 \$217,410 (2013 - 411,827), 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.

**18. SUPPLEMENTARY INFORMATIONS RELATED TO CASH FLOWS**

Net change in non-cash working capital items	<b>2014</b>	<b>2013</b>
	<b>\$</b>	<b>\$</b>
Receivable and other current assets	171,209	(180,292)
Sales taxes receivable	183,322	21,482
Accounts payable and accrued liabilities	318,198	(939,333)
Provision	50,000	-
	<u>722,729</u>	<u>(1,098,143)</u>

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

	<b>2014</b>	<b>2013</b>
	<b>\$</b>	<b>\$</b>
Non-cash share issuance expenses	75,798	101,725
Bonus paid in common shares	-	50,000
Addition to exploration and evaluation assets not yet paid	218,169	117,140
Addition to intangible assets not yet paid	115,989	-

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**19. RELATED PARTY TRANSACTIONS**

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

	<b>2014</b>	<b>2013</b>
	<b>\$</b>	<b>\$</b>
<b>Company controlled by a former chief executive officer (CEO) <sup>(1)</sup></b>		
Exploration and evaluation expenditures	-	27,900
Insurance and other	-	14,445
Management fees	-	8,333
	<u>-</u>	<u>50,678</u>
	<b>2014</b>	<b>2013</b>
	<b>\$</b>	<b>\$</b>
<b>Key management compensation <sup>(2)</sup></b>		
Share-based compensation	125,100	364,650
Management fees	390,168	382,500
	<u>515,268</u>	<u>747,150</u>
Salaries and fringe benefits <sup>(3)</sup>	747,515	715,974
	<u>1,262,783</u>	<u>1,463,124</u>
Balance included in accounts payable and accrued liabilities	<u>73,056</u>	<u>-</u>

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

(2) The key management is composed of the Chief Operating Officer (COO), Chief Financial Officer (CFO), the president, and the vice-president. The key management compensation includes amounts for the former CEO, CFO and vice-president who left respectively in December, August and February 2014.

(3) Salaries and fringe benefits capitalized to exploration and evaluation assets amount to \$113,592 (2013 – \$182,236).

The Company has entered into employment and management contracts with its key executives whose estimated annual remuneration amounts to \$640,000. These contracts are renewable annually. The agreements with the Company's key executives contain provisions that apply in case of termination without cause or a change of control. If all executive team members had been dismissed without cause on December 31, 2014, the Company would have had to pay a total amount of \$457,500 as severance. If a change of control had occurred on December 31, 2014, the total amounts payable to the executive team in respect of severance would have totaled \$1,022,500 (assuming they left after a change of control and each named executive opted to receive such compensation). For one key executive, if both a termination of the employment agreement and a change of control of the Company occur within 6 months of each other, the Company would have to pay a one-time severance equal to \$75,000.

Subsequent to the nomination of Brian Ostroff as a director of the Company on June 4, 2014, Windermere is considered as a related party because it has significant influence over the Company through its representation on the Board of Directors. All agreements and transactions with Windermere are already disclosed in these financial statements and are therefore not described in this note.

**20. COMMITMENTS**

- a) 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.
- b) The Company granted contracts in relation to the development of the Lac à Paul project for a total of \$932,000. These contracts do not have termination dates and disbursements will be made in accordance with the project's milestones.
- c) The Company's future minimum operating lease payments for the rent in Chicoutimi office, trucks rental and Lac à Paul camp are as follows:

	<b>Within 1 year</b>	<b>1 to 5 years</b>	<b>After 5 years</b>	<b>Total</b>
December 31, 2014	\$117,751	\$205,771	-	\$323,522

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**21. CONTINGENCIES**

In the normal course of operations, the Company is exposed to events that could give rise to contingent liabilities. As at the date of issue of the consolidated financial statements, the Company was not aware of any significant events that would have a material effect on its consolidated financial statements.

**22. FINANCIAL INSTRUMENTS AND FINANCIAL RISKS**

**Classification**

The Company's financial instruments as at December 31, 2014 and 2013 consist of cash and cash equivalents, receivable and other current assets, marketable securities, accounts payable and accrued liabilities, 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 classification of financial instruments is summarized as follows:

	Classification	Carrying value	
		As at December 31, 2014 \$	As at December 31, 2013 \$
<b>Financial assets</b>			
Cash and cash equivalents	Loans and receivables	3,837,720	6,896,331
Receivable and other current assets	Loans and receivables	-	15,000
		<u>3,827,720</u>	<u>6,911,331</u>
<b>Financial liabilities</b>			
Accounts payable and accrued liabilities	Financial liabilities at amortized cost	1,191,290	538,934
Provision	Financial liabilities at amortized cost	50,000	-
Credit line	Financial liabilities at amortized cost	12,605,641	11,399,817
Loan payable	Financial liabilities at amortized cost	-	1,453,078
		<u>13,846,931</u>	<u>13,391,829</u>

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

**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. Receivable and other current assets mainly consists of interest receivable from Canadian chartered banks, and mining tax credits due from the Quebec government. Management believes that the credit risk concentration with respect to financial instruments included in amounts receivable is minimal.

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**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 flows primarily from its financing activities. As at December 31, 2014, the Company had cash and cash equivalents of \$3,837,720 (\$6,896,331 as at December 31, 2013) to settle current liabilities of \$13,846,931 (\$2,714,904 as at December 31, 2013). 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, 2014:

	Carrying amount \$	Contractual cash flows \$	0 to 12 months \$	12 to 24 months \$	More than 24 months \$
Accounts payable and accrued liabilities	1,191,290	1,191,290	1,191,290	-	-
Credit line	12,605,641	14,366,694	14,366,694	-	-

**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, 2014, the Company's exposure to interest rate risk is summarized as follows:

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

The Company's interest rate risk arises from credit lines. Credit lines issued at variable rates expose the Company to cash flow risk. A variation of  $\pm 1\%$  on the credit line would have an impact of \$12,605 on the exploration and evaluation assets for 2014 (\$11,399 in 2013).

**Currency risk**

As at December 31, 2014, the Company has a bank account in US dollars for an amount of \$2,465 (\$13,708 in 2013). The Company estimates that a variation of  $\pm 10\%$  in exchange rates on that date would have resulted in a variation of approximately \$246 in 2014 (\$1,370 in 2013) in net loss.

**23. POLICIES AND PROCESSES FOR MANAGING CAPITAL**

As at December 31, 2014, the capital of the Company consists of equity amounting to \$28,773,128 (\$24,083,773 in 2013). The Company's capital management objective is to have sufficient capital to be able to meet its exploration, mining development plan and permitting in order to ensure the growth of its activities. It also has the objective to have sufficient cash to finance the exploration and evaluation expenditures, 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, 2014.

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 2014 and 2013, the Company has respected all of its regulatory requirements. The Company has no dividend policy. The Company is also subject to restriction regarding equity issuance through financing (note 13).

**24. EVENT AFTER THE REPORTING PERIOD**

In March 2015, the Company issued 400,000 non-transferable common share purchase warrants ("Warrants") to Mercury Financing Corp. (the "Lender"), the lender of the credit lines further described in note 13. The Warrants were issued in relation to an agreement with the Lender to defer interest payments on the credit lines (the "Agreement"). The Agreement provides for the deferral of approximately \$600,000 in interest payable to the Lender until maturity of the credit lines in December 31, 2015. Each Warrant entitles the Lender to purchase one common share of the Company at an exercise price of \$0.74. The Warrants shall be exercisable for a period of one year from the date of the signature of the Agreement. The Warrants are subject to a hold period of four months.