

# ARIANNE PHOSPHATE INC.

## CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

THREE AND SIX MONTH PERIODS ENDED JUNE 30, 2014 AND 2013  
(in Canadian dollars)



*Condensed interim consolidated financial statements for the six month periods ended June 30, 2014 haven't been reviewed by the auditors.*



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**ARIANNE PHOSPHATE INC.**  
**CONSOLIDATED INTERIM STATEMENTS OF FINANCIAL POSITION**  
**AS AT JUNE 30, 2014**  
(In Canadian dollars - unaudited)

	June 30, 2014	December 31, 2013
	\$	\$
<b>ASSETS</b>		
<b>Current assets</b>		
Cash and cash equivalents (note 5)	2,108,307	6,896,331
Marketable securities (note 6)	182,550	-
Receivables and other current assets	155,680	235,081
Sales taxes receivable	384,973	376,405
Tax credit related to resources and mining tax credit receivable	231,144	1,609,153
	<u>3,062,654</u>	<u>9,116,970</u>
<b>Non-current assets</b>		
Deposit	200,000	200,000
Tax credit related to resources and mining tax credit receivable	1,335,032	1,335,032
Investment property – Outfitters	417,787	441,042
Property, plant and equipment (note 8)	384,825	82,574
Intangible assets (note 9)	50,266	-
Mining properties	1,271,745	1,241,360
Exploration and evaluation assets (note 10)	32,780,426	27,238,956
	<u>36,440,081</u>	<u>30,538,964</u>
<b>Total assets</b>	<u>39,502,735</u>	<u>39,655,934</u>
<b>LIABILITIES</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities	2,006,180	538,934
Current portion of credit line (note 12)	211,660	-
Flow-through shares liability (note 11)	137,996	722,892
Loan payable	-	1,453,078
	<u>2,355,836</u>	<u>2,714,904</u>
<b>Non-current liabilities</b>		
Credit line (note 12)	11,700,862	11,399,817
Deferred income taxes (note 13)	1,874,772	1,457,440
<b>Total liabilities</b>	<u>15,931,470</u>	<u>15,572,161</u>
<b>Equity</b>		
Capital stock	43,734,666	40,721,138
Warrants (note 14)	2,553,029	3,794,144
Contributed surplus	9,270,378	8,512,398
Accumulated other comprehensive loss	2,550	-
Deficit	(31,989,358)	(28,943,907)
<b>Total equity</b>	<u>23,571,265</u>	<u>24,083,773</u>
<b>Total liabilities and equity</b>	<u>39,502,735</u>	<u>39,655,934</u>
<b>GOING CONCERN</b> (note 1)		
<b>COMMITMENTS</b> (note 18)		
<b>SUBSEQUENT EVENTS</b> (note 19)		

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

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

(s) L. Derek Lindsay, CFO

**ARIANNE PHOSPHATE INC.**  
**CONSOLIDATED INTERIM STATEMENTS OF LOSS**  
**FOR THREE AND SIX MONTH PERIOD ENDED JUNE 30**  
(In Canadian dollars - unaudited)

	Three month period ended June 30, 2014	Three month period ended June 30, 2013	Six month period ended June 30, 2014	Six month period ended June 30, 2013
	\$	\$	\$	\$
<b>EXPENSES</b>				
Salaries and fringe benefits	467,496	142,754	855,214	278,707
Share-based compensation	322,631	87,275	598,247	143,891
Professional and consultant fees	346,236	355,918	561,790	698,893
Management fees	77,500	84,167	155,000	156,667
Registration and listing fees	1,595	55,042	47,662	103,789
Annual general meeting	13,236	19,828	13,236	19,828
Communications	192,908	120,627	263,310	163,939
Promotion, representation and travel	96,457	85,643	208,197	169,240
Insurance	13,301	21,601	23,352	25,038
Rent and office expenses	63,570	24,558	122,175	48,957
Bank charges	4,517	1,797	6,251	6,764
Loss (gain) on disposal of mining properties (note 6)	(180,000)	20,926	(180,000)	20,926
Depreciation of property, plant and equipment	14,007	389	21,079	649
<b>Operating loss</b>	<b>1,433,454</b>	<b>1,020,525</b>	<b>2,695,513</b>	<b>1,837,288</b>
<b>OTHER EXPENSES (INCOME)</b>				
Interest income	(10,230)	(5,922)	(38,522)	(6,015)
Interest expense	211,660		397,021	-
Finance expenses	-	-	95,929	-
Foreign exchange loss	2,380		756	-
Net loss of investment property – Outfitters (note 7)	39,183	39,149	86,572	98,098
Change in fair value of marketable securities classified as fair value through profit or loss	-	21,047	-	46,549
	242,993	54,274	541,756	138,632
<b>LOSS BEFORE INCOME TAXES</b>	<b>1,676,447</b>	<b>1,074,799</b>	<b>3,237,269</b>	<b>1,975,920</b>
Deferred income taxes (recovery) (note 13)	(36,960)	433,204	(191,818)	1,701,781
<b>NET LOSS FOR THE PERIOD</b>	<b>1,639,487</b>	<b>1,508,003</b>	<b>3,045,451</b>	<b>3,677,701</b>
<b>BASIC AND DILUTED LOSS PER SHARE</b>	<b>0.02</b>	<b>0.02</b>	<b>0.04</b>	<b>0.05</b>
<b>WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING</b>	<b>86,501,959</b>	<b>75,646,471</b>	<b>86,801,892</b>	<b>75,810,827</b>

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

# ARIANNE PHOSPHATE INC.

## CONSOLIDATED INTERIM STATEMENTS OF COMPREHENSIVE LOSS FOR THREE AND SIX MONTH PERIOD ENDED JUNE 30 (in Canadian dollars - unaudited)

	Three month period ended June 30, 2014	Three month period ended June 30, 2013	Six month period ended June 30, 2014	Six month period ended June 30, 2013
	\$	\$	\$	\$
<b>NET LOSS FOR THE PERIOD</b>	<b>1,639,487</b>	<b>1,508,003</b>	<b>3,045,451</b>	<b>3,677,701</b>
<b>Other comprehensive loss that may be reclassified subsequently to net income:</b>	-	-	-	-
Changes in fair value of available-for-sale financial assets (note 6)	(2,550)	17,800	(2,550)	17,800
<b>COMPREHENSIVE LOSS FOR THE PERIOD</b>	<b>1,636,937</b>	<b>1,525,803</b>	<b>3,042,901</b>	<b>3,695,501</b>

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

# ARIANNE PHOSPHATE INC.

## CONSOLIDATED INTERIM STATEMENTS OF CHANGES IN EQUITY FOR SIX MONTH ENDED JUNE 30

(in Canadian dollars - unaudited)

	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 of the period						(3,045,451)	(3,045,451)
Changes in fair value of available for-sale financial assets (note 6)		-	-	-	2,550	-	2,550
Comprehensive loss for the period					2,550	(3,045,451)	(3,042,901)
Share-based compensation		-	-	598,247	-	-	598,247
Stock options exercised	580,000	257,750	-	(127,250)	-	-	130,500
Warrants exercised	1,472,500	2,755,778	(929,878)	-	-	-	1,825,900
Warrants expired		-	(311,237)	311,237	-	-	-
Deferred income tax		-	-	(24,254)	-	-	(24,254)
<b>Balance as at June 30, 2014</b>	<b>87,237,755</b>	<b>43,734,666</b>	<b>2,553,029</b>	<b>9,270,378</b>	<b>2,550</b>	<b>(31,989,358)</b>	<b>23,571,265</b>
<b>Balance as at January 1, 2013</b>	75,534,926	26,990,815	4,390,725	9,145,636	-	(21,225,083)	19,302,093
Net loss of the period		-	-	-	-	(3,677,701)	(3,677,701)
Changes in fair value of available- for-sale financial assets		-	-	-	(17,800)	-	(17,800)
Comprehensive loss of the period		-	-	-	(17,800)	(3,677,701)	(3,695,501)
Share-based compensation		-	-	143,891	-	-	143,891
Stock options exercised	380,000	283,200	-	(202,700)	-	-	80,500
Broker warrants exercised	630,000	1,234,170	-	(604,170)	-	-	630,000
Modification of warrants (1)	-	-	355,000	-	-	(355,000)	-
<b>Balance as at June 30, 2013</b>	<b>76,544,926</b>	<b>28,508,185</b>	<b>4,745,725</b>	<b>8,482,657</b>	<b>(17,800)</b>	<b>(25,257,784)</b>	<b>16,460,983</b>

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

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

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

**ARIANNE PHOSPHATE INC.**  
**CONSOLIDATED INTERIM STATEMENTS OF CASH FLOWS**  
**FOR SIX MONTH PERIOD ENDED JUNE 30, 2014**  
(In Canadian dollars - unaudited)

	Six month period ended June 30, 2014	Six month period ended June 30, 2013
	\$	\$
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>		
Net loss for the period	(3,045,451)	(3,677,701)
Adjustments for:		
Share-based payments	598,247	143,891
Depreciation – Investment property - Outfitters	23,256	29,952
Depreciation – Property, plant and equipment and intangible assets	21,079	649
Finance expenses	95,929	-
Loss (Gain) on disposal of mining properties	(180,000)	20,926
Change in fair value of marketable securities	-	46,549
Income taxes and deferred taxes	(191,818)	1,701,781
	<u>(2,678,758)</u>	<u>(1,733,953)</u>
Net change in non-cash working capital items (note 15)	784,690	(734,486)
	<u>(1,894,068)</u>	<u>(2,468,439)</u>
<b>INVESTING ACTIVITIES</b>		
Tax credit related to resources and mining tax credit received	1,378,009	-
Grant received - Outfitters	-	29,850
Acquisition of property, plant and equipment – Outfitter	-	(2,200)
Acquisition of property, plant and equipment and intangible assets	(344,486)	(15,571)
Acquisition of mining properties	(30,385)	(7,554)
Proceeds from mining properties	-	30,000
Acquisition of exploration and evaluation assets	(4,353,494)	(7,028,501)
	<u>(3,350,356)</u>	<u>(6,993,976)</u>
<b>FINANCING ACTIVITIES</b>		
Proceeds from credit line	-	4,600,000
Payment of loan	(1,500,000)	-
Interest on credit line	-	28,815
Proceeds from the issuance of shares	1,956,400	710,500
	<u>456,400</u>	<u>5,339,315</u>
<b>CHANGE IN CASH AND CASH EQUIVALENTS DURING THE PERIOD</b>	<u>(4,788,024)</u>	<u>(4,123,100)</u>
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD</b>	6,896,331	5,225,976
<b>CASH AND CASH EQUIVALENTS, END OF THE PERIOD</b>	<u>2,108,307</u>	<u>1,102,876</u>
Supplementary cash flow information (note 15)		
Interest received	36,349	34,956
Interest paid	234,368	-

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

# ARIANNE PHOSPHATE INC.

## NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2014 AND 2013

(In Canadian dollars - unaudited)

### 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. The Company's objective is to focus on developing a phosphate mine by concentrating its resources on this property. The Company's shares are listed on the TSX Venture Exchange (symbol DAN), on the Frankfurt exchange (symbol JE9N) and on the US Stock Exchange Over-the-Counter QX (OTCQX) (symbol DRRSF). The registered office of the Company is located at 393 Racine Street, Suite 200, Chicoutimi, Quebec, Canada G7H 1T2

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

These condensed interim consolidated financial statements have been prepared on the basis of accounting principles applicable to a going concern, which contemplates the realization of assets and settlement of liabilities in the normal course of business as they come due. In assessing whether the going concern assumption is appropriate, management takes into account all available information about the future, which is at least, but not limited to, 12 months from the end of the reporting period. For the period ended June 30, 2014, the Company recorded a net loss of \$ 3,045,451 (2013 – \$3,677,701) and has an accumulated deficit of \$ 31,986,808 as at June 30, 2014 (December 31, 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 June 30, 2014, the Company had working capital of \$706,818 including the cash reserved for exploration and evaluation expenses of \$615,388 related to flow through share financings completed in 2013. The management estimates that the working capital will not be sufficient to meet the Company's obligations and budgeted expenditures through December 31, 2014. These circumstances lend significant doubt as to the ability of the Company to meet its obligations as they come due and, accordingly, the appropriateness of the use of accounting principles applicable to a going concern. The Company will need to secure financing in 2015.

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

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

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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#### Basis of preparation

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

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

The Board of Directors approved these consolidated interim financial statements on August 27, 2014.

### 3. NEW ACCOUNTING STANDARDS ISSUED AND IN EFFECT

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

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



# ARIANNE PHOSPHATE INC.

## NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2014 AND 2013

(In Canadian dollars - unaudited)

### 4. CRITICAL ACCOUNTING ESTIMATE AND JUDGMENT

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

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

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

### 5. CASH AND CASH EQUIVALENTS

	June 30, 2014
	\$
Cash and cash equivalents	<u>2,108,307</u>

As at June 30, 2014, cash and cash equivalents comprises cash on hand amounting to \$2,087,817 bearing interest at a fixed rate 1.25% and cash on hand amounting to \$20,490, not bearing interest. This rate is effective as long as the account balance exceeds \$1,000,000.

### 6. MARKETABLE SECURITIES

	June 30, 2014	December 31, 2013
	\$	\$
<b>Available-for-sale financial assets</b>		
15,000 shares of Virginia Mine Inc., cost of \$180,000; share price as at June 30, 2014: \$12,17 (1)	182,550	-
	<u>182,550</u>	<u>-</u>

- (1) On April 2, 2014, the Company sold to Virginia Mines Inc. its remaining 50% of rights and interests of the Opinaca and Black Dog properties in consideration of the issuance of 15,000 shares of Virginia Mines Inc. representing a value of \$180,000 at the transaction date. These properties had been fully impaired in 2013 and 2012 respectively. A gain on disposal of \$180,000 was recognized.

### 7. INVESTMENT PROPERTY – OUTFITTERS

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

	Six-month period ended June 30, 2014	Six-month period ended June 30, 2013
	\$	\$
Outfitters income	<u>16,247</u>	<u>39,776</u>
Operating expenses:		
Management fees	60,997	66,000
Professional fees	-	19,400
Repair and maintenance	7,500	10,220
Supplies	-	3,862
Advertising, promotion and travel	1,034	1,100
Taxes and licenses	4,479	3,173
Insurance	5,380	4,059
Interest and bank charges	173	108
Depreciation of property, plant and equipment	<u>23,256</u>	<u>29,952</u>
	<u>102,819</u>	<u>137,874</u>
Net loss of investment property – Outfitters	<u><u>86,572</u></u>	<u><u>98,098</u></u>

# ARIANNE PHOSPHATE INC.

## NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2014 AND 2013

(In Canadian dollars - unaudited)

### 8. PROPERTY, PLANT AND EQUIPMENT

	Leasehold improvements \$	Tools and equipment \$	Rolling equipment \$	Computer equipment \$	Total \$
<b>Cost</b>					
Balance as at December 31, 2013	15,571	98,530	-	-	114,101
Acquisition	288,622	30,211	10,376	5,487	334,696
Balance as at June 30, 2014	304,193	128,741	10,376	5,487	448,797
<b>Accumulated depreciation</b>					
Balance as at December 31, 2013	1,427	30,100	-	-	31,527
Depreciation	18,954	11,502	778	1,211	32,445
Balance as at June 30, 2014	20,381	41,602	778	1,211	63,972
<b>Net book value</b>					
Balance as at December 31, 2013	14,144	68,430	-	-	82,574
Balance as at June 30, 2014	283,812	87,139	9,598	4,276	384,825

### 9. INTANGIBLE ASSETS

	Intangible assets \$
<b>Cost</b>	
Balance as at January 1, 2014	-
Acquisition	51,180
Balance as at June 30, 2014	51,180
<b>Accumulated depreciation</b>	
Balance as at January 1, 2014	-
Depreciation	914
Balance as at June 30, 2014	914
<b>Net book value</b>	
Balance as at December 31, 2013	-
Balance as at June 30, 2014	50,266

### 10. EXPLORATION AND EVALUATION ASSETS

	December 31, 2013 \$	Additions \$	Tax credits \$	Impairments \$	Disposals \$	June 30, 2014 \$
<b>Quebec</b>						
Lac à Paul	27,194,177	5,541,470	-	-	-	32,735,647
Mirepoix	30,351	-	-	-	-	30,351
Phosphore	14,428	-	-	-	-	14,428
	27,238,956	5,541,470	-	-	-	32,780,426

# ARIANNE PHOSPHATE INC.

## NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2014 AND 2013

(In Canadian dollars - unaudited)

For the six-month period ended June 30, 2014 and 2013, the following expenses have been included in the cost of exploration and evaluation assets:

	Six-month period ended June 30, 2014	Six-month period ended June 30, 2013
	\$	\$
Drilling	418,799	-
Stripping and road repairs	165,566	348,954
Camp, travel and lodging and general expenses	294,616	159,301
Chemical analysis	160,439	37,293
Line cutting and geophysics	129,092	-
Planning and supervision	264,162	236,406
Professional fees and independent technical reports	3,583,812	6,246,547
Borrowing costs	512,704	620,043
Depreciation of property, plant and equipment	12,280	12,342
	<u>5,541,470</u>	<u>7,660,886</u>
Tax credits related to resources and mining tax credit	-	(772,229)
Disposal	-	(27,040)
	<u>5,541,470</u>	<u>6,861,617</u>
Balance – Beginning of period	27,238,956	13,644,534
Balance – End of period	<u>32,780,426</u>	<u>20,506,151</u>

### 11. FLOW-THROUGH SHARES LIABILITY

	Six-month ended June 30, 2014	Six-month ended June 30, 2013
	\$	\$
Balance – Beginning of period	722,892	-
Decrease related to expenses incurred	(584,896)	-
Balance – The end of period	<u>137,996</u>	<u>-</u>

In December 2013, the Company issued 1,790,952 flow-through shares at a price of \$1.80 per share for a gross total of \$3,223,714. As at June 30, 2014, the Company has incurred exploration and evaluation expenses of \$2,608,326 and has \$615,388 in cash reserved for exploration and evaluation activities related to this flow-through financing.

### 12. CREDIT LINE

In August 2012, the Company entered into an agreement to obtain a non-revolving credit line for an authorized amount of \$10,000,000 to finance a feasibility study for the Lac à Paul property and to cover the general and administrative expenditures related to this property.

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

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 credit line has a current portion of \$211,660 at the end of June 30, 2014 and a non-current portion of \$11,700,862.

# ARIANNE PHOSPHATE INC.

## NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2014 AND 2013

(In Canadian dollars - unaudited)

	Six-month period ended June 30, 2014 \$	Six-month period ended June 30, 2013 \$
Balance – Beginning of period	11,399,817	-
Proceeds from credit lines	-	10,000,000
Transaction costs	-	(1,841,436)
Interest expense	-	365,841
Capitalized interest	40,004	-
Amortization of transaction costs	472,701	-
Balance – End of period	<u>11,912,522</u>	<u>8,524,405</u>
Less : Current portion of credit line	<u>211,660</u>	<u>-</u>
	<u>11,700,862</u>	<u>8,524,405</u>

### 13. DEFERRED INCOME TAX

The deferred tax recovery for the six months ended June 30, 2014 of \$191,818, is attributable to additional deferred tax liabilities relating to Quebec mining duties offset by a deferred tax recovery related to the amortization of the flow through shares liability as some expenditures renounced have been incurred.

### 14. STOCK OPTIONS, WARRANTS AND OPTIONS GRANTED TO BROKERS

#### Stock options

In April 2014, 445,000 stock options were issued to directors of the Company and 150,000 to consultants.

The stock options granted to directors vest on a basis of 33% every year on a three-year period from the date of grant and options to consultants vest on a basis of 25% every three months, starting three months after the grant date.

The Company was not able to reliably determine the fair value of the services received from the consultants and therefore used the fair value of the stock options as calculated using the Black-Scholes pricing model.

	Six-month period ended June 30, 2014
Weighted average price of share at time of grant	\$1.19
Weighted average strike price of share at time of grant	\$1.30
Weighted average risk-free interest rate	1.60%
Weighted average expected volatility	70%
Weighted average expected life	4,5 years
Weighted average expected dividend yield	0%
Weighted average fair value of options granted	0.63

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The following table reflects the continuity of stock options for the six months period ended June 30, 2014:

	<b>Six-month period ended June 30, 2014</b>		
	<b>Number</b>	<b>Weighted average exercise price \$</b>	<b>Remaining life</b>
<b>Balance – Beginning of period</b>	6,165,000	1.10	8.9 years
Expired	(610,000)	1.31	-
Granted	595,000	1.30	9.8 years
Exercised	(580,000)	0.23	-
<b>Balance – End of period</b>	<u>5,570,000</u>	1.19	9.3 years
Exercisable at the end of the period	<u>3,491,666</u>	1.16	7.8 years

### Warrants

The following table reflects the continuity of warrants for the six months ended June 30, 2014:

	<b>Six-month period ended June 30, 2014</b>		
	<b>Number</b>	<b>Weighted average exercise price \$</b>	<b>Remaining life</b>
<b>Balance – Beginning of period</b>	7,440,500	1.24	1.8 years
Exercised	(1,472,500)	1.24	-
Expired	(750,500)	1.21	-
<b>Balance – End of period</b>	<u>5,217,500</u>	1.24	1.4 years

### Options granted to brokers

The following table reflects the continuity of options granted to brokers for the six month period ended June 30, 2014:

	<b>Six-month period ended June 30, 2014</b>		
	<b>Number</b>	<b>Weighted average exercise price \$</b>	<b>Remaining life</b>
<b>Balance – Beginning of period</b>	<u>432,909</u>	1.15	1.2 years
<b>Balance – End of period</b>	<u>432,909</u>	1.15	0.9 years

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### 15. SUPPLEMENTARY INFORMATIONS RELATED TO CASH FLOWS

	Six-month period ended June 30, 2014 \$	Six-month period ended June 30, 2013 \$
Net change in non-cash working capital items for the three month period ended		
Receivable and other current assets	30,394	(80,304)
Sales taxes receivable	(8,568)	(311,035)
Accounts payable and accrued liabilities	762,864	(343,147)
	<u>784,690</u>	<u>(734,486)</u>

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

	Six-month period ended June 30, 2014 \$	Six-month period ended June 30, 2013 \$
Addition to Property, plant and equipment assets not yet paid	41,390	-
Addition to exploration and evaluation assets not yet paid	780,132	413,080

### 16. RELATED PARTY TRANSACTIONS

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

	Six-month period ended June 30, 2014	Six-month period ended June 30, 2013
<b>Transactions with a Company controlled by the former Chief Executive Officer</b>		
Exploration and evaluation assets	-	27,900
Office expenses	-	22,778
Balance included in accounts payable and accrued liabilities	<u>-</u>	<u>50,678</u>
	\$	\$
<b>Key management compensation <sup>(1)</sup></b>		
Government defined contributions plans	-	3,672
Share-based compensation	133,162	143,891
Management fees	155,000	156,667
	<u>288,162</u>	<u>304,230</u>
Salaries and fringe benefits <sup>(2)</sup>	402,043	79,257
	<u>690,205</u>	<u>383,487</u>

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

(2) Salaries and fringe benefits are capitalized to exploration and evaluation assets included an amount to \$ 63,018.

The Company has entered into employment and management contracts with its key executives whose estimated annual remuneration amounts to \$955,000. The agreements with the Company's key executives contain provisions that apply in case of termination without cause or change of control. If all executive team members had been dismissed without cause on June 30, 2014, the Company would have had to pay a total amount of \$955,000 as severance. If a change of control had occurred on June 30, 2014, the total amounts payable to the executive team in respect of severance would have totaled \$1,585,000.

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### 17. FINANCIAL INSTRUMENTS AND FINANCIAL RISKS

#### Classification

The Company's financial instruments as at June 30, 2014 and December 31, 2013 consist of cash and cash equivalents, receivable and other current assets, marketable securities, loan payable and credit line. The fair value of these financial instruments approximates their carrying value due to their short-term maturity, to current market rates or they bear interest at variable rates.

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

The classification of financial instruments is summarized as follows:

		<b>Carrying value</b>	
		<b>June 30, 2014</b>	<b>As at December 31, 2013</b>
		\$	\$
<b>Financial assets</b>			
Cash and cash equivalents	Loans and receivables	2,108,307	6,896,331
Marketable securities	Loans and receivables	182,550	-
Receivable and other current assets	Loans and receivables	66,265	15,000
		<b>2,357,122</b>	<b>6,911,331</b>
<b>Financial liabilities</b>			
Accounts payable and accrued liabilities	Financial liabilities at amortized cost	2,006,180	538,934
Credit line and current portion of credit line	Financial liabilities at amortized cost	11,912,522	11,399,817
Loan payable	Financial liabilities at amortized cost	-	1,453,078
		<b>13,918,702</b>	<b>13,391,829</b>

The Company defines the fair value hierarchy under which its financial instruments are valued as follows: level 1 includes unadjusted quoted prices in active markets for identical assets or liabilities; level 2 includes inputs other than quoted prices in level 1 that are observable for assets or liabilities, either directly or indirectly; and level 3 includes inputs for the asset or liability that are not based on observable market data. There was no transfer of hierarchy level during the period ended June 30, 2014 and December 31, 2013.

#### Financial risks

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

#### Credit risk

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

#### Liquidity risk

Liquidity risk is the risk that the Company will not have sufficient cash resources to meet its financial obligations as they come due. The Company's liquidity and operating results may be adversely affected if the Company's access to the capital market is hindered, whether as a result of a downturn in stock market conditions generally or related to matters specific to the Company. The Company generates cash flow primarily from its financing activities. As at June 30, 2014 the Company has cash and cash equivalents of \$2,108,307 (\$6,896,331 as at December 31, 2013) to settle current liabilities of \$2,355,836 (\$2,714,904 as at December 31, 2013). The cash reserved for exploration and evaluation expenses amounts to \$615,388. 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).

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The following are the contractual maturities of financial liabilities, including interest where applicable as at June 30, 2014:

	Carrying amount \$	Contractual cash flows \$	0 to 12 months \$	12 to 24 months \$	More than 24 months \$
Accounts payable and accrued liabilities	2,006,180	2,006,180	2,006,180	-	-
Credit line	11,912,522	14,793,700	386,721	14,406,979	-

### 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 June 30, 2014, the Company's exposure to interest rate risk is summarized as follows:

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

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

The Company's interest rate risk arises from credit lines. Credit lines issued at variable rates expose the Company to cash flow risk.

### Currency risk

As at June 30, 2014, the Company has a bank account in US dollars for an amount of \$5,266 (\$ 13,708 in December 31, 2013). The Company estimates that a variation of  $\pm 10\%$  in exchange rates on that date would have resulted in a variation of approximately \$527 as at June 30, 2014 (\$ 1,370 in December 31, 2013) in net loss.

## 18. 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's future minimum operating lease payments for the rent in Chicoutimi and Montreal offices, trucks rental and Lac A Paul camp are as follows:

	Within 1 year	1 to 5 years	After 5 years	Total
June 30, 2014	\$102,397	430,925	-	\$533,322



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### 19. SUBSEQUENT EVENTS

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- a) On July 31, 2014, the Company closed the first tranche of a private placement financing for gross proceeds of \$5,631,000. The second and final closing of the private placement for proceeds of approximately \$2.4 million is expected in September 2014, for total gross proceeds from the private placement (the first and second closings) of up to \$8M. Directors and officers of the Company subscribed to the Offering for aggregate gross proceeds of \$186,000. Of the \$5,631,000 raised, \$500,000 is held in escrow pending the filing of certain documents requested by the TSX Venture Exchange.

Under the terms of the Offering, the Company issued 5,631,000 units (the "Units") at a price of \$1.00 per Unit. Each Unit is comprised of one common share (a "Common Share") and one half of one common share purchase warrant (each whole warrant being a "Warrant"). Each Warrant entitles its holder to purchase one common share at a price of \$1.25 per share until July 31, 2016. If at any time after four (4) months and one (1) 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 (20) 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 paid Windermere Capital (Canada) Inc. ("Windermere"), acting as agent for the private placement, a commission of \$422,325 and issued to Windermere 422,235 non-transferable warrants (the "Agents Warrants"). Each Agent Warrant entitles Windermere to purchase one common share of the Company at a price of \$1.00 per share until July 31, 2016.

All securities issued in connection with the Offering are subject to a regulatory hold period of four (4) months and one (1) day expiring on December 1st, 2014. The Offering is subject to the final approval of the Exchange.