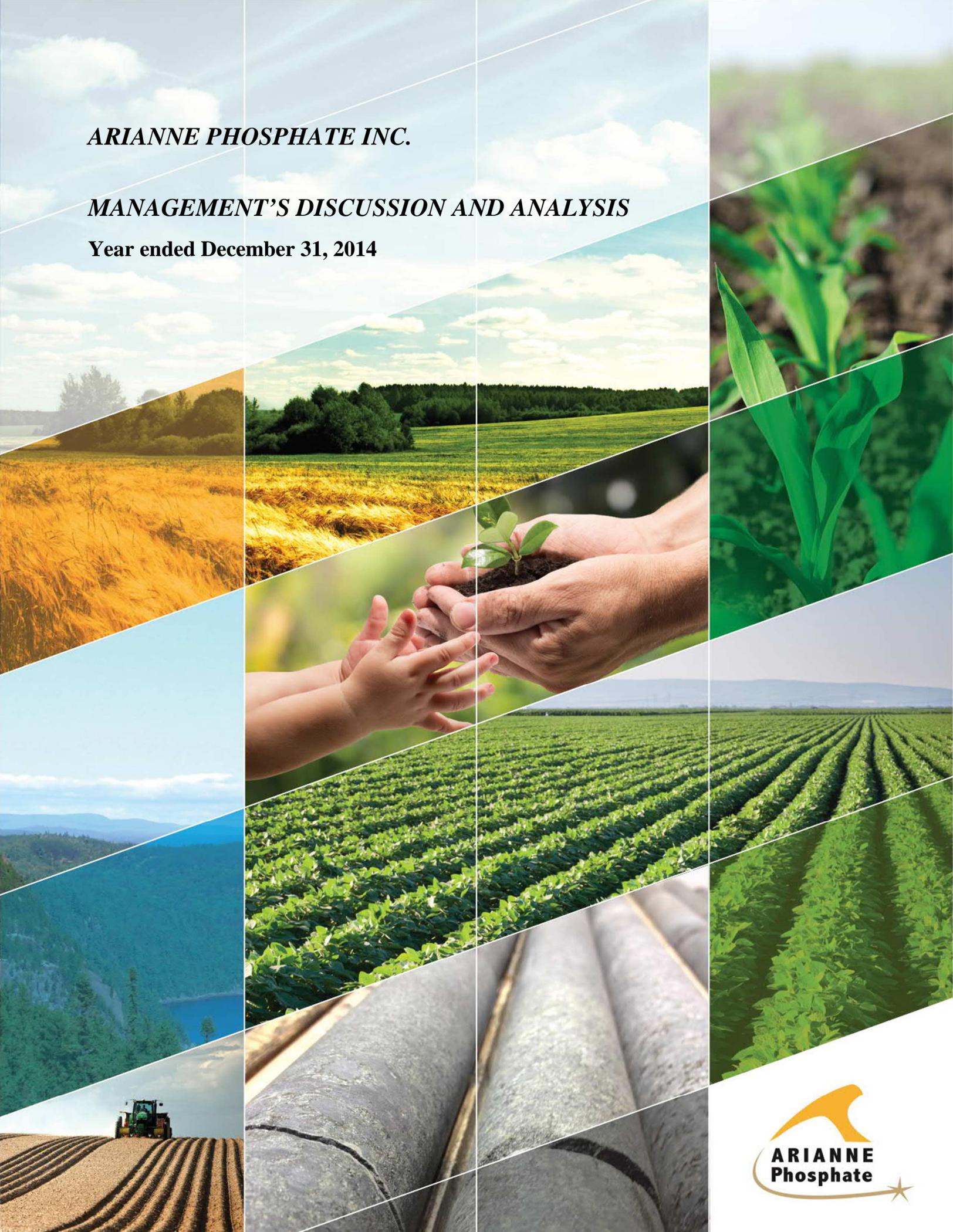


***ARIANNE PHOSPHATE INC.***

***MANAGEMENT'S DISCUSSION AND ANALYSIS***

**Year ended December 31, 2014**



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Management’s Discussion and Analysis (“MD&A”) presents an analysis of the financial situation and operations of Arianne Phosphate Inc. (“Arianne” or the “Company”) for the year ended December 31, 2014. This report was prepared in compliance with the provisions of Form 51-102F1, approved by the Board of Directors and dated April 2, 2015. It should be read in conjunction with the audited consolidated financial statements for the year ended December 31, 2014 (the “financial statements”).

The financial statements for the year ended December 31, 2014, were prepared in accordance with International Financial Reporting Standards (“IFRS”).

All amounts presented in the MD&A are in Canadian dollars (CAD) unless otherwise noted.

### **FORWARD-LOOKING INFORMATION**

Certain statements in this MD&A about our current and future plans, expectations and intentions, results, levels of activity, performance, goals or achievements, or any other future events or developments constitute forward-looking statements. The words “may”, “will”, “would”, “should”, “could”, “expects”, “plans”, “intends”, “trends”, “indications”, “anticipates”, “believes”, “likely”, “predicts”, “estimates” or “potential” or the negative or other variations of these words or other comparable words or phrases, are intended to identify forward-looking statements. Specific forward-looking statements in this MD&A include, but are not limited to, statements with respect to the general development of the business and the eventual start of commercial production and to the liquidity position of the Company. Forward-looking statements are based on information currently available to us and on estimates and assumptions made by us regarding, among other things, general economic conditions and the mining industry in general, in light of our experience and perception of historical trends, current conditions and expected future developments, as well as other factors that we believe are appropriate and reasonable in the circumstances. Although reasonable, the statements can entail known and unknown risks and uncertainties and, accordingly, actual results and future events could differ materially from those anticipated in such statements.

## DESCRIPTION OF THE BUSINESS

Arianne is a company focused on the development of the Lac à Paul phosphate rock project (Lac à Paul) located in the Saguenay–Lac-St-Jean area, Québec. 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 East, Suite 200, Chicoutimi, Québec, Canada G7H 1T2.

## HIGHLIGHTS

### 2014

- Announced the closing of an \$8 million private equity placement in common shares in which the Québec Government invested \$2 million through Ressources Québec, a subsidiary of Investissement-Québec.
- Strategic changes to management:
  - Mr. Pierre Fitzgibbon, already a director of the Company, is now the Executive Chairman of the Board of Arianne.
  - Mr. Dominique Bouchard, already director of the Company, is now the Vice-Chairman of the Board of Arianne.
  - Mr. Jean-Sébastien David is now the Chief Operating Officer of the Company.
  - Mr. Dino Fuoco is now the Chief Financial Officer.
- The final localization of the deep-water port on the Saguenay River has been determined.
- The operating process has been optimized, and two reagents have been eliminated from the process.
- 13% increase in mineral resources located on the Paul Zone
  - An updated estimate on the Paul Zone has increased the resource to 668 million tonnes at 7.01% P<sub>2</sub>O<sub>5</sub> with a 4.0% P<sub>2</sub>O<sub>5</sub> cut-off grade in the measured and indicated category.
  - A new inferred resource has been identified on the Paul Zone of 38 million tonnes at 6.13% P<sub>2</sub>O<sub>5</sub> at 4.0% P<sub>2</sub>O<sub>5</sub> cut-off grade.
- Announced drilling results from the drilling campaign done in 2014 on TraMan and Traverse Zones situated in the southern portion of the Paul zone:
  - Addition of 146 million tonnes of inferred resource at 5.30% P<sub>2</sub>O<sub>5</sub> at the TraMan Zone
  - Addition of 17 million tonnes at 5.98% P<sub>2</sub>O<sub>5</sub> at the Traverse Zone
- The Company announced that it has secured a favourable power agreement with the Québec Ministry of Energy and Natural Resources. The agreement confirms that 115 MW of power from Hydro-Québec will be made available for the Lac à Paul project at a preferential and reduced rate (Rate L).

- Nomination of the chairman of the monitoring committee of Lac à Paul project. This independent committee was formed in accordance to the “Loi sur les Mines” from the Québec Government. The mandate of the monitoring committee is to maintain contact with Arianne and its stakeholders and follow the Lac à Paul project, make recommendations to help the Company accomplish its objectives and commitments.
- The Company has been awarded the e3 Plus prize at the Québec Mineral Exploration Association’s (“Association”) award held on October 22, 2014, in Montréal. This award was presented to Arianne in recognition of its high level of commitment to environmental and social responsibility and its compliance with the best practices outlined in the Association’s online Toolkit.

## 2015

- The Company presented the environmental impact assessment and economic benefits related to its phosphate project to the Bureau d’audiences publiques sur l’environnement (“BAPE”), an independent agency, in February 2015. The presentation marked the start of Arianne’s public information and consultation process to receive environmental permitting for the Lac à Paul project.
- The Company announced a reduction of its operational estimated production cost of US\$4.26 per ton representing a cost savings of almost 5%, from the original Feasibility Study (FS), this should result in annual savings of roughly US\$12.75 million, or close to US\$330 million over the planned 26-year mine life. According to Arianne’s FS filed in October 2013, the Company initially projected an FOB Port of Saguenay cost of US\$93.70 per ton for its premium quality 39% P2O5 concentrate.
- Through exploration activities completed in 2014, Arianne has identified new measured and indicated resources on the Paul Eastern Extension. Arianne’s updated resource estimate now shows a 5% increase in measured and indicated resources (702.7 million tonnes vs. 668.7 million tonnes) over its previously announced resources released on October 14, 2014.
- The Company announced that it has successfully completed a customer trial program that produced a phosphate concentrate with a superior grade and lower contaminants than previously ever achieved by the company. The customer trial produced 1.2 tonnes of phosphate concentrate with a grade of 40.0% of P2O5 and 0.03% of contaminants. The results surpass previous metallurgical test work that had produced a P2O5 concentrate of 38.8% with 0.089% of contaminants.
- 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 of the financial statements. 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.

## 2015 OBJECTIVES

Over the short term, the strategic objectives that guide management and the Company's directors can be summarized as follows:

- Optimize operating and capital expenses;
- Sign the “agreements in principle” with the First Nations;
- Obtain the permitting; and
- Secure the strategic partners and financing.

Over the medium term, the Company's goal remains to build a profitable phosphate mine as soon as permitting and financing are obtained and generate economic returns and benefits for our shareholders as well as stakeholders in the Saguenay–Lac-St-Jean region.

## FEASIBILITY STUDY

In October 2013, Arianne released the FS of its Lac à Paul phosphate mine project. The FS outlines an open pit mine, a mill producing a high-quality phosphate product and a transport system delivering the product to a year-round deep-water port on the Saguenay River.

### Study highlights

- Net present value (“NPV”) of US\$1,910.1 million before taxes at an 8% discount rate.
- Gross revenue, in real terms, of US\$16,124.8 million and operating cash flows of US\$7,379.6 million.
- Internal rate of return (“IRR”) of 20.7% with a capital payback of 4.4 years before taxes and mining duties.
- A 26 year mine life (excluding pre-production) with an average annual phosphate concentrate production of 3 million tonnes with a grade of 38.6% P<sub>2</sub>O<sub>5</sub> and with average mill recovery of 90.0%.
- The initial capital cost of the project is US\$1,214.7 million comprising US\$982.5 million for the mine and US\$232.2 million for the concentrate transport system that delivers product to the deep-water Port of Saguenay, open 365 days a year.
- The all-in cost on board the ship in the deep-water Port of Saguenay is US\$93.7/tonne life of mine (LOM) (i.e. FOB Port of Saguenay) and yields an operating margin of 56% with an average selling price of \$213/tonne at the port.
- Measured and indicated mineral resources in the Paul Zone alone of 590 million tonnes grading an average of 7.13% P<sub>2</sub>O<sub>5</sub> at a 4.0% cut-off grade (does not include 164 million tonnes of Manouane Zone mineral resources).

- 75.7 million tons of saleable concentrate at 38.6% P<sub>2</sub>O<sub>5</sub> in proven and probable mineral reserves, considering a cut-off grade of 3.5% P<sub>2</sub>O<sub>5</sub>, of 472.1 million tonnes at an average grade of 6.9% P<sub>2</sub>O<sub>5</sub> (based on the Paul Zone mineral resource).
- Hydro-Québec confirmed power availability of 115 MW at the Chute des Passes power plant located 30 km from the mine.

## OPERATIONAL REVIEW

### *Paul Zone growth potential*

The Lac à Paul project has strong growth potential. In 2014, a new resource estimate on the Paul Zone and its western extension has amounted to 668 million tonnes at 7.01% P<sub>2</sub>O<sub>5</sub> with a 4.0% P<sub>2</sub>O<sub>5</sub> cut-off grade in the measured and indicated category. In addition, the Company has also identified a new inferred resource on the Paul Zone and its Western Extension of 38 million tonnes at 6.13% P<sub>2</sub>O<sub>5</sub> at 4.0% P<sub>2</sub>O<sub>5</sub> cut-off grade. In addition, the prospecting work identified a promising magnetic anomaly (Naja Zone), located south of the eastern part of the Paul Zone, where visually mineralized samples were taken and one drill hole was done.

Arianne's claims also include Zone 2 and the Manouane zone. The resource estimates according to NI 43-101 were completed on these zones, and they have respectively 64 million tonnes of inferred resources at 4.55% P<sub>2</sub>O<sub>5</sub> and 164 million tonnes of measured and indicated resources at 5.88% P<sub>2</sub>O<sub>5</sub>, cut-off grade of 2.43% P<sub>2</sub>O<sub>5</sub>, for which NI 43-101 resource estimates were completed in 2011. In addition, during exploration and drilling programs conducted over the past four years, six other mineralized zones (Nicole, Lise, Lucie, TraMan, Turc and Traverse) were discovered. Claude Duplessis of Goldminds Geoservices Inc. who is a qualified person for NI 43-101, has completed resource estimates on the Nicole, TraMan and Traverse zones (compliant with NI 43-101).

### *Infrastructure*

The project is located 240 km north of the Saguenay–Lac-St-Jean region in Québec, Canada. This region is well-diversified with good existing infrastructure and has a strong industrial base with a high-quality labour pool. The region is also known for numerous hydropower generating dams. It has a well-developed road network and deep-sea access.

The Lac à Paul project will get its 115 MW of electricity from Hydro-Québec through Rio Tinto Alcan's Chute-des-Passes Power dam, which is located 40 km from the project. A 345-kV/161-kV substation at Chute-des-Passes and a 161-kV power line will be built to supply the electricity to the Lac à Paul mine site.

### *Phosphate concentrate transport*

The phosphate concentrate will be transported by truck from the mine on an existing logging road to a deep-water port located on the north shore of the Saguenay Fjord.

Because of the spring thaw period, the FS assumes road transport will operate at a reduced rate for 21 days. Consequently, 21 days of product storage (200,000 tonnes) has been included at the deep-

water port and 21 days of storage (200,000 tonnes) at the mine. This efficient solution will allow the product to be transported directly from the mine to a deep-water port located in the vicinity of Saint-Fulgence/Sainte-Rose du Nord, on the Saguenay River, in operation 365 days a year.

For many months, the project team developed and analyzed different transportation scenarios for the Company's phosphate rock concentrate. The solution had to be economically viable and represent a minimal impact for local stakeholders. A committee was put in place in November 2013, including representatives of the Municipalité de Saint-Fulgence, M.R.C. du Fjord-du-Saguenay, Collectif de l'Anse à Pelletier and the Arianne team. The different studies led in June 2014 to the selection and presentation of a scenario using forest roads R-253 and R-200 on the "Monts-Valin" and the maritime terminal on the north shore of the Saguenay River at Sainte-Rose du Nord.

In June 2014, a new committee was established to help share Project information with local authorities, including representatives of the Municipalité de Saint-Fulgence, Municipalité de Sainte-Rose du Nord, MRC du Fjord-du-Saguenay, Port of Saguenay, ZEC Martin Valin and the Arianne team. It should be noted that representatives from the First Nations were there as observers.

### ***Fieldwork and heliborne magnetic survey***

In January 2014, a high-sensitivity airborne magnetometer survey was conducted over three contiguous blocks, each with different survey parameters, covering the entire project. The HeliMAGer™ gradiometric system was used over a total of 3,164 km of 100-metre spaced flight lines.

This cutting-edge technology helped to better identify the location of small anomalies and improve the contour of larger ones. The results led to a better definition of the mineralization potential of the Lac à Paul project (see Paul Zone growth potential above).

### ***Drilling and exploration field campaign***

A new program of exploration drilling was carried out from February 3, 2014 to March 31, 2014. The program was conducted on two separate zones: the TraMan Zone and the Western Extension of the Paul Zone. 7,000 meters of rock were drilled and 2,591 analyses were performed. The results of the mineralized intersections along the drilling were disclosed in the press release of June 12, 2014. These results were used for resource estimates made by the firm GoldMinds Geoservices Inc. (compliant with NI 43-101, qualified person: Claude Duplessis).

During the third quarter, an exploration field campaign and a new drilling program was completed. The drilling program focused on the Eastern Extension of the Paul Zone (except one drill hole executed on the Naja Zone). 3,000 meters of rock were drilled and 787 analyses were performed.

### ***Resource estimates***

Following the resource estimates made for the Nicole, TraMan and Traverse Zones, whose results were published in the May 15 and July 16, 2014 press releases, GoldMinds Geoservices Inc. carried out an update on the resources of the Paul Zone which was disclosed in the press release of October 14, 2014.

## ***Metallurgy***

Bulk samples of ore (120 tonnes) were collected in the fall of 2013 on three different lithologies and sent for metallurgical testing.

All the objectives of this new work were achieved or surpassed, and the campaign has had a successful outcome. Based on the finalized flow sheet, all lithologies from Lac à Paul can be readily beneficiated and can be produced with a lower MgO content and a higher percentage of P<sub>2</sub>O<sub>5</sub>. Adding to this benefit, the test work allows the complete elimination of two reagents – starch and sulfuric acid.

The tests, still conducted at COREM, consist in submitting the concentrate to an additional step of high intensity magnetic separation, in order to diminish the iron, aluminium and magnesium contents, to improve what is called “minor element ratio” (MER). The laboratory tests showed an improvement of the ratio from 0.08 to less than 0.04, which is required by the producers of high purity phosphoric acid. A pilot plant testing of the magnetic separation will be done during the next weeks to confirm the results.

## ***First Nations***

Negotiations continued with the three First Nation communities impacted by the Lac à Paul project: Pessamit, Mashteuiatsh and Essipit, to establish a common agreement in principle. The common agreement in principle will be used as a framework to govern the relationship between Arianne and the three communities in accordance with our mutual intentions to further build on a relationship characterized by cooperation and mutual respect, in connection with the development of the Lac à Paul project. The common agreement in principle sets out the areas in which Arianne and the three communities have agreed to work together and maintain effective avenues of communication to support mutual goals.

## ***Community relations Saguenay–Lac-St-Jean***

As the project develops, the Company is maintaining an open dialogue with the stakeholders in the region, as well as with groups and individuals impacted by the project.

Community relations have always been a priority for Arianne. The Company is committed to maintaining full and open communication with all communities affected by the Lac à Paul project.

Throughout the year ended December 31, 2014, numerous meetings were held with key political, economic and community stakeholders involved in the project.

## ***Economic impact of the project***

On January 14, 2014, the firm Raymond Chabot Grant Thornton (RCGT) submitted the results of its study on the economic impacts of the implementation of the Lac à Paul project.

The RCGT analysis confirms that the significant economic benefits of the mine will increase collective wealth in the region by increasing the average income of workers and fostering the emergence of a new cluster of mining contractors, in addition to diversifying the region’s traditional economy based on the forest and aluminium industries.

The Project will also attract new residents with expertise in the mining sector, in addition to generating opportunities for educational institutions in the region. Arianne is working with all stakeholders, including First Nations, so that the project will enable the region to grow and become more competitive.

The economic benefits include:

- Total economic benefits of \$12.6 billion;
- Total revenue for the federal and provincial governments of nearly \$4 billion;
- During construction, the creation of almost 2,250 jobs per year and job-related income of more than \$300 million; and
- During the 26 years of mine operation, nearly 1,000 jobs per year and job-related incomes of over \$1.6 billion.

### ***Port of Saguenay***

In January 2014, discussions with the Port of Saguenay led to signing a letter of agreement to cooperate in building a maritime terminal on the north shore of the Saguenay River in the limits of Sainte-Rose-du-Nord.

The maritime terminal will be subject to a Federal process that will include public hearings. The maritime terminal dossier will therefore be conducted in parallel with the BAPE's public hearings.

The port authority of Saguenay (Port de Saguenay) is preparing to table in the near future a description of a maritime terminal and its adjacent facilities construction project on the north shore of the Saguenay River to the Canadian Environmental Assessment Agency. This project was initiated as a complement to Arianne's apatite mining project.

The aim of Port de Saguenay's project is to meet the needs of Arianne for the shipment of the phosphate concentrate to foreign markets.

### ***Environmental impact study***

As part of the process of obtaining government approval to begin the mine construction, the Company has provided the ministry responsible with updates and answers to their questions. The Company received from the Government the date for the launch of the public consultation process of the BAPE, which started on February 5, 2015 with the first public meeting on February 18, 2015.

### ***Québec Government Interministerial Committee meeting***

Arianne continues to organize meetings with Québec's Interministerial Committee. This committee was set up by the Government to assist Arianne and facilitate the development of the Project in all areas where the Québec Government is involved. This important committee was initially organized in Q4 2013. During 2014, three meetings were held in June, September and October that were all mainly oriented towards financing, permitting, transport and energy.

## **PHOSPHATE INDUSTRY TRENDS**

Since 2008, the rising price of phosphate rock has made it possible to profitably develop new phosphate projects and bring them into production to meet growing global demand.

Phosphate rock mining is declining in North America, and there is now a production deficit that is expected to increase in the coming years. The actual deficit in Canada and United States is 4 million tons per year and the deficit will increase up to 8 million tons per year in 2020. Demand for phosphate is increasing due to global population growth.

Within this context, the Lac à Paul project can make up for part of the shortfall and reliably provide supply security of high-quality phosphate rock.

Phosphate has no substitute and is a key component essential to life. It helps root development and drought resistance of plants.

Phosphate purchasers (the potential clients) are concerned about supply security and are interested in the geopolitical situation of the region where the mine is located. The Lac à Paul project is located in a politically stable mining-friendly jurisdiction.

## SUSTAINABLE DEVELOPMENT

### *Measuring and offsetting greenhouse gas emissions*

As part of its Sustainable Development Policy, Arianne offsets its greenhouse gas (GHG) emissions by investing in sustainable development and innovation projects.

During 2014, Arianne’s activities have been responsible for the emission of 2,070 tonnes of CO<sub>2</sub> equivalent (Table 1).

Arianne’s activities are focused on the development of the Lac à Paul project, fieldwork, including sampling and equipment and workforce transport. Arianne invests in a compensation for the emission of CO<sub>2</sub> equivalent (Table 2).

*Table 1: Greenhouse gas emissions associated with each of the Company’s activities during the year 2014 (in tonnes)*

	<b>Total</b>	<b>Administration and field transportation</b>	<b>Logging</b>	<b>Drilling</b>	<b>Excavation</b>	<b>Other</b>
<i>Work and representation</i>	2,070	195	1,779	67	28	1
<b>Percentage (%)</b>	<b>100%</b>	<b>10%</b>	<b>86%</b>	<b>3%</b>	<b>1%</b>	<b>0%</b>

*Table 2: Summary of offset measures implemented by Arianne as at December 31, 2014*

<b>Emissions</b>	<b>Tonnes</b>
1999-2010	867
2011	222
2012	963
2013	100
2014	2,070
<b>Financial equivalents</b>	<b>4,222</b>
Price/tonne CO <sub>2</sub> (\$/tonne)	11.39
Amount to offset (\$)	48,089
<b>Amounts already invested</b>	<b>\$</b>
Global TraPs 2011	5,181
UQAC Eco-advising Chair	4,240
Global TraPs 2012	3,490
Research grant 2012-2014	27,000
Carbone Boréal 2012	37
<b>Total invested</b>	<b>39,948</b>
<b>Additional investment</b>	<b>8,141</b>

## SELECTED ANNUAL INFORMATION

### Highlights of the last three fiscal years

	DECEMBER 31, 2014	DECEMBER 31, 2013	DECEMBER 31, 2012
	\$	\$	\$
Total assets	44,654,876	39,655,934	23,938,767
Non-current financial liabilities – credit line	-	11,399,817	3,275,547
Net loss	5,662,140	6,407,836	5,402,587
Net loss per share	0.06	0.08	0.08

The financial statements have been prepared in accordance with IFRS, as issued by the International Accounting Standards Board (“IASB”). The accounting policies applied in the 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 financial statements.

### Results of operations for the year ended December 31, 2014

The net loss for the year ended December 31, 2014 is \$5,662,140 compared to a net loss of \$6,407,836 for the year ended December 31, 2013 and \$5,402,587 for the year ended December 31, 2012.

This decreased loss between those three years is mainly due to income tax recovery of \$189,445 compared to deferred income taxes expense of \$1,288,844 in 2013 and to an income tax recovery of \$44,000 in 2012. This amount is related to the expected manner of recovery of the Company’s prospection and evaluation assets as there are indications that its exploration and evaluation assets could be recovered through use rather than through sale. This has been reflected in 2013/2012. Accordingly, the Company recorded a deferred income tax liability of \$2,034,817.

The operating loss in 2014 of \$5,610,243 was higher than in 2013 and 2012 (\$4,851,903 and \$5,352,321). This is primarily due to the higher salaries and fringe benefits related to the increase in size of the team that will carry out the Lac à Paul project (increase of \$580,265 between 2014 and 2013 and \$771,112 between 2013 and 2012).

This is also due to higher share-based compensation during 2014 compared to 2013 (increase of \$350,569 between 2014 and 2013). This increase is primarily due to the expense related to the value of share purchase options granted and the vesting period according to the Stock Option Plan of the Company.

This is offset by an impairment charge of \$99,354 recorded in 2014 on mining properties and exploration and evaluation assets, while \$240,920 was recorded in 2013 and \$2,059,680 in 2012. The impairment charge is decreasing due to the focus of the Company on the exploration and development of its mining property at Lac à Paul. All the other properties were impaired as at December 31, 2014. The professional and consultant fees decrease of \$135,869 between 2014 and 2013 due to the lower level of activities and increase of \$952,801 between 2013 and 2012 was due to the higher level of activities.

Most other operating expenses in 2014 increased as a result of the increased level of activity at the Company as it continued the development of the Lac à Paul project, increased public consultations with local communities and increased discussions with shareholders and other stakeholders and of the increase in the rent due to the new location of the corporate office. Also the Company recorded a gain on disposal of mining property of \$197,000, whereas a loss on disposal of \$20,926 was recorded in 2013 (nil in 2012).

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 for 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 net proceeds of \$194,010, thus recording a gain on disposal of marketable securities classified as available-for-sale of \$14,090.

In 2014, the Company disposed of the Dulain and R-14 mining properties to other parties in exchange for \$17,000 in cash. The carrying value of the property was nil at the date of the sale, resulting in a gain on disposal of \$17,000.

## FINANCIAL POSITION ANALYSIS

As at December 31, 2014, total assets are higher compared to December 31, 2013. This is mainly due to the increase in the exploration and evaluation assets to \$36,623,579 in 2014 compared with \$27,238,956 in 2013. All through the year, the Company has continued to develop these assets by investing \$9,384,623 net of tax credits and impairment in its exploration and evaluation assets, composed of the Lac à Paul property. The increase is also due to the increase of property, plant and equipment and intangible assets representing an increase of \$431,815, net of depreciation. During 2014, the Company totally impaired its mining properties Mirepoix and Phosphore for a total amount of \$54,575; the exploration and evaluation assets of those properties were also totally impaired amounting to \$44,779.

Current liabilities as at December 31, 2014 at \$13,846,931 are higher than at December, 31 2013, at \$2,714,904, as a result of the classification of the credit line and related accrued interests due in December 2015 as current liabilities. The accounts payable and accrued liabilities had also increased from \$538,934 in 2013 to \$1,191,290 in 2014. This is due to the higher expenses engaged at the end of the year and an increase of the delay of payment.

In 2014, the Company repaid a loan of \$1,500,000 and related interest of \$66,500.

## CASHFLOWS, LIQUIDITY AND CAPITAL MANAGEMENT

Liquidity risk is the risk that the Company encounters difficulty in meeting obligations associated with its financial liabilities. The Company's cash balance as at December 31, 2014 was \$3,837,720, and it has a non-current tax credit related to resources and mining tax credit receivable of \$1,501,843.

Based on current spending estimates for project development in 2015 and the current portion of the credit line, the Company will need additional financing during 2015. The Company expects it will be able to secure sufficient financing at reasonable rates but has no assurance that it will be able to do so.

Cash flows from (used in)	December 31, 2014 \$	December 31, 2013 \$
Operating activities before the net change in non-cash working capital items	(4,886,069)	(4,042,162)
Net change in non-cash working capital items	722,729	(1,098,143)
Operating activities	(4,163,340)	(5,140,305)
Investment activities	(6,841,277)	(12,665,349)
Financing activities	7,946,006	19,476,009
Increase (decrease) in cash and cash equivalents	(3,058,611)	1,670,355

### Operating activities

For the year ended December 31, 2014, cash outflows from operating activities totalled \$4.2 million, while there was \$5.1 million of cash outflows for the same period in 2013. The change in non-cash working capital increased by \$1.8 million during the year, which is explained by the increase of accounts payable and accrued liabilities. The Company also recorded a gain on disposal of 0.2 million in 2014.

### Investment activities

For the year ended December 31, 2014, cash used in investing activities was \$6.9 million, which primarily reflects expenses for exploration and evaluation assets of \$8.0 million and was related to the development of the Lac à Paul project and to the acquisition of property, plant and equipment assets for an amount of \$0.4 million and was offset by the receipt of the refundable tax credit for resources from the Government of Quebec of \$1.4 million.

### **Financing activities**

For the year ended December 31, 2014, cash provided by financing activities was \$7.9 million versus \$19.5 million in 2013. The decrease is primarily due to the fact that the credit line was fully drawn in 2013 for \$12.5 million and a loan payable acquired of \$1.5 million. In 2014, there was a repayment of the \$1.5 million loan, which was partially offset by the receipt of gross proceeds from the exercise of warrants, stock options and options granted to brokers of \$2.0 million and \$8.0 million received from the private placement less share issuance expenses of \$0.6 million.

## **FINANCING**

Under the terms, the Company has received a total of \$2.0 million from the exercise of 1,472,500 warrants, 580,000 stock options and 88,000 options granted to brokers.

Under the terms, the Company closed the first tranche of a private placement financing for gross proceeds of \$5,631,000. On October 16, 2014, the Company closed the second tranche of a private placement financing for gross proceeds of \$2,369,000. Directors and officers of the Company subscribed to the private placement for aggregate gross proceeds of \$216,000.

Under the terms of the private placement (“Offering”), the Company issued 8,000,000 units at a price of \$1.00 per unit. 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.

### **Working capital**

The negative working capital is \$9,442,302 as at December 31, 2014 compared to a positive working capital of \$6,402,066 as at December 31, 2013. The decrease was primarily due to the classification of the credit line from non-current to current as the payment of the capital and interest is due in December 2015.

Management estimates that the cash available at the end of 2014 will not be sufficient to meet the Company’s obligations and budgeted expenditures through December 31, 2015. These circumstances lend some 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.

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 deferral of its debt. 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 financial statements.

### SUMMARY OF QUARTERLY RESULTS

	March 31, 2013	June 30, 2013	September 30, 2013	December 31, 2013	March 31, 2014	June 30, 2014	September 30, 2014	December 31, 2014
	\$	\$	\$	\$	\$	\$	\$	\$
Net loss	(2,169,700)	(1,508,001)	(1,675,090)	(1,055,045)	(1,405,964)	(1,636,936)	(1,260,208)	(1,359,032)
Basic and diluted loss per share	(0.01)	(0.02)	(0.02)	(0.01)	(0.02)	(0.02)	(0.01)	(0.01)

For each quarter in financial year 2013 and financial year 2014, the information contained in the summary of quarterly results is presented in accordance with IFRS. Amounts in this table are presented in Canadian dollars which is also the functional currency.

For the quarters ended March 31, 2013, June 30, 2013 and September 30, 2013 the net loss was higher due to the administration fees surrounding the FS release in October 2013. For the last quarter of 2013, the net loss decreased to \$1,055,045 due to the lower activity from the FS and also the impairment of the properties and of the exploration and evaluation assets recorded in the last quarters of 2013 amounting \$240,920. For the first two quarters of 2014, the net loss increased compared to December 2013. This is due to the exploration campaign and the hiring of new employees. For the second half of the year 2014, the net loss has decreased due to reduced activities from less use of external consultants.

### SUMMARY OF FINANCIAL ACTIVITIES FOR THE THREE MONTH PERIOD ENDED DECEMBER 31, 2014

The net loss in the Q4 2014 increased to \$1,359,032 vs. \$1,055,045 in Q4 2013.

The net loss for the quarter also includes \$196,260 (\$212,829 in 2013) in share-based compensation expense, a decrease of \$16,569 compared to the same period in 2013. The Company also realized in Q4 2014 a gain on disposition of mining property of \$197,000 (nil in 2013).

## RELATED PARTY TRANSACTIONS

The following operations occurred during the year ended December 31, 2014 and 2013:

	Year ended December 31, 2014	Year ended December 31, 2013
	\$	\$
Company controlled by a former Chief Executive Officer (CEO) (1)		
Exploration and evaluation expenditure	-	27,900
Insurance and other	-	14,445
Management fees	<u>-</u>	<u>8,333</u>
	<u>-</u>	<u>50,678</u>
Balance included in accounts payable and accrued liabilities	-	-

	2014	2013
	\$	\$
<b>Key management compensation (2)</b>		
Share-based compensation	125,100	364,650
Management fees	<u>390,168</u>	<u>382,500</u>
	515,268	747,150
Salaries and fringe benefits (3)	<u>747,515</u>	<u>715,974</u>
	<u>1,262,783</u>	<u>1,463,124</u>
Balance included in accounts payable and accrued liabilities	73,056	364,650

- (1) The former 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 as well as prior CEO and CFO up to their termination dates which are respectively December 2014 and August 2014. 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 six 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.

During 2014:

- i) Windermere charged \$447,441 in finder's fees; and
- ii) 447,750 broker's warrants were granted to Windermere exercisable at \$1 that expire in July and October 2016.

Those fees were charged in order to close a private placement of \$8.0 million. The brokers warrants were recorded at the fair value calculated using the Black-Scholes pricing model. The fair value of warrants was estimated at \$75,798.

## OFF BALANCE SHEET ARRANGEMENTS

As of the date of this MD&A, the Company does not have any off balance sheet arrangements that have, or are reasonably likely to have, a current or future effect on the results of operations or financial condition of the Company, including, and without limitation, such considerations as liquidity and capital resources.

## OBLIGATIONS AND 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 recorded a provision of \$65,000 regarding litigation between the outfitter and its former manager.
- c) 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.
- d) The Company's future minimum operating lease payments for the rent in Chicoutimi, 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

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	-	-

## APPLICATION OF NEW AND REVISED IFRS AND CRITICAL ACCOUNTING ESTIMATES

The preparation of consolidated financial statements in conformity with IFRS requires management to make estimates and assumptions that affect amounts reported in the financial statements and accompanying notes. There is a full disclosure and description of the Company's critical accounting policies and accounting estimates in note 4 of the audited financial statements for the year ended December 31, 2014. In addition, there is a summary of significant accounting policies in note 2 of the financial statements for the year ended December 31, 2014.

## FINANCIAL INSTRUMENTS, FINANCIAL RISKS AND CAPITAL MANAGEMENT

There is a full disclosure and description of the Company's financial instruments, financial risks and capital management in note 22 of the financial statements for the year ended December 31, 2014.

## INFORMATION ON SHARES OUTSTANDING

As at April 2, 2015, 95,325,755 common shares are issued and outstanding. There are 6,019,167 shares purchase options, 9,617,500 warrants and 792,659 options granted to brokers outstanding.

(s) Jean-Sébastien David  
Jean-Sébastien David  
Chief Operating Officer

(s) Dino Fuoco  
Dino Fuoco  
Chief Financial Officer

## **Board of Directors and Officers**

**Pierre Fitzgibbon**, Executive Chairman of the Board of Directors

**Dominique Bouchard**, Vice-Chairman of the Board of Directors

**Jim Cowley**, Director

**Steven L. Pinney**, Director

**Dave DeBiasio**, Director

**Siva J. Pillay**, Director

**Marco Gagnon**, Director

**Brian Ostroff**, Director

**Jean-Sébastien David**, Chief Operating Officer

**Dino Fuoco**, Chief Financial Officer

**Daniel Boulianne**, Vice President Exploration

## **Ticker symbols**

DAN: TSX-V (Canada)

JE9N: FSE (Germany)

DRRSF: OTCQX (USA)

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