



*ARIANNE PHOSPHATE INC.*

*MANAGEMENT'S DISCUSSION AND ANALYSIS*

**First quarter of 2014**

**Period ended March 31, 2014**

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Management's Discussion and Analysis ("MD&A") presents an analysis of the financial situation and operation of Arianne Phosphate Inc. ("Arianne" or the "Company") for the period ended March 31, 2014. This report, prepared in compliance with the provisions of Form 51-102F1, approved by the Board of Directors and dated May 28, 2014, should be read in conjunction with the unaudited condensed interim consolidated financial statements for the period ended March 31, 2014 (the "financial statements").

The condensed interim consolidated financial statements for the period ended March 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 start of commercial production in 2017 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.

## **2014 HIGHLIGHTS**

### ***The Company***

#### *Strategy and visibility*

- In early 2014, the Company announced new drilling with the objective of increasing the mineral resources and extending the operational life of its Lac à Paul phosphate rock project. This new drilling program was intended to test the western extension of the Paul Zone, which had not yet been drilled, and to test the depth potential of the TraMan Zone.
- The Company announced additional testing for the Paul Zone ore in COREM, to finalise the flowsheet and to optimise reagent consumption based on a 120 tonne bulk sample of various ore body lithologies. All the objectives of the testing were achieved or surpassed and the campaign has had a very successful outcome. Based on the finalized flow sheet, all lithologies from 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> as compared to the concentrate considered for Arianne's October 2013 FS. Of added benefit, the test work allows the complete elimination of two reagents: starch and sulfuric acid, thereby significantly decreasing production costs and the environmental impact of the process.

- Arianne has been recognized as a 2014 TSX Venture 50 company. The TSX Venture 50 is an annual ranking of strong performers from five sectors: clean technology, diversified industries, mining, oil & gas, and technology & life sciences. The award validates the considerable progress the Company has made towards becoming a significant Quebec-based Canadian phosphate producer.
- The Company has continued to work with the Ministère du développement durable, de l'environnement, de la faune et des parcs (MDDEP) to secure the receivability of the company's Environmental Impact Assessment.
- The Company commissioned a study with the firm Raymond Chabot Grant Thornton on the economic benefits of the project. The analysis established that the Lac à Paul project would be the biggest investment in the Saguenay-Lac-Saint-Jean region in the current decade and would generate total economic benefits of 12 B\$.
- On April 2, 2014, the Company disposed of two non-core, non-phosphate properties, the Opinaca and Black Dog properties, to Virginia Mines Inc. (Virginia) in return for 15,000 shares of Virginia at \$12 per share (TSX closing price on April 1, 2014).
- The Company reported the addition of 78 million tonnes at 5.34% P<sub>2</sub>O<sub>5</sub> in the inferred category at 3.5% P<sub>2</sub>O<sub>5</sub> cut-off grade to its mineral resources. In addition, the Company has identified new potential targets.
- On February 28, 2014, the Company made the repayment of its loan payable including its capital and interest of \$1,500,000 and \$66,500 respectively. The Company has received \$1,825,900 from the exercise of warrants and \$86,500 from the exercise of options.

### ***Lac à Paul Project***

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. Within this context, the Lac à Paul project can make up for part of the shortfall and provide a reliable and secure source of high-quality phosphate rock.

## **FEASIBILITY STUDY**

In October 2013, Arianne Phosphate released the Feasibility Study (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 flow 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 25.75 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 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 tonnes 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

*Information and news releases (collectively, the "Disclosure Documents") are available under Arianne Phosphate Inc.'s company profile on SEDAR at [www.sedar.com](http://www.sedar.com). Each Disclosure Document was prepared by or under the supervision of a qualified person (a "Qualified Person") as defined in National Instrument 43-101 Standards of Disclosure for Mineral Projects of the Canadian Securities Administrators ("NI 43-101"). Readers are encouraged to review the full text of the Disclosure Documents which qualifies the Technical Information. Readers are advised that mineral resources that are not mineral reserves do not have demonstrated economic viability. The Disclosure Documents are each intended to be read as a whole, and sections should not be read or relied upon out of context. The Technical Information is subject to the assumptions and qualifications contained in the Disclosure Documents*

### ***Growth potential***

The Lac à Paul project has very strong growth potential. There is the possibility of extending the Paul Zone to the east and west and a new zone, “Nouvelle”, north east of Paul has been identified. Arianne's claims also includes Zone 2 and the Manouane and Nicole zones for which NI 43-101 resource estimates were completed. In addition, during exploration and drilling programs conducted over the past four years, five other mineralized zones (Lise, Lucie, TraMan, Turk and Traverse) were discovered. However, none of these five zones has yet been the subject of an NI 43-101 compliant resource estimate.

### ***Infrastructure***

The project is located 240 km north of the Saguenay–Lac-St-Jean region in Quebec, Canada, an industrial region with a high-quality labour pool and good existing infrastructure which includes hydropower generating stations with sufficient capacity for the project, road networks and a deep-water port.

The Lac à Paul project will be powered by Hydro-Québec through Rio Tinto Alcan's power system from the Chute-des-Passes generating station, which is located 30 km from the project. A 345-kV to 161-kV step-down substation will be built at Chute-des-Passes. This new substation will supply power through a 161-kV transmission line.

Construction of a permanent camp, a fresh process water system and pumping station, tailings impoundments and a water treatment station is planned during the preproduction phase. A waste rock dump will be built in the course of mining operations.

A tailings storage facility, located just 2 km from the mill, was selected to store and manage the tailings for the 25.75-year LOM of the Lac à Paul Project.

### ***Phosphate concentrate transport***

The phosphate concentrate will be transported by truck from the mine site 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 Feasibility Study assumes road transport will operate at a reduced rate for 30 days. Consequently, 30 days of product storage (250,000 tonnes) has been included at the 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 at Saint-Fulgence on the Saguenay Fjord, in operation 365 days a year.

### ***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 HéliMAGer™ 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.

### ***Drilling***

A new program of exploration drilling was carried out from February 3 to March 31, 2014. The program was conducted on two separate zones: the TraMan Zone and the western extension of the Paul Zone. The results of the drilling campaign are expected to be released in Q2 FY2014.

### ***Resource calculation***

The Company commissioned GoldMinds Geoservices Inc. to prepare a preliminary resource model of the Nicole Zone based on holes drilled on this Zone in 2011 and on the results of the 2014 airborne magnetometer survey. This resulted in an identification of additional inferred resources in Nicole.

### ***Metallurgy***

Bulk samples of ore (120 tonnes) were collected in fall 2013 on three different lithologies and sent to COREM, Quebec, for metallurgical testing. The tests were conducted in two phases: laboratory validation of the process and then confirmation of the results at the pilot-plant scale.

The first phase, laboratory testing, was completed during the quarter. The results indicate that the process selected was very applicable to all lithologies, with the production of phosphate concentrate containing about 39% P<sub>2</sub>O<sub>5</sub> with a recovery rate of over 90%.

### ***First Nations***

Three First Nation communities are impacted by the proposed Lac à Paul open pit mine: the communities of Pessamit, Mashteuiatsh and Essipit.

Arianne informs the communities of Mashteuiatsh and Pessamit about the periods during which exploration is carried out on its Lac à Paul project.

In January 2014, Arianne appointed an official negotiator to work on «agreements in principle" to be established with each First Nation community. The information contained in these agreements will lay the groundwork for the IBA's (Impact and Benefit Agreements) that will be reached between the band councils of each First Nation mentioned above and the Company.

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

As the project develops, the Company is maintaining its engagement with social and political stakeholders in the region, as well as with the groups and/ or 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 first quarter of 2014, numerous meetings were held with key political, economic and social stakeholders involved in the project.

### ***Economic impacts 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 to the Company.

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 aluminum industries.

The project will also attract new residents with expertise in the 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 operations, nearly 1,000 jobs per year and job related incomes of over \$1.6 billion.

### ***Saint-Fulgence Working Committee***

Monthly meetings of the Working Committee were led by the Mayor of Saint-Fulgence to allow Arianne to present and discuss the progress of studies regarding various access routes and alternative locations for the Saint-Fulgence shipping dock with various stakeholders of the Fjord du Saguenay RCM, the municipality of Saint-Fulgence and representatives of residents from targeted sectors.

### ***Land options and alternative routes in Saint-Fulgence***

In January 2014, an agreement was signed to option land in the area of Saint-Fulgence.

### ***Port Saguenay***

In January 2014, discussions with the Port of Saguenay led to signing a letter of agreement to cooperate in setting up and an operating an additional shipping dock on the north bank of the Saguenay River in Saint-Fulgence.

### ***Human resources and team growth***

Arianne expanded its team with the hiring of new specialized resources to assist in meeting key business objectives

## **2014 OBJECTIVES**

The strategic objectives that guide management and directors can be summarized as follows:

Over the short term:

- Continue the Lac-à-Paul project (the “**Project**”) development, add value to and de-risk the Project;
- Engage in discussions with potential industry and financial partners with the objective of securing strategic investment and offtake contracts;
- Secure the required financing for the Corporation’s ongoing operations; and
- Develop financing scenarios and move towards securing financing for the Project’s realisation phase.

Over the long term, the Corporation’s goal remains to build a profitable phosphate mine, start production and generate economic returns and benefits for our shareholders as well as stakeholders in the Saguenay Lac St Jean.

## **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 the first quarter of 2014, Arianne’s activities were responsible for the emission of 124 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, produced the most emissions during the first quarter of 2014 (Table 2).

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

	<b>Total</b>	<b>Administration and field transportation</b>	<b>Drilling</b>	<b>Excavation</b>	<b>Other</b>
<i>Work and representation</i>	124.0	65	37	22	0.0
<b>Percentage (%)</b>	<b>100%</b>	<b>52%</b>	<b>30%</b>	<b>18%</b>	<b>0%</b>

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

<b>Emissions</b>	<b>Tonnes</b>
1999-2010	867
2011	222
2012	963
2013	100
2014	124
<b>Total</b>	<b>2,276</b>
<b>Financial equivalents</b>	
Price/tonne CO <sub>2</sub> (\$/tonne)	11.39
Amount to offset (\$)	25,924
<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	9,000
Carbone Boréal 2012	37
Research grant 2013	9,000
Research grant 2014	9,000
Total invested	39,948
<b>Additional investment</b>	<b>14,024</b>

## **SUMMARY OF FINANCIAL ACTIVITIES FOR THE QUARTER ENDED MARCH 31, 2014**

The net loss for the three months ended March 31, 2014, totalled \$1,405,963 compared with a net loss of \$2,169,703 for the same period in 2013.

This decreased loss for the first quarter of 2014 is mainly due to the change in the method of estimating deferred tax, creating a variation of \$1,423,435. This amount comes from the method prescribed for recovery of exploration and evaluation assets, since there are indications that the exploration and evaluation assets will be recovered by operations rather than disposal. For the first quarter of 2014, the Company recorded a deferred tax recovery of \$154,858.

The loss is also due to the increase in administrative costs related to the Company's greater level of activity for the development of the Lac à Paul project and the increase in public consultations with local communities and in discussions with shareholders and other stakeholders.

Salaries and benefits increased to \$387,717 (\$135,953 in March 31, 2013). This increase is related to the appointment of a new officer, additional staff and other employee related costs.

The net loss for the year also includes \$275,616 (\$56,616 in March 31, 2013) in share-based compensation expense, an increase of \$219,000 versus the prior period. The increase in 2014 is primarily due to the new stock options granted by the Company during the year 2013.

## **ANALYSIS OF FINANCIAL CONDITION**

For the three months ended March 31, 2014, the Company recorded a net loss of \$1,405,963 and therefore has an accumulated deficit of \$30,349,870 as at March 31, 2014.

In addition to ongoing working capital requirements, the Company must secure sufficient funding to meet its obligations and pay general and administrative costs.

As at March 31, 2014, the Company had working capital of \$4,484,477 including \$5,281,709 in cash and cash equivalents and \$1,220,846 in cash reserved for exploration and evaluation related to flow through financing completed in 2013.

Between January 1, 2014, and March 31, 2014, the Company received a total of \$1.9 million from the exercise of warrants and of stock options. Based on current spending estimates for future project development, Arianne anticipates it will need additional financing in 2014.

Any funding shortfall may be met in the future in a number of ways, including but not limited to the issuance of new debt or equity instruments, expenditures reductions and/or the introduction of joint venture partners and/or business combinations.

While Management has been successful in securing financing in the past, there can be no assurance 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 that 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 financial statements.

As at March 31, 2014, current assets are lower as compared with December 31, 2013. This is mainly due to the lower cash available as at March 31, 2014. A portion of the 2012 tax credits was received during the first quarter of 2014 for a total of \$ 1,378,009.

The increase in non-current assets as at March 31, 2014, compared with December 31, 2013, is mainly due to the increase in exploration and evaluation assets in the amount \$3.3M as a result of the following: the drilling program (\$0.4M), stripping and road repairs (\$0.1M), general expenses (\$0.2M), chemical analysis (\$0.1M), line cutting and geophysics (\$0.1M), planning and supervision (\$0.1M). The professional fees to develop the Lac à Paul project are metallurgical expenses (\$1.0M) and technical studies (\$0.8).

Current liabilities as at March 31, 2014, are lower than at December 31, 2013, since on February 28, 2014, the Company repaid the loan including principal and interest of \$1,500,000 and \$66,500, respectively. Conversely, accounts payable and accrued liabilities are larger because of the expenses of the drilling program, the studies on the Lac à Paul project and the metallurgical tests. In addition, \$167,868 was classified as current portion of the credit line as at March 31, 2014.

The change in capital-stock is explained by the exercise of 430,000 stock options and 1,472,500 warrants.

## CASH FLOWS AND LIQUIDITY

Based on current spending estimates for project development in 2014, the Company expects that it will need additional financing in 2014. The Company expects to be able to obtain sufficient financing at a reasonable price, but there is no guarantee it will be able to do so.

	March 31, 2014 \$	March 31, 2013 \$
Cash flows from operating activities before the net change in non-cash operating working capital items	(1,219,583)	(803,864)
Net change in non-cash operating working capital items	178,801	(1,431,990)
Operating activities	(1,040,782)	(2,235,854)
Investment activities	(986,240)	(2,195,790)
Financing activities	412,400	4,097,306
Increase (decrease) in cash and cash equivalents	(1,614,622)	(334,338)

### **Operating activities**

For the period ended March 31, 2014, cash outflows from operating activities totalled \$1.0 million, compared with \$2.2 million for the period ended March 31, 2013.

### **Investment activities**

For the period ended March 31, 2014, cash flows used in investing activities amounted to \$1.0 million, primarily reflecting outflows related to the acquisition of exploration and evaluation assets for an amount of \$2.3 million and are offset by the receipt of the refundable tax credit for resources from the Government of Quebec of \$1.4 million. These outflows are directly related to the continuation of studies on the Lac à Paul project.

### **Financing activities**

For the three-month period ended March 31, 2014, cash flows from financing activities totalled \$0.4 million compared with \$4.1 million in 2013. The decrease is primarily due to the fact that the credit line is fully drawn and the repayment of the \$1.5M loan partially offset by the receipt of proceeds from the exercise of warrants and shares in the first quarter in the amount \$1.9M\$.

## **FINANCING**

In January 2014, the Company received a total of \$1.9 million from the exercise of 1,472,500 warrants at \$1.24 per share. During the same month, the Company received \$86,500 from the exercise of stock options.

### **Working capital**

As at March 31, 2014, the Company had working capital of \$4,484,477 (\$6.4M in Q1 2013), including the cash reserved for exploration and evaluation expenses of \$1,220,846 related to flow through share financings completed in 2013.

Management believes that the working capital available as at May 28, 2014, will not be sufficient to meet the Company's obligations and budgeted expenditures through December 31, 2014. For these reasons, there is significant doubt about the ability of the Company to meet its obligations as they fall due and, therefore, as to the appropriateness of the use of accounting principles applicable to a going concern.

The financial statements do not reflect any adjustments in the carrying values of assets and liabilities, reported expenses, and statement of financial position classifications used that would be necessary if the going concern basis was not appropriate. Such 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. If Management is not able to obtain new financing, the Company may be unable to continue its operations, and amounts realized for assets may be less than the amounts reported in the condensed consolidated interim financial statements.

### SUMMARY OF QUARTERLY RESULTS

	June 30 2012	September 30 2012	December 31 2012	March 31 2013	June 30 2013	September 30 2013	December 31 2013	March 31 2014
	\$	\$	\$	\$	\$	\$	\$	\$
Net loss	(756,117)	(1,585,171)	(2,729,669)	(2,169,703)	(1,508,001)	(1,675,090)	(1,055,045)	(1,405,963)
Basic and diluted net loss per share	(0.01)	(0.02)	(0.02)	(0.01)	(0.02)	(0.02)	(0.01)	(0.02)

For each quarter of fiscal 2012, 2013 and 2014, the information contained in the summary of quarterly results is presented in accordance with International Financial Reporting Standards ("IFRS"). The amounts in this table are presented in Canadian dollars, which is also the functional currency.

## RELATED PARTY TRANSACTIONS

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

- (1) Key executives include the chief executive officer, chief operating officer, chief financial officer, president, and the vice president.
- (2) Salaries and benefits include an amount of \$51,122 recorded as exploration and evaluation assets.

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

## OFF BALANCE SHEET ARRANGEMENTS

As at the date of this report, the Company has no 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, without limitation, such considerations as liquidity and capital resources.

## CONTRACTUAL OBLIGATIONS AND COMMITMENTS

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

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

## APPLICATION OF NEW AND REVISED IFRS

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.

## FINANCIAL INSTRUMENTS, FINANCIAL RISK AND CAPITAL MANAGEMENT

The Company's financial instruments, financial risk and capital management are presented and described in Note 3 to the unaudited condensed interim consolidated financial statements for the period ended March 31, 2014.

## INFORMATION ON OUTSTANDING SHARES

87,087,755 common shares are issued and outstanding as at May 31, 2014. Also, there are 5,217,500 warrants, 5,710,000 share purchase options and 432,909 options granted to brokers in circulation.

## INFORMATION ON OUTSTANDING SHARES

As at May 28, 2014, 87,087,755 common shares were issued and outstanding. There were 5,868,333 exercisable stock options, 5,217,500 warrants and 432,909 options issued to brokers outstanding.

(s) Siva J. Pillay

Siva J. Pillay  
Director and Chair of the Audit Committee

(s) L. Derek Lindsay

L. Derek Lindsay  
Chief Financial Officer and Corporate Secretary

## **Board of Directors and Officers**

**Guthrie J. Stewart**, Acting Chair of the Board of Directors

**Steven L. Pinney**, Director

**Dave DeBiasio**, Director

**Siva J. Pillay**, Director

**Dominique Bouchard**, Director

**Marco Gagnon**, Director

**Pierre Fitzgibbon**, Director

**Jim Cowley**, President and Director

**Brian Kenny**, Chief Executive Officer

**L. Derek Lindsay**, Chief Financial Officer and Corporate Secretary

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

**Daniel Boulianne**, Vice President Exploration

## **Ticker symbols**

DAN: TSX-V (Canada)

JE9N: FSE (Germany)

DRRSF: OTC BB (USA)

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