



## Condensed Interim Consolidated Financial Statements

**For the Three and Nine Months Ended  
September 30, 2014 and 2013 (unaudited)**



**MBAC FERTILIZER CORP.**

## Condensed Interim Consolidated Balance Sheets

As at September 30, 2014 and December 31, 2013 (Unaudited and in thousands of United States dollars)

	September 30, 2014	December 31, 2013
<b>ASSETS</b>		
<b>Current</b>		
Cash and cash equivalents	\$ -	\$ 661
Restricted cash (Note 4)	1,675	9,072
Accounts receivable	567	446
Inventories (Note 5)	7,440	8,068
Other current assets (Note 6)	3,205	5,740
	<b>12,887</b>	<b>23,987</b>
<b>Non-Current</b>		
Restricted cash (Note 4)	-	14,572
Other long-term assets (Note 6)	27,063	34,495
Property, plant and equipment (Note 7)	407,174	373,965
Mineral properties (Note 8)	65,293	64,238
<b>Total Assets</b>	<b>\$ 512,417</b>	<b>\$ 511,257</b>
<b>LIABILITIES</b>		
<b>Current</b>		
Bank indebtedness	\$ 578	\$ -
Accounts payable and accrued liabilities	32,090	28,834
Deferred revenue (Note 9)	3,744	1,824
Debt (Note 11)	254,039	252,510
	<b>290,451</b>	<b>283,168</b>
<b>Non-Current</b>		
Other long-term liabilities (Note 10)	12,888	8,759
Deferred income	5,000	5,000
<b>Total Liabilities</b>	<b>308,339</b>	<b>296,927</b>
<b>SHAREHOLDERS' EQUITY</b>		
Share capital (Note 12)	324,083	328,865
Contributed surplus	18,330	18,492
Warrant reserve (Note 12(d))	10,655	5,542
Accumulated other comprehensive loss	(17,388)	(26,673)
Deficit	(131,602)	(111,896)
	<b>204,078</b>	<b>214,330</b>
<b>Total Liabilities and Shareholders' Equity</b>	<b>\$ 512,417</b>	<b>\$ 511,257</b>

**General Information and Going Concern** (Note 1)

**Commitments and Contingencies** (Note 16)

ON BEHALF OF THE BOARD:

Signed: "Peter Marrone"

**Peter Marrone**  
Director

Signed: "Cristiano Melcher"

**Cristiano Melcher**  
Director

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

**MBAC FERTILIZER CORP.****Condensed Interim Consolidated Statements of Operations**

For the periods ended (Unaudited and in thousands of United States dollars except for per share amounts)

	Three months ended		Nine months ended	
	September 30, 2014	September 30, 2013	September 30, 2014	September 30, 2013
Operating expenses				
Selling, general and administrative expenses	\$ 3,026	\$ 2,729	\$ 7,568	\$ 9,697
Exploration and evaluation expenditures	23	149	112	404
	3,049	2,878	7,680	10,101
Operating loss	(3,049)	(2,878)	(7,680)	(10,101)
Unrealized foreign exchange loss (Note 13)	(12,262)	(2,303)	(748)	(9,611)
Realized foreign exchange loss	(28)	(141)	(1,692)	(739)
Other income (expense)	280	(590)	(3,708)	4,047
Finance expense (Note 14)	(3,251)	(235)	(4,603)	(3,446)
Loss before income taxes	(18,310)	(6,147)	(18,431)	(19,850)
Deferred income tax expense (Note 15)	434	433	1,275	1,392
Net loss	\$ (18,744)	\$ (6,580)	\$ (19,706)	\$ (21,242)
Basic and diluted loss per share (Note 12(b))	\$ (0.10)	\$ (0.04)	\$ (0.12)	\$ (0.15)

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

**MBAC FERTILIZER CORP.****Condensed Interim Consolidated Statements of Comprehensive Income**

For the periods ended (Unaudited and in thousands of United States dollars)

	Three months ended		Nine months ended	
	September 30, 2014	September 30, 2013	September 30, 2014	September 30, 2013
Net loss	\$ (18,744)	\$ (6,580)	\$ (19,706)	\$ (21,242)
Other comprehensive income (loss)				
Items that may be reclassified subsequently to profit and loss:				
Cumulative translation adjustment	(560)	(6,697)	9,285	(7,450)
Comprehensive loss	\$ (19,304)	\$ (13,277)	\$ (10,421)	\$ (28,692)

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



**MBAC FERTILIZER CORP.**

## Condensed Interim Consolidated Statements of Changes in Equity

For the periods ended (Unaudited and in thousands of United States dollars except for number of shares)

	Share capital		Contributed surplus	Warrant reserve	Accumulated other comprehensive loss	Deficit	Total equity
	Number of shares	Amount					
<b>Balance, January 1, 2014</b>	152,029,492	\$ 328,865	\$ 18,492	\$ 5,542	\$ (26,673)	\$ (111,896)	\$ 214,330
Net loss for the period	-	-	-	-	-	(19,706)	(19,706)
Other comprehensive income (net of tax):							
Cumulative translation adjustment	-	-	-	-	9,285	-	9,285
Comprehensive income (loss) for the period	-	-	-	-	9,285	(19,706)	(10,421)
Share-based payment expense	-	-	785	-	-	-	785
Shares issued as equity financing, net of transaction costs (Note 12(c)(d))	29,578,000	11,962	-	5,482	-	-	17,444
Exchange differences	-	(16,744)	(947)	(369)	-	-	(18,060)
<b>Balance, September 30, 2014</b>	<b>181,607,492</b>	<b>\$ 324,083</b>	<b>\$ 18,330</b>	<b>\$ 10,655</b>	<b>\$ (17,388)</b>	<b>\$ (131,602)</b>	<b>\$ 204,078</b>
<b>Balance, January 1, 2013</b>	118,401,614	\$ 269,619	\$ 18,834	\$ -	\$ (19,494)	\$ (79,703)	\$ 189,256
Net loss for the period	-	-	-	-	-	(21,242)	(21,242)
Other comprehensive loss (net of tax):							
Cumulative translation adjustment	-	-	-	-	(7,450)	-	(7,450)
Comprehensive loss for the period	-	-	-	-	(7,450)	(21,242)	(28,692)
Share-based payment expense	-	-	516	-	-	-	516
Warrants issued (Note 12(d))	-	-	-	5,598	-	-	5,598
Shares issued as equity financing, net of transaction costs (Note 12(c))	33,627,878	80,609	-	-	-	-	80,609
Exchange differences	-	(10,729)	(652)	124	-	-	(11,257)
<b>Balance, September 30, 2013</b>	<b>152,029,492</b>	<b>\$ 339,499</b>	<b>\$ 18,698</b>	<b>\$ 5,722</b>	<b>\$ (26,944)</b>	<b>\$ (100,945)</b>	<b>\$ 236,030</b>

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



**MBAC FERTILIZER CORP.**

## **Condensed Interim Consolidated Statements of Cash Flows**

For the nine months ended September 30, 2014 and 2013 (Unaudited and in thousands of United States dollars)

	September 30, 2014	September 30, 2013
<b>Cash provided by (used in):</b>		
<b>Operating activities</b>		
Net loss	\$ (19,706)	\$ (21,242)
Adjusting items:		
Depreciation and depletion	40	36
Share-based payment expense	785	516
Deferred income tax expense (Note 15)	1,275	1,392
Loss on disposition of property, plant and equipment (Note 7)	154	156
Loss on derecognition of CELTINS note receivable	2,025	-
Gain on disposition of mineral properties	-	(4,704)
Unrealized (gain) loss on derivative instruments (Note 18)	(162)	1,921
Unrealized foreign exchange loss (Note 13)	748	9,611
Other financial expense	2,697	415
	<b>(12,144)</b>	<b>(11,899)</b>
Net change in non-cash working capital (Note 19)	<b>13,795</b>	<b>(3,700)</b>
	<b>1,651</b>	<b>(15,599)</b>
<b>Investing activities</b>		
Acquisition of property, plant and equipment	(29,861)	(114,521)
Exploration, evaluation and mine development expenditures	(2,422)	(7,937)
Proceeds on disposition of property, plant and equipment (Note 7)	165	39
Proceeds on disposition of mineral properties	-	9,940
Change in CELTINS note receivable	7,971	614
	<b>(24,147)</b>	<b>(111,865)</b>
<b>Financing activities</b>		
Issuance of common shares and warrants, net of transaction costs (Note 12(c))	17,444	80,609
Proceeds from debt financing (Note 11)	38,844	123,849
Repayment of debt (Note 11)	(36,757)	(23,583)
Interest and fees paid on debt (Note 11)	(20,969)	(23,902)
Change in restricted cash (Note 4)	22,623	(19,162)
	<b>21,185</b>	<b>137,811</b>
Foreign currency effect on cash	72	(797)
Increase (decrease) in cash	<b>(1,239)</b>	<b>9,550</b>
Cash, beginning of period	<b>661</b>	<b>9,818</b>
Cash (bank indebtedness), end of period	\$ <b>(578)</b>	\$ <b>19,368</b>

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



**MBAC FERTILIZER CORP.**

## **Notes to the Condensed Interim Consolidated Financial Statements**

For the three and nine months ended September 30, 2014 and 2013

(Unaudited and in thousands of United States dollars unless otherwise noted)

### **1. GENERAL INFORMATION AND GOING CONCERN**

MBAC Fertilizer Corp. ("MBAC" or the "Company") is a Canadian-based company engaged in the mining, production and exploration of phosphate fertilizers in the Brazilian market. The Company is focused on becoming a significant integrated producer of phosphate fertilizer and related products in the Brazilian market. The Company operates the Itafós Arraias Single Super Phosphate ("SSP") Operations which is wholly owned by the Company's subsidiary, Itafós Mineração Ltda. ("Itafós"). The production facility comprises a beneficiation plant, a sulphuric acid plant, an SSP acidulation plant and a granulation plant (the "Itafós Arraias SSP Operations").

The Company completed construction at the Itafós Arraias SSP Operations in 2013, and is now producing granulated SSP meeting industry specifications and making deliveries to customers. While the focus remains on ramping up operations towards achieving commercial production, controlling production costs and maximizing sales, achieving these goals has been delayed due to severe financial constraints, creating an additional funding requirement to finance the working capital and debt service needs. These financial constraints affected the Company in purchasing consumables, as well as impacted the purchase of spare parts causing interruptions and delays, leading to operational inefficiencies which resulted in a slower than expected ramp-up and reduced production output. During Q3 2014, the Company received disbursements from a working capital loan which allowed the Company to resume continuous production. Subsequent to Q3 2014, the Company executed debt extension agreements to defer principal and interest payments on its project finance debt and certain working capital loans by up to two years and obtained disbursements from additional working capital loan facilities. The Company has been attempting to address its liquidity issues through various strategic efforts to date. The Company also continues to actively seek additional financing to address its immediate liquidity issues. MBAC has determined that its working capital needs for the next twelve months exceeds the amounts available under its credit agreements. Subsequent to quarter end, the Company has commenced discussions with a financial advisor, in collaboration with the Company's senior lenders, to find a definitive solution for the Company's capital constraints, which may include sale of assets or other strategic arrangements. While the Company has had a successful track record in raising capital to date, there can be no assurance that it will be able to do so in the future. These conditions indicate material uncertainty that may cast significant doubt as to the ability of the Company to meet its obligations as they come due and, accordingly, the ultimate appropriateness of the use of accounting principles applicable to a going concern. The Company's primary sources of funding to this point have been the issuance of equity securities, debt and the sale of assets. MBAC has limited other financial resources.

The unaudited condensed interim consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") applicable to a going concern, which assumes that the Company will be able to meet its obligations and continue its operations for the foreseeable future. The unaudited condensed interim consolidated financial statements do not reflect the adjustments to the carrying values of assets and liabilities, the reported expenses and balance sheet classifications that would be necessary if the going concern assumption was inappropriate. These adjustments could be material.

The seasonal nature of the fertilizer and agricultural growing markets in Brazil gives rise to sales seasonality, with the majority of the Company's sales in a typical year expected to be realized during the months from April to October.

The Company's common shares are listed on the Toronto Stock Exchange ("TSX") under the symbol "MBC" and quoted on the OTCQX International under the symbol "MBCFF". Its registered office is at 120 Adelaide Street West, Suite 1900, Toronto, Ontario, M5H 1T1, Canada.

### **2. BASIS OF CONSOLIDATION AND PRESENTATION**

These unaudited condensed interim consolidated financial statements have been prepared in accordance with IAS 34 – *Interim Financial Reporting* as issued by the International Accounting Standards Board ("IASB"). Accordingly, certain disclosures included in annual financial statements prepared in accordance with IFRS as issued by the IASB have been condensed or omitted and these unaudited condensed interim consolidated financial statements should be read in conjunction with the Company's audited consolidated financial statements for the year ended December 31, 2013. Certain comparative figures have been reclassified to conform with current year presentation.

The unaudited condensed interim consolidated financial statements are presented in United States Dollars ("USD"). References herein to C\$ and CAD are to the Canadian Dollar and R\$ and BRL are to the Brazilian Real.

The preparation of these unaudited condensed interim consolidated financial statements requires the use of certain significant accounting estimates and judgments by management in applying the Company's accounting policies. The areas involving significant judgments and estimates have been set out in Note 4 of the Company's audited consolidated financial statements for the year ended December 31, 2013. There have been no material revisions to the nature of judgments and changes in estimates of amounts reported in the Company's audited consolidated financial statements for the year ended December 31, 2013.

The policies applied in these unaudited condensed interim consolidated financial statements are based on IFRS issued and outstanding as of November 12, 2014, the date the board of directors of the Company approved the financial statements.

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies adopted in the preparation of these unaudited condensed interim consolidated financial statements are consistent with those followed in the preparation of the Company's audited consolidated financial statements for the year ended December 31, 2013. There was no significant impact on the Company's unaudited condensed interim consolidated financial statements as a result of new standards that became effective during 2014.

### 4. RESTRICTED CASH

The Company had restricted cash of \$1,675 (December 31, 2013 – \$23,644), of which \$Nil (December 31, 2013 – \$14,572) was classified as long-term, comprising primarily of debt service reserve accounts (see Note 11). The balance of restricted cash as at prior year end related to a combination of debt service reserve accounts and cash collateral accounts restricted to repayment of debt.

### 5. INVENTORIES

	September 30, 2014	December 31, 2013
Raw materials	\$ 3,741	\$ 3,855
Work in process	806	1,931
Finished goods	1,449	892
Spare parts and supplies	1,444	1,390
	<b>\$ 7,440</b>	<b>\$ 8,068</b>

### 6. OTHER LONG-TERM ASSETS

	September 30, 2014	December 31, 2013
Tax credits	\$ 26,057	\$ 26,898
CELTINS note receivable	-	9,680
Finance lease receivable	1,430	2,964
Other	2,781	693
	<b>30,268</b>	<b>40,235</b>
Less: Current portion	<b>3,205</b>	<b>5,740</b>
	<b>\$ 27,063</b>	<b>\$ 34,495</b>

#### Tax credits

Other long-term assets are primarily comprised of tax credits. Tax credits consist of Brazilian state and federal taxes accumulated primarily on purchases of property, plant and equipment and can be applied to offset certain value added taxes and other taxes payable in future periods. As at September 30, 2014, the Company had tax credits of \$26,057 (December 31, 2013 – \$26,898) of which \$302 (December 31, 2013 – \$1,067) was included in

“Other current assets”. The Company offset \$69 of long-term tax credits against long-term taxes payable as at September 30, 2014. Tax credits are offset against taxes payable only if the Company has a legally enforceable right to set off payables with credits.

## 7. PROPERTY, PLANT AND EQUIPMENT

	Land	Buildings and Plant	Machinery, equipment and other	Assets under construction	Total
<b>Cost</b>					
Balance as at December 31, 2013	\$ 4,509	\$ 154,458	\$ 221,952	\$ 3,298	\$ 384,217
Additions	-	16,055	50,717	-	66,772
Disposals	-	-	(541)	-	(541)
Transfers	-	1,662	1,656	(3,318)	-
Exchange differences	(157)	(6,369)	(11,157)	68	(17,615)
<b>Balance as at September 30, 2014</b>	<b>\$ 4,352</b>	<b>\$ 165,806</b>	<b>\$ 262,627</b>	<b>\$ 48</b>	<b>\$ 432,833</b>
<b>Accumulated Depreciation</b>					
Balance as at December 31, 2013	\$ -	\$ 3,996	\$ 6,256	\$ -	\$ 10,252
Depreciation for the period	-	6,879	10,211	-	17,090
Disposals	-	-	(222)	-	(222)
Transfers	-	-	-	-	-
Exchange differences	-	(371)	(1,090)	-	(1,461)
<b>Balance as at September 30, 2014</b>	<b>\$ -</b>	<b>\$ 10,504</b>	<b>\$ 15,155</b>	<b>\$ -</b>	<b>\$ 25,659</b>
<b>Net Book Value</b>					
As at December 31, 2013	\$ 4,509	\$ 150,462	\$ 215,696	\$ 3,298	\$ 373,965
<b>As at September 30, 2014</b>	<b>\$ 4,352</b>	<b>\$ 155,302</b>	<b>\$ 247,472</b>	<b>\$ 48</b>	<b>\$ 407,174</b>

As at September 30, 2014, cumulative borrowing costs of \$51,669 (December 31, 2013 – \$32,153) were capitalized and are included in “Property, plant and equipment”. During the nine months ended September 30, 2014, the Company capitalized borrowing costs of \$19,516 (nine months ended September 30, 2013 – \$15,738), including the foreign exchange impact, at a weighted average interest rate of 14.48% on BRL denominated loans and 5.81% on USD denominated loans (nine months ended September 30, 2013 – 10.84% on BRL denominated loans and 5.52% on USD denominated loans). Until commercial production is reached at the Itafós Arraias SSP Operations, the Company capitalizes all borrowing costs for debt related to the Itafós Arraias SSP Operations, less any investment income on the temporary investment of those borrowings, to “Property, plant and equipment”.

Furthermore, until commercial production is reached, the Company capitalizes all costs specific to the Itafós Arraias SSP Operations, net of proceeds from sales during this period. As at September 30, 2014, net expenses of \$72,976 (December 31, 2013 – \$35,527) have been capitalized since inception and are included in “Machinery, equipment and other”.

## 8. MINERAL PROPERTIES

	Development costs	Exploration and evaluation costs	Accumulated Depletion	Net book value
Balance as at December 31, 2013	\$ 46,729	\$ 19,134	\$ (1,625)	\$ 64,238
Additions	3,921	247	(628)	3,540
Disposals	-	-	-	-
Exchange differences	(2,183)	(400)	98	(2,485)
<b>Balance as at September 30, 2014</b>	<b>\$ 48,467</b>	<b>\$ 18,981</b>	<b>\$ (2,155)</b>	<b>\$ 65,293</b>



## 9. DEFERRED REVENUE

	Nine months ended September 30, 2014	Year ended December 31, 2013
Balance, beginning of the period	\$ 1,824	\$ -
Payments received in advance	14,503	2,652
Recognized as revenue on delivery <sup>1</sup>	(12,547)	(312)
Effects of movement in foreign exchange	(36)	(516)
Balance, end of period	\$ 3,744	\$ 1,824

<sup>1</sup> Until commercial production is reached at the Itafós Arraias SSP Operations, the Company capitalizes all revenue related to the Itafós Arraias SSP Operations to “Property, plant and equipment”.

## 10. OTHER LONG-TERM LIABILITIES

	September 30, 2014	December 31, 2013
Withholding taxes payable	\$ 4,763	\$ 3,699
Provision for environmental restoration	955	1,335
Derivative liabilities (Note 18)	2,193	2,389
Restructuring provision	136	-
Long-term taxes payable	4,841	785
Other	-	551
	\$ 12,888	\$ 8,759

### Restructuring Provision

During the nine months ended September 30, 2014, the Company implemented a set of comprehensive cost-containment initiatives, including a restructuring of the Company’s workforce thereby incurring severance and termination costs. As at September 30, 2014, the Company had a total provision of \$571, of which the current portion of \$435 was included in “Accounts payable and accrued liabilities”. During the nine months ended September 30, 2014, the Company incurred total restructuring costs of \$1,090 which have been recorded in “Selling, general and administrative expenses” on the condensed interim consolidated statement of operations.

### Long-term taxes payable

Long-term taxes payable of \$4,841 as at September 30, 2014 (December 31, 2013 – \$785) is primarily comprised of payroll taxes payable of \$3,845 (December 31, 2013 – \$785) for which deferred payment terms have been negotiated with the Brazilian tax authorities.

## 11. DEBT

	September 30, 2014	December 31, 2013
Project Financing:		
FINAME Loans	\$ 3,836	\$ 4,538
Itaú Loans	83,753	85,397
IFC Loan	40,601	39,902
Mizuho Loan	20,533	20,049
Votorantim Loans	19,479	19,955
Other Loans:		
Itaú Mezzanine Loans	38,862	50,002
Working Capital Loans	43,551	30,522
Santana BNDES Loan	3,424	2,145
	<b>\$ 254,039<sup>1</sup></b>	<b>\$ 252,510<sup>1</sup></b>

<sup>1</sup> Balances include interest accruals of \$9,286 (December 31, 2013 – \$6,820) and are net of unamortized borrowing costs of \$12,714 (December 31, 2013 – \$16,153), which are included as deferred transaction costs in the carrying value of the long-term debt, and amortized using the effective interest method.

While undergoing an active negotiation process during Q3 2014 to execute debt extension agreements with the Company's senior lenders, the Company was not in compliance with some of the requirements set in its loan agreements which existed as at September 30, 2014. As a result, the Company has presented all its debt as current for Q3 2014.

However, subsequent to quarter end, the Company executed debt extension agreements with senior lenders, permitting the Company to defer the repayment of principal and interest on the project finance debt and certain working capital loans by up to two years. Additionally, as at September 30, 2014, the Company had sufficient funds in the debt service reserve accounts as requested by the senior lenders during the debt extension negotiation process. Under the terms of the executed debt extension agreements, the Company will not be required to replenish these debt service reserve accounts until 2016 (see Note 20).

### Working Capital Loans

#### Santander Working Capital Loan

During Q3 2014, the Company executed a working capital loan with Banco Santander ("Santander") for \$17.4 million (the "Santander Loan"), of which \$10.6 million was disbursed during Q3 2014. This loan has an interest rate of LIBOR + 3.473% p.a. and matures on August 21, 2015, extendable by one more year upon satisfying certain operational conditions. Principal is due at maturity and interest is payable semi-annually, with the first payment due in February 2015. The second disbursement of the remaining \$6.8 million is conditional upon satisfying certain operational conditions.

#### Itaú Working Capital Loans

During Q3 2014, the Company executed and received disbursements from two working capital loans with Banco Itaú BBA ("Itaú") in the amount of \$1.7 million (R\$4.3 million) and \$1.2 million (R\$2.9 million). These loans have an interest rate of 4.5% per month + DI<sup>1</sup> and were originally scheduled to mature on November 25, 2014 and January 9, 2015, respectively. Subsequent to quarter end, the maturity dates of these loans were extended to November 16, 2020 and September 15, 2016, respectively. The purpose of these loans was for the Company to effectively refinance certain debt obligations and overdraft balances.

<sup>1</sup> "DI" Rate refers to accrued average daily Interbank Deposit rates related to one day on a 252 business day basis, calculated and disclosed by CETIP S.A. on [www.cetip.com.br](http://www.cetip.com.br).

### Principal repayment schedule

During the nine months ended September 30, 2014, the Company repaid \$36,757 of the aggregate principal amount of the loans. Except for the requirement to present all debt as current as at September 30, 2014 and not including the impact of the debt extension executed subsequent to quarter end (see Note 20), future principal repayments in respect of the loans outstanding as at September 30, 2014 were as follows:

Within 1 year	\$	79,001
1 to 2 years		32,776
2 to 3 years		44,759
3 to 4 years		38,892
Thereafter		62,039
	\$	257,467

### Security

As at September 30, 2014, each of the Itaú Loans, IFC Loan, Mizuho Loan, Votorantim Loans and the Votorantim Swap Agreements were secured by a first lien on (a) property, plant and equipment acquired in connection with the construction of the production facility at the Itafós Arraias SSP Operations; (b) quotas representing 100% of the equity shares of Itafós; (c) deposits in the Itafós bank accounts; and (d) mineral rights related to the project. The FINAME Loans are secured by a lien on equipment acquired in connection with funds from the FINAME lines of credit. The use of proceeds from all of these debt facilities were used to fund expenditures in respect of the development of the production facility at the Itafós Arraias SSP Operations. The Santander Loan is secured by a second lien on the mineral rights and assets of Itafós and by a first lien on the shares and mineral rights of the subsidiary company that holds the Company's rare earth oxides/niobium/phosphate project (Araxá Project). The other Working Capital Loans and the Santana BNDES Loan are secured by a bank guarantee.

## 12. SHARE CAPITAL

### (a) Authorized capital

Share capital as at September 30, 2014 was \$324,083 (December 31, 2013 – \$328,865). The Company is authorized to issue an unlimited number of common shares without par value and an unlimited number of preferred shares issuable in series. There are no preference shares issued or outstanding. As at September 30, 2014, MBAC had 181,607,492 common shares (December 31, 2013 – 152,029,492) issued and outstanding.

### (b) Weighted-average number of common shares and dilutive common share equivalents

	Three months ended		Nine months ended	
	September 30, 2014	September 30, 2013	September 30, 2014	September 30, 2013
Weighted average number of common shares	181,607,492	152,029,492	170,014,650	141,500,408
Weighted average number of dilutive share purchase options and warrants	-	-	-	-
Diluted weighted average number of common shares	181,607,492	152,029,492	170,014,650	141,500,408

The determination of the diluted weighted average number of common shares excludes 12.2 million share purchase options and 35.7 million common share purchase warrants, all of which were anti-dilutive for the three and nine months ended September 30, 2014 (three and nine months ended September 30, 2013 – 8.9 million share purchase options and 6.1 million common share purchase warrants).

### (c) Equity financings

On April 17, 2014, the Company completed a bought deal equity public offering and issued 29,578,000 units of the Company (each "Unit" comprised of one common share of the Company and one common share purchase warrant of the Company ("Warrant")) for aggregate proceeds of \$18,800 (C\$20,705) less transaction costs of \$1,356 (C\$1,494). As part of the bought deal equity public offering, directors and officers acquired a total of 5,447,750 Units of the Company for consideration of \$3,463 (C\$3,813).

During the nine months ended September 30, 2013, the Company completed a bought deal equity public offering and issued 10,148,750 common shares for aggregate proceeds of \$34,575 (C\$34,506) less transaction costs of \$2,062 (C\$2,058). As part of the bought deal equity public offering, directors and officers acquired a

total of 333,500 common shares for total consideration of \$1,136 (C\$1,134).

Also during the nine months ended September 30, 2013 the Company completed a bought deal equity private placement and issued 23,479,128 common shares for aggregate proceeds of \$50,616 (C\$51,654) less transaction costs of \$2,520 (C\$2,572). As part of the bought deal equity private placement, directors and officers acquired a total of 3,592,328 common shares for consideration of \$7,744 (C\$7,903).

#### (d) Warrants

On April 17, 2014, the Company issued 29,578,000 Warrants as part of a bought deal equity public offering, as described above. The Warrants were allocated a fair value of \$5,909 (C\$6,507), calculated on the date of grant using the residual fair value method and were allocated transaction costs of \$427 (C\$469). Each Warrant will entitle the holder to purchase one common share of the Company at an exercise price of C\$1.00 per share at any time prior to April 17, 2019.

In connection with the Itaú Mezzanine Loans, the Company issued an aggregate of 6,081,180 common share purchase warrants to Itaú in 2013 as remuneration for services provided, with each warrant entitling the holder to purchase one common share of the Company at an exercise price of C\$2.20 per share until April 15, 2019. These warrants are also eligible to be exercised on a “cashless” basis in accordance with the terms of the agreement. These warrants have a fair value of \$5,598 (C\$5,895), calculated on the date of grant using a market-based option valuation model.

### 13. UNREALIZED FOREIGN EXCHANGE LOSS

The unrealized foreign exchange loss of \$12,262 for Q3 2014 (Q3 2013 – loss of \$2,303) was primarily comprised of unrealized losses resulting from the revaluation of long-term debt denominated in foreign currency of \$6,856 (Q3 2013 – \$211), unrealized losses on the revaluation of deferred income denominated in foreign currency of \$561 (Q3 2013 – \$15) and the revaluation of intercompany loans between the Company’s subsidiaries of \$4,860 (Q3 2013 – \$2,210). The unrealized foreign exchange loss of \$748 for the nine months ended September 30, 2014 (nine months ended September 30, 2013 – loss of \$9,611) was primarily comprised of the unrealized losses resulting from the revaluation of long-term debt denominated in foreign currency of \$1,692 (nine months ended September 30, 2013 – \$4,401) and unrealized losses on the revaluation of deferred income denominated in foreign currency of \$213 (nine months ended September 30, 2013 – \$648), offset by unrealized gains on intercompany loans between the Company’s subsidiaries of \$1,261 (nine months ended September 30, 2013 – loss of \$4,121). The unrealized foreign exchange impact on the intercompany loans is recorded for accounting purposes and does not alter the economic impact for the consolidated Company.

### 14. FINANCE EXPENSE

	Three months ended		Nine months ended	
	September 30, 2014	September 30, 2013	September 30, 2014	September 30, 2013
Interest expense	\$ (704)	\$ (343)	\$ (2,072)	\$ (710)
Unrealized gain (loss) on derivatives <i>(Note 18)</i>	(2,346)	648	162	(1,921)
Amortization of deferred transaction costs	(343)	(143)	(1,187)	(143)
Other financial (expense) income	38	(482)	(1,932)	(931)
Interest income	104	85	426	259
Finance expense	\$ (3,251)	\$ (235)	\$ (4,603)	\$ (3,446)

Interest expense for the nine months ended September 30, 2014 of \$2,072 (nine months ended September 30, 2013 – \$710) was primarily related to interest incurred on certain working capital loans, trade payables and bank indebtedness.

Other financial expense for the nine months ended September 30, 2014 of \$1,932 (nine months ended September 30, 2013 – \$931) was primarily related to fees on the prepayment of the Itaú Mezzanine Loans during Q2 2014, financial expenses incurred on intercompany transactions and fees paid on amendments to loan agreements.

## 15. INCOME TAXES

The following table provides a reconciliation of the statutory rate and the effective income tax rate:

	Three months ended		Nine months ended	
	September 30, 2014	September 30, 2013	September 30, 2014	September 30, 2013
Loss before income taxes	\$ (18,310)	\$ (6,147)	\$ (18,431)	\$ (19,850)
Combined Canadian federal and provincial statutory tax rate	26.5 %	26.5 %	26.5 %	26.5 %
Income tax recovery based on Canadian federal and provincial income tax rates	(4,852)	(1,629)	(4,884)	(5,260)
Difference in foreign tax rates	(158)	145	(2,028)	(651)
Non-deductible/taxable items	996	26	(1,450)	(1,444)
Tax benefit not recognized	4,051	1,454	8,362	7,351
Withholding taxes	443	429	1,284	1,373
Other	(46)	8	(9)	23
Income tax expense	\$ 434	\$ 433	\$ 1,275	\$ 1,392
Actual effective tax rate	(2.0)%	(7.0)%	(6.9)%	(7.0)%

The Canadian statutory income tax rate was 26.5% for the three and nine months ended September 30, 2014 and 2013.

The interpretation of tax regulations and legislation and their application to the Company's business is complex and subject to change. Accordingly, the Company's ability to realize deferred income tax assets could significantly affect net income or cash flow in future periods.

## 16. COMMITMENTS AND CONTINGENCIES

The Company may be involved in legal proceedings from time to time, arising in the ordinary course of its business. The amount of ultimate liability with respect to these actions is not expected to, in the opinion of management, materially affect MBAC's financial position, results of operations or cash flows. Based on the Company's knowledge and assessment of events as at September 30, 2014, the Company does not believe that the outcome of any of the matters not recorded in the financial statements, individually or in aggregate, would have a material adverse effect.

The Company has various cancellable operating lease agreements, whereby MBAC is required to give a notice of less than three months for the termination of these agreements. In addition to commitments otherwise reported in these unaudited condensed interim consolidated financial statements, the Company is contractually committed to capital commitments of \$159 and non-cancellable operating lease commitments of \$798. Payments in respect of these commitments are due as follows:

Within 1 year	\$ 474
1 to 2 years	163
2 to 3 years	160
Thereafter	160
	<hr/>
	\$ 957

## 17. SEGMENT REPORTING

### Operating segments

Operating segments were identified on the basis of internal information reviewed by the chief operating decision maker. Three segments were identified based on the geographical areas and the reporting structure. The Corporate segment is comprised of activities related to administrative offices in Canada, Brazil, Barbados and the Netherlands, the Operations segment is comprised of activities at the Itafós Arraias SSP Operations and the Development and Exploration segment is comprised of activities related to the Santana Phosphate Project and the Araxá Project. The accounting policies of the reportable segments are the same as the Company's accounting policies.

All of the Company's revenue and substantially all of the Company's non-current assets are in Brazil.

For the nine months ended September 30, 2014:

	Operations	Development & Exploration	Corporate	Total
<b>Operating earnings</b>				
Operating expenses				
Selling, general and administrative expenses	\$ 589	\$ 42	\$ 6,937	\$ 7,568
Exploration and evaluation expenditures	-	112	-	112
Operating loss	(589)	(154)	(6,937)	(7,680)
Interest income	363	-	63	426
Interest expense	(689)	(538)	(845)	(2,072)
Other	(4,655)	(427)	(4,023)	(9,105)
Loss before income taxes	(5,570)	(1,119)	(11,742)	(18,431)
Income tax expense	-	-	1,275	1,275
Net loss	\$ (5,570)	\$ (1,119)	\$ (13,017)	\$ (19,706)
<b>Fixed asset additions</b>				
Additions to PP&E	\$ 66,590	\$ 141	\$ 41	\$ 66,772
Additions to mineral properties	\$ (53)	\$ 4,221	\$ -	\$ 4,168

For the nine months ended September 30, 2013:

	Operations	Development & Exploration	Corporate	Total
<b>Operating earnings</b>				
Operating expenses				
Selling, general and administrative expenses	\$ 465	\$ 10	\$ 9,222	\$ 9,697
Exploration and evaluation expenditures	-	398	6	404
Operating loss	(465)	(408)	(9,228)	(10,101)
Interest income	158	1	100	259
Interest expense	(511)	(57)	(142)	(710)
Other	(4,854)	(77)	(4,367)	(9,298)
Loss before income taxes	(5,672)	(541)	(13,637)	(19,850)
Income tax expense	-	-	1,392	1,392
Net loss	\$ (5,672)	\$ (541)	\$ (15,029)	\$ (21,242)
<b>Fixed asset additions</b>				
Additions to PP&E	\$ 131,574	\$ 74	\$ 200	\$ 131,848
Additions to mineral properties	\$ 36	\$ 7,808	\$ -	\$ 7,844

## 18. FAIR VALUE MEASUREMENT

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value hierarchy establishes three levels to classify the inputs to valuation techniques used to measure fair value, by reference to the reliability of the inputs used to estimate the fair values.

- Level 1: Valuations based on quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: Valuations based on directly or indirectly observable inputs in active markets for similar assets or liabilities, other than Level 1 prices such as quoted interest or currency exchange rates; and
- Level 3: Valuations based on significant inputs that are not derived from observable market data, such as discounted cash flow methodologies based on internal cash flow forecasts.

The Company's financial instruments consist of cash and cash equivalents, bank indebtedness, current and long-term receivables, accounts payable and accrued liabilities, deferred revenue, debt and derivative instruments. The fair values of cash and cash equivalents, current and long-term receivables, and accounts payable and accrued liabilities approximates their carrying values. The carrying value of the Company's debt plus transaction costs, totalling \$266,753, approximates the fair value due to the floating interest rate component of most of the debt.

As required by the Mizuho Loan (see Note 11), in 2013 the Company entered into a cross currency interest rate swap arrangement with Banco Votorantim S.A. ("Votorantim"), for a notional amount of R\$49.5 million (the "Votorantim Swap Agreement"). Also in 2013, the Company entered into additional cross currency interest rate swap arrangements with Votorantim, for a total notional amount of R\$21.4 million (the "Votorantim Working Capital Swap Agreements"). As at September 30, 2014, the Votorantim Swap Agreement had an outstanding notional amount of R\$26.7 million (December 31, 2013 – R\$40.1 million) and the Votorantim Working Capital Swap Agreements had a total outstanding notional amount of R\$21.4 million (December 31, 2013 – R\$21.4 million). These cross currency swap agreements resulted in the recognition of derivative instruments. These derivative instruments have been recognized at fair value through profit and loss. The Company categorizes the fair value measurement of derivative instruments in Level 2, as it is primarily derived from observable market inputs. The fair values of the Votorantim Swap Agreement and the Votorantim Working Capital Swap Agreements were derived using a discounted cash flow model that considers various observable inputs, such as time to maturity and forward interest rates. As at September 30, 2014, the Company recognized a derivative liability of \$2,193 (December 31, 2013 – \$2,389) equal to the fair value of these derivative instruments. The change in fair value of the derivative instruments resulted in a corresponding unrealized loss for the three months ended September 30, 2014 of \$2,346 and an unrealized gain of \$162 for the nine months ended September 30, 2014 (Q3 2013 – gain of \$648; nine months ended September 30, 2013 – loss of \$1,921), which was recognized in "Finance expense" on the unaudited condensed interim consolidated statements of operations (see Note 14). Both the Votorantim Swap Agreement and the Votorantim Working Capital Swap Agreements were settled subsequent to quarter end.

The Company recognizes transfers between the levels of the fair value hierarchy at the date of the event or change in circumstances that caused the transfer. There were no such transfers during the nine months ended September 30, 2014.

## 19. NET CHANGE IN NON-CASH WORKING CAPITAL

Change in non-cash working capital items provided \$13,795 of cash during the nine months ended September 30, 2014 (nine months ended September 30, 2013 – used \$3,700). The change in non-cash working capital was primarily comprised of cash provided by deferred revenue, accounts payable and accrued liabilities, other long-term liabilities and inventories partially offset by cash used in other long-term assets.

## 20. SUBSEQUENT EVENTS

Subsequent to quarter end:

- The Company executed debt extension agreements with its senior lenders whereby MBAC will be permitted to defer the repayment of principal and interest amounts for a period of up to two years. With respect to the deferral of payments, IFC and Mizuho have provided a deferral on the repayment of principal and interest effective until September 15, 2016, while Itaú and Votorantim have agreed to provide the Company with new loans to cover the debt service needs on all but one sub credit on the Votorantim Loans; effectively resulting in



a grace period for principal and interest payments on these project finance loans until September 15, 2016. The interest on these new loans will be payable quarterly, beginning immediately. The senior debt extension also includes an extension of the current maturity dates of the existing working capital facilities previously provided by the senior lenders by approximately four years. Current maturity dates of the various loans have been extended as follows:

	Principal Amounts	Amended Maturity	Original Maturity
New Tranche 1 – Project Finance	\$139.8 million	November 15, 2020	Between November 2019 and March 2022
New Tranche 2 – Project Finance	\$18.7 million	March 15, 2018	September 15, 2016
New Tranche 1 – Working Capital Loan	\$8.5 million	June 15, 2018	Between October 2014 and September 2015
New Tranche 2 – Working Capital Loans	\$2.8 million	September 15, 2016	January 12, 2014

Interest rates under the debt facilities will remain the same except for certain sub credits under the Itaú Loans and Votorantim Loans, which rates increased by 20 basis points. The Company currently has sufficient funds in the debt service reserve accounts, which will not be required to be replenished until 2016. In connection with the senior debt extension, the security package on the senior debt will be amended to add a first lien on the shares and mineral rights of MBAC Fertilizantes Ltda. (the subsidiary company that holds the Santana Phosphate Project in the State of Pará, Brazil), which is in addition to the assets of the Itafós Arraías SSP Operations that currently secure the senior debt.

- The Company executed and received disbursements from new working capital loans of approximately \$5.4 million (R\$13.6 million). These funds were used primarily to purchase supplies, spare parts and phosphate rock (concentrate) from third parties.
- The Company extended the maturity date of the Modal Working Capital Loan to March 2015.