

**ARIANNE PHOSPHATE INC.  
CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS  
(UNAUDITED)  
NINE-MONTH PERIODS ENDED SEPTEMBRE 30, 2017 AND SEPTEMBER 30, 2016  
(in Canadian dollars)**



Condensed consolidated interim financial statements for the nine-month period ended September 30, 2017 haven't been reviewed by the auditors.

# ARIANNE PHOSPHATE INC.

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**ARIANNE PHOSPHATE INC.**  
**CONSOLIDATED INTERIM STATEMENTS OF FINANCIAL POSITION**  
(In Canadian dollars)

	As at September 30, 2017	As at December 31, 2016
	\$	\$
<b>ASSETS</b>		
<b>Current assets</b>		
Cash and cash equivalents (note 3)	1,465,127	2,229,044
Receivables and other current assets	397,179	133,377
Sales taxes receivable	77,011	71,413
Tax credit related to resources and mining tax credit receivable (note 7)	248,883	1,498,894
	<u>2,188,200</u>	<u>3,932,728</u>
<b>Non-current assets</b>		
Tax credit related to resources and mining tax credit receivable	334,075	125,861
Investment property – Outfitters	314,398	333,355
Property, plant and equipment (note 5)	1,641,718	1,043,432
Mining properties (note 6)	1,247,163	1,245,640
Exploration and evaluation assets (note 7)	48,438,536	44,741,815
	<u>51,975,890</u>	<u>47,490,103</u>
<b>Total assets</b>	<u>54,164,090</u>	<u>51,422,831</u>
<b>LIABILITIES</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities	1,797,083	1,976,203
Credit Lines (note 8)	20,082,999	17,396,288
	<u>21,880,082</u>	<u>19,372,491</u>
<b>Non-current liabilities</b>		
Loan (note 9)	3,681,203	3,551,692
Deferred income taxes	2,387,607	2,242,252
<b>Total liabilities</b>	<u>27,948,892</u>	<u>25,166,435</u>
<b>Equity</b>		
Capital stock	56,981,758	54,783,402
Warrants	2,737,711	2,540,438
Contributed surplus	11,972,808	11,693,008
Deficit	(45,477,079)	(42,760,452)
<b>Total equity</b>	<u>26,215,198</u>	<u>26,256,396</u>
<b>Total liabilities and equity</b>	<u>54,164,090</u>	<u>51,422,831</u>

**GOING CONCERN** (note 1)

**COMMITMENTS** (note 15)

**SUBSEQUENT EVENT** (note 17)

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

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

(s) James Cowley, CFO

# ARIANNE PHOSPHATE INC.

## CONSOLIDATED INTERIM STATEMENTS OF LOSS AND COMPREHENSIVE LOSS FOR THE NINE-MONTH PERIOD ENDED SEPTEMBER 30, 2017

(In Canadian dollars)

	Three-month period ended September 30, 2017	Three-month period ended September 30, 2016	Nine-month period ended September 30, 2017	Nine-month period ended September 30, 2016
	\$	\$	\$	\$
<b>EXPENSES</b>				
Salaries and benefits	329,309	363,292	858,544	1,072,612
Share-based compensation	81,276	80,884	236,868	328,879
Professional and consultant fees	41,772	163,173	327,246	404,937
Management fees	39,250	17,250	72,250	29,750
Registration and listing fees	10,530	2,403	54,306	53,033
Annual general meeting	10,501	(3,377)	19,140	31,501
Communications	106,844	85,911	322,153	184,538
Promotion, representation and travel	23,743	34,599	106,548	95,317
Insurance	9,080	9,900	26,548	29,892
Rent and office expenses	35,751	36,702	125,085	113,585
Depreciation of property, plant and equipment	8,782	11,398	29,471	34,195
Loss on disposal property, plant and equipment	-	-	89	-
Bank charges	1,430	1,618	7,025	7,074
<b>Operating loss</b>	<b>698,268</b>	<b>803,753</b>	<b>2,185,273</b>	<b>2,385,313</b>
<b>OTHER EXPENSES (INCOME)</b>				
Interest income	(2,421)	(548)	(13,390)	(807)
Foreign exchange (gain) loss	(5,236)	2,312	5,494	-
Net loss (gain) on disposition of property, plant and equipment	-	(1,181)	-	(1,181)
Net loss of investment property – Outfitters (Note 4)	33,170	23,951	58,297	50,592
	25,513	24,534	50,401	48,604
<b>LOSS BEFORE INCOME TAXES</b>	<b>723,781</b>	<b>828,287</b>	<b>2,235,674</b>	<b>2,433,917</b>
Deferred income taxes	77,149	(1,768)	145,355	8,553
<b>NET LOSS AND COMPREHENSIVE LOSS FOR THE PERIOD</b>	<b>800,930</b>	<b>826,519</b>	<b>2,381,029</b>	<b>2,442,470</b>
<b>BASIC AND DILUTED LOSS PER SHARE</b>	<b>0.01</b>	<b>0.01</b>	<b>0.02</b>	<b>0.03</b>
<b>WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING</b>	<b>97,956,073</b>	<b>97,112,165</b>	<b>97,956,073</b>	<b>97,112,165</b>

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

**ARIANNE PHOSPHATE INC.**  
**CONSOLIDATED INTERIM STATEMENTS OF CHANGES IN EQUITY**  
**FOR THE NINE-MONTH PERIOD ENDED SEPTEMBER 30, 2017**  
(in Canadian dollars)

	Capital stock	Capital stock	Warrants	Contributed surplus	Deficit	Total equity
	Common shares	\$	\$	\$	\$	\$
<b>Balance as at January 1, 2017</b>	97,648,080	54,783,402	2,540,438	11,693,008	(42,760,452)	26,256,396
Net loss and comprehensive loss for the period	-	-	-	-	(2,381,029)	(2,381,029)
Modification of warrants (note 11)	-	-	89,629	-	(89,629)	-
Share-based compensation (note 11)	-	-	-	236,868	-	236,868
Option granted to brokers (note 11)	-	-	-	42,932	-	42,932
Private Placement (note 10)	2,882,500	2,198,356	107,644	-	-	2,306,000
Share issuance expenses	-	-	-	-	(245,969)	(245,969)
<b>Balance as at September 30, 2017</b>	100,530,580	56,981,758	2,737,711	11,972,808	(45,477,079)	26,215,198
<b>Balance as at January 1, 2016</b>	96,825,755	53,977,978	1,957,387	11,344,855	(39,338,867)	27,941,353
Net and comprehensive loss for the period	-	-	-	-	(1,615,951)	(1,615,951)
Share-based compensation (note 10)	-	-	-	247,995	-	247,995
Warrants exercises (note 11)	400,000	310,765	(14,765)	-	-	296,000
<b>Balance as at September 30, 2016</b>	97,648,080	54,783,402	2,393,234	11,624,423	(41,965,241)	26,835,818

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

**ARIANNE PHOSPHATE INC.**  
**CONSOLIDATED INTERIM STATEMENTS OF CASH FLOWS**  
**FOR THE NINE-MONTH PERIOD ENDED SEPTEMBER 30, 2017**  
(in Canadian dollars)

	<b>2017</b>	<b>2016</b>
	\$	\$
<b>CASH FLOW FROM (USED IN)</b>		
<b>OPERATING ACTIVITIES</b>		
Net loss for the period	(2,381,029)	(2,442,470)
Adjustments for:		
Share-based payments	236,868	328,879
Gain on disposal - Property, plant and equipment	89	-
Depreciation – Investment property - Outfitters	18,958	23,165
Depreciation – Property, plant and equipment	29,471	34,195
Deferred income taxes	145,355	8,553
Net change in non-cash working capital items (note 12)	<u>(1,271,576)</u>	<u>(83,559)</u>
	<u>(3,221,864)</u>	<u>(2,131,237)</u>
<b>INVESTING ACTIVITIES</b>		
Proceeds from tax credit	666,739	-
Acquisition of property, plant and equipment	(36,348)	(252)
Acquisition of mining properties	(1,523)	(28,463)
Acquisition of exploration and evaluation assets	<u>(1,524,114)</u>	<u>(1,691,744)</u>
	<u>(895,246)</u>	<u>(1,720,459)</u>
<b>FINANCING ACTIVITIES</b>		
Proceeds from credit lines	1,275,231	3,275,000
Proceeds from Loan	-	3,000,000
Transaction cost	(25,000)	(137,720)
Proceeds from the issuance of shares	2,306,000	-
Share Issuance expenses	(203,038)	-
Issuance of shares – Exercises of broker warrants	<u>-</u>	<u>422,325</u>
	<u>3,353,193</u>	<u>6,559,605</u>
<b>CHANGE IN CASH AND CASH EQUIVALENTS DURING THE PERIOD</b>	<u>(763,917)</u>	<u>2,707,909</u>
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD</b>	<u>2,229,044</u>	<u>91,920</u>
<b>CASH AND CASH EQUIVALENTS, END OF PERIOD</b>	<u>1,465,127</u>	<u>2,799,829</u>
Supplementary cash flow information		
Interest received	13,390	548

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

# ARIANNE PHOSPHATE INC.

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(in Canadian dollars)

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

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Ariane Phosphate Inc. ("the Company"), was incorporated under Part IA of the Companies Act (Quebec) and was continued under the Quebec Business Corporations Act (Quebec) (QBCA). The Company is engaged in the acquisition and exploration of mining properties in Quebec, Canada. During 2013, the Company completed a feasibility study on its Lac à Paul property. The Company's objective is to focus on developing a phosphate mine by concentrating its resources on this property. The Company's shares are listed on the TSX Venture Exchange (symbol DAN), on the Frankfurt exchange (symbol JE9N) and on the US Stock Exchange Over-the-Counter (OTC) (symbol DRRSF). The registered office of the Company is located at 393 Racine Street, Suite 200, Chicoutimi, Quebec, Canada G7H 1T2.

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

These condensed consolidated interim financial statements have been prepared based on accounting principles applicable to a going concern, which contemplates the realization of assets and settlement of liabilities in the normal course of business as they come due. In assessing whether the going concern assumption is appropriate, management takes into account all available information about the future, which is at least, but not limited to, 12 months from the end of the reporting period. For the period ended September 30, 2017, the Company recorded a net loss of 2,381,029 (2016 – \$2,442,470) and has an accumulated deficit of \$45,477,079 as at September 30, 2017 (\$42,760,452 as at December 31, 2016). In addition to ongoing working capital requirements, the Company must secure sufficient funding to meet its obligations and pay general and administration costs.

As at September 30, 2017, the Company had a negative working capital of \$19,691,882 (negative working capital of \$15,439,763 as at December 31, 2016). Management estimates that the working capital will not be sufficient to meet the Company's obligations and budgeted expenditures through September 30, 2018. These circumstances lend significant doubt as to the ability of the Company to meet its obligations as they come due and, accordingly, the appropriateness of the use of accounting principles applicable to a going concern. The Company will need to secure additional financing in 2018.

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 securing capital from potential partners. While management has been successful in securing financing in the past, there can be no assurance that it will be able to do so in the future or that these sources of funding or initiatives will be available to the Company or that they will be available on terms which are acceptable to the Company. If management is unable to obtain new funding, the Company may be unable to continue its operations, and amounts realized for assets might be less than amounts reflected in the condensed consolidated interim financial statements.

These condensed consolidated interim financial statements do not reflect the adjustments to the carrying values of assets and liabilities, expenses and financial position classifications that would be necessary if the going concern assumption was not appropriate. These adjustments could be material.

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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These condensed consolidated interim 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 condensed consolidated interim financial statements are consistent with those applied in the Company's annual financial statements for the year ended December 31, 2016. These condensed consolidated interim financial statements should be read in conjunction with the Company annual financial statements for the year ended December 31, 2016 which have been prepared in accordance with IFRS as issued by the IASB.

The Board of Directors approved these condensed consolidated interim financial statements on November 22, 2017.

### 3. CASH AND CASH EQUIVALENTS

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	As at September 30, 2017	As at December 31, 2016
	\$	\$
Cash and cash equivalents	1,465,127	2,229,044

As at September 30, 2017, cash and cash equivalents comprises cash on hand amounting to \$1,354,729 bearing interest at a fixed rate 0.80% and an amount of \$110,398 not bearing interest. An amount of \$30,000 is restricted in connection with the Company's credit card agreement.

As at December 31, 2016, cash and cash equivalents comprises cash on hand amounting to \$1,317,836, bearing interest at a fixed rate 0.80% and an amount of \$911,208 not bearing interest. An amount of \$30,000 is restricted in connection with the Company's credit card agreement.

# ARIANNE PHOSPHATE INC.

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(in Canadian dollars)

### 4. INVESTMENT PROPERTY – OUTFITTERS

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

	Nine-month period ended September 30, 2017 \$	Nine-month period ended September 30, 2016 \$
Outfitters income	67,797	68,781
Operating expenses:		
Management fees	48,763	48,063
Repair and maintenance	11,142	11,208
Supplies	8,946	10,381
Advertising, promotion and travel	20,557	9,064
Taxes and licenses	6,906	6,670
Insurance	10,297	8,428
Interest and bank charges	525	629
Depreciation of property, plant and equipment	18,958	23,165
Bad debts	-	1,663
	<u>126,094</u>	<u>119,373</u>
Net loss of investment property – Outfitters	<u>58,297</u>	<u>50,592</u>

### 5. PROPERTY, PLANT AND EQUIPMENT

	Leasehold improvements \$	Tools and equipment \$	Rolling equipment \$	Computer equipment \$	Land \$	Total \$
<b>Cost</b>						
Balance as at January 1, 2016	305,443	128,740	10,376	11,919	-	456,478
Acquisition	-	-	-	950	812,031	812,981
Disposition	(11,411)	(22,500)	(10,376)	3,315	-	(40,972)
Balance as at December 31, 2016	294,032	106,240	-	16,184	812,031	1,228,487
Acquisition	-	20,775	-	954	614,441	636,170
Balance as at September 30, 2017	<u>294,032</u>	<u>127,015</u>	<u>-</u>	<u>17,138</u>	<u>1,426,472</u>	<u>1,864,657</u>
<b>Accumulated depreciation</b>						
Balance as at January 1, 2016	88,964	77,234	4,202	4,261	-	174,661
Depreciation	23,283	8,026	1,897	1,804	-	35,010
Disposition	(4,035)	(15,621)	(6,099)	1,139	-	(24,616)
Balance as at December 31, 2016	108,212	69,639	-	7,204	-	185,055
Depreciation	27,594	8,413	-	1,877	-	37,884
Balance as at September 30, 2017	<u>135,806</u>	<u>78,052</u>	<u>-</u>	<u>9,081</u>	<u>-</u>	<u>222,939</u>
<b>Net book value</b>						
Balance as at January 1, 2016	216,479	51,506	6,174	7,658	-	281,817
Balance as at December 31, 2016	185,820	36,601	-	8,980	812,031	1,043,432
Balance as at September 30, 2017	<u>158,226</u>	<u>48,963</u>	<u>-</u>	<u>8,057</u>	<u>1,426,472</u>	<u>1,641,718</u>

# ARIANNE PHOSPHATE INC.

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(in Canadian dollars)

### 6. MINING PROPERTIES

	Royalties (NSR) %	Balance as at December 31, 2016 \$	Additions \$	Impairments \$	Disposal \$	Balance as at September 30, 2017 \$
<b>Properties in Quebec</b>						
Lac à Paul (100%)	2.25	1,245,640	1,523	-	-	1,247,163

### 7. EXPLORATION AND EVALUATION ASSETS

	Balance as at December 31, 2016 \$	Additions \$	Tax credits \$	Impairments \$	Disposals \$	Balance as at September 30, 2017 \$
<b>Quebec</b>						
Lac à Paul	44,741,815	3,363,105	375,057	-	(41,441)	48,438,536

For the nine-month period ended September 30, 2017 and 2016, the following expenses, related to discovery of mineral resources, have been included in the cost of exploration and evaluation assets:

	Nine-month period ended September 30, 2017 \$	Nine-month period ended September 30, 2016 \$
Camp, travel and lodging and general expenses	125,194	114,648
Chemical analysis	17,060	30,405
Line cutting and geophysics	-	6,539
Planning and supervision	425,596	97,298
Professional fees and independent technical reports	954,346	1,661,190
Borrowing costs	1,832,409	1,374,626
Depreciation of property, plant and equipment	8,500	12,941
Depreciation of intangible asset	-	25,075
	3,363,105	3,322,721
Tax credits related to resources and mining tax credit	(565,635)	(87,122)
Write-off of tax credits <sup>(1)</sup>	940,692	-
Disposals	(41,441)	-
	3,696,721	-
Balance – Beginning of period	44,741,815	40,502,866
Balance – End of period	48,438,536	43,738,465

(1) In July 2017, the Company received an unfavorable notice from Revenu Quebec (RQ) regarding the 2012 tax credit, which was being challenged by RQ and which was disallowed. As a result, the Company impaired \$940,692 for the tax credit related to resources and mining right receivable."

# ARIANNE PHOSPHATE INC.

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(in Canadian dollars)

### 8. CREDIT LINES

In August 2012 and July 2013, the Company entered into agreements to obtain a non-revolving credit line, with Mercury Financing Corp. (the "Lender"), for authorized amounts of respectively \$10 million and \$2.5 million to finance a feasibility study for the Lac à Paul property and to cover the general and administrative expenditures related to this property. Terms and conditions are essentially the same for both agreements.

Interest was capitalized quarterly until the earlier of the following dates: (a) December 31, 2013 for the August 2012 agreement and June 30, 2014 for the June 2013 agreement or (b) the date at which time the Company raises cumulative net cash proceeds of at least \$21 million by way of equity, debt or other instruments. Subsequently, interest was payable quarterly until maturity.

On October 20, 2015, the Company obtained a third non-revolving credit line amounting to \$4,566,887, bearing interest at a fixed rate of 6.25% per annum, to finance exclusively the general and administrative operations and other activities related to the project development for the Lac à Paul project. This credit line will be gradually disbursed until the termination date, December 31, 2017. As at September 30, 2017, the Company has no undrawn non-revolving credit line.

The third non-revolving credit line and all unpaid interest will be repayable in full on the earlier of the following dates: (a) December 31, 2017; (b) the date at which time the Company raises cumulative net cash proceeds of at least \$51 million by way of equity, debt or other instruments; and (c) the date of change of control of the Company.

The credit line has a current portion of \$19,113,739 at the end of September 30, 2017 (\$17,396,288 as at December 31, 2016).

	<b>Nine-month period ended September 30, 2017</b>	<b>As at December 31, 2016</b>
	\$	\$
Balance – Beginning of period	17,396,288	12,561,084
Debt repayment from proceeds from the issuance of shares related to the warrants exercised	-	(296,000)
Proceeds from credit line	291,887	3,275,000
Capitalized interests	878,144	1,045,700
Amortization of transaction costs	547,420	810,504
Balance – End of period	<u>19,113,739</u>	<u>17,396,288</u>

On April 21, 2017, the Company closed on a \$1.4 Million credit line with a third-party lender. The credit line bears interest at 12.5% on any funds drawn, paid monthly commencing on the date of first Advance. The credit line has a latest maturity date of December 27, 2017 but is repayable as tax credits are received. Any amounts received as tax credits reduces the amount available to draw on the credit line. Net of tax credits received the Company had access to \$983,344.

	<b>Nine-month period ended September 30, 2017</b>	<b>As at December 31, 2016</b>
	\$	\$
Balance – Beginning of period	-	-
Proceeds from credit line	983,344	-
Accrued interests	10,916	-
Transaction costs	(25,000)	-
Balance – End of period	<u>969,260</u>	<u>-</u>

As at September 30, 2017, the Company has no undrawn non-revolving credit line.

# ARIANNE PHOSPHATE INC.

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(in Canadian dollars)

### 9. LOAN

In September 2016, the Company closed on a \$3 Million loan agreement with various third party lenders (the "Loan"). The loan will bear interest at 8%, paid semi-annually, and has a maturity of 3 years with the Company having the ability to repay the loan after one year at its option. As part of the loan, the Company has issued 2,400,000 non-transferable warrants, with each warrant entitling the holder to purchase one common share of the Company at a price of \$1.25 per share for a term of 3 years expiring on September 28, 2019. The fair value of those warrants represents \$266,708 and is calculated with the Black-Scholes model. Additionally, following the expiry of the regulatory hold period, should the closing price of the Company's common shares on the TSX Venture Exchange be equal to or higher than \$2 for 10 consecutive days, the Company shall have the right to force the exercise of the warrants by providing the warrant holders with a 30-day notice period, following which the warrants will automatically expire. The Company also issued 96,000 broker warrants related to this loan at a price of \$0.92 per share for a term of 3 years expiring on September 28, 2019. The fair value of the broker warrants is \$23,026 and is calculated using the Black-Scholes model.

In October 2016, the Company closed on a \$1.1 million loan agreement with various third-party lenders. The loan will bear interest at 8%, paid semi-annually and has a maturity of 3 years with the Company having the ability to repay the loan after one year at its option. As part of the loan, the Company has issued 880,000 non-transferable warrants (refer to note 14), with each warrant entitling the holder to purchase one common share of the Company at a price of \$1.25 per share for a term of 3 years expiring on October 27, 2019. The fair value of those warrants represents \$84,961 and is calculated with the Black-Scholes model. Additionally, following the expiry of the regulatory hold period, should the closing price of Arienne's common shares on the TSX Venture Exchange be equal to or higher than \$2 for 10 consecutive days, the Company shall have the right to force the exercise of the warrants by providing the warrant holders with a 30-day notice period, following which the warrants will automatically expire. The Company also issued 35,200 non-transferable warrants. Each warrant is exercisable at \$0.89 for a period of 3 years expiring on October 27, 2019. The fair value of the broker warrants is \$7,456 and is calculated using the Black-Scholes model.

	Nine-month period ended September 30, 2017 \$	As at December 31, 2016 \$
Balance – Beginning of period	3,551,692	-
Proceeds from loan	-	4,100,000
Amortization of transaction costs	126,511	-
Transaction costs	-	(548,308)
Balance – End of period	<u>3,681,203</u>	<u>3,551,692</u>

### 10. CAPITAL STOCK

#### Authorized

Unlimited number of common shares without par value

Unlimited number of preferred shares, without par value, issuable in series: Series A includes 500,000 preferred shares, non-voting, non-cumulative dividend of 8% redeemable by the Company at the amount paid-in.

Changes in the Company's common shares were as follows:

	Nine-month period ended September 30, 2017		Nine-month period ended September 30, 2016	
	Number	Amount \$	Number	Amount \$
<b>Balance – Beginning of year</b>	97,648,080	54,783,402	96,825,755	53,977,978
Private placement <sup>(1)</sup>	2,882,500	2,198,356	-	-
Warrants exercised <sup>(2)</sup>	-	-	400,000	310,765
Options granted to Broker exercised <sup>(3)</sup>	-	-	422,325	494,659
<b>Balance – End of period</b>	<u>100,530,580</u>	<u>56,981,758</u>	<u>97,648,080</u>	<u>54,783,402</u>

As at September 30, 2017, 100,530,580 shares are issued and fully paid (2016 – 97,648,080).

(1) Value of capital stock paid in cash (private placement) is presented net of fair value of warrants units amounting to \$107,644 (2016 – nil) – refer to description below.

(2) This amount includes fair value of exercised warrants amounting to \$0 (2016 - \$ 14,765).

(3) This amount includes fair value of brokers options exercised amounting to \$0 (2016 – 72,334).

# ARIANNE PHOSPHATE INC.

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(in Canadian dollars)

On August 22<sup>nd</sup>, 2017, Arianne has as closed on a \$2,306,000 financing. Under the terms of the financing, Arianne has issued 2,882,500 units at a price of \$0.80 per unit. Each unit is comprised of one common share and a half warrant. Each full warrant entitles the holder to purchase one common share at a price of \$1.25 until August 22, 2020. The fair value of the warrants was calculated using the Black-Scholes pricing model and amounted to \$107,644. If at any time after four (4) months and one (1) day following the closing date, the trading price of the Company's common shares on the TSX Venture Exchange is equal to or exceeds \$1.60 for a period of ten (10) consecutive trading days, as evidenced by the price at the close of market, the Company shall be entitled to notify each warrant holder of its intention to force the exercise of the warrants. Upon receipt of such notice, the warrant holders shall have 30 days to exercise the warrants, failing which they will automatically expire.

In conjunction with this financing, Arianne has paid finder fees of \$184,480 and issued 230,600 non-transferable warrants exercisable at a price of \$0.80 per share until August 22, 2020. The securities issued in connection with the financing are subject to a regulatory hold period of four (4) months and one (1) day expiring on December 23, 2017.

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

#### Stock options

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

During the first nine months of 2017, 825 000 stock options were granted to director and consultants. The fair value of stock options granted amounted to \$231,937 and was estimated using the Black-Scholes pricing model with the following weighted average assumptions:

	Nine-month period ended September 30, 2017	Nine-month period ended September 30, 2016
Weighted average price of share at time of grant	\$0.78	\$0.90
Weighted average risk-free interest rate	1.33%	0.82%
Weighted average expected volatility	45%	58.4%
Weighted average expected life	4.0 years	4.5 years
Weighted average expected dividend yield	0%	0%
Weighted average fair value of options granted	0.28	0.41

Company stock options were as follows:

	Nine-month period ended September 30, 2017		Nine-month period ended September 30, 2016	
	Number	Weighted average exercise price \$	Number	Weighted average exercise price \$
<b>Balance – Beginning of period</b>	5,449,500	1.08	5,121,167	1.10
Expired	-	-	(96,667)	1.18
Forfeited	(338,333)	1.07	(350,000)	1.16
Granted	825,000	0.78	575,000	0.90
<b>Balance – End of period</b>	<u>5,936,167</u>	1.03	<u>5,249,500</u>	1.07
Exercisable at the end of the period	<u>4,634,917</u>	1.08	<u>3,921,000</u>	1.11

# ARIANNE PHOSPHATE INC.

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(in Canadian dollars)

### Warrants

Changes in Company warrants were as follows:

	Nine-month period ended September 30, 2017		Nine-month period ended September 30, 2016	
	Number	Weighted average exercise price \$	Number	Weighted average exercise price \$
<b>Balance – Beginning of period</b>	15,997,500	1.12	13,117,500	1.07
Exercised	-	-	(400,000)	0.74
Granted	<u>1,441,250</u>	1.25	<u>-</u>	-
<b>Balance – End of period</b>	<u>17,438,750</u>	1.13	<u>15,117,500</u>	1.11

In January 2017, the Company amended the terms and conditions of the 1,217,500 warrants granted on July 29, 2013. Initially, each warrant entitled its holder to acquire one common share at a price of \$1.45 per share until January 27, 2017. These warrants were amended in January 2017 to extend their expiration date to January 2018. All other terms and conditions remained similar. The Company calculated the fair value of the warrants prior and after the amendment. The fair value of the extended warrants was estimated at \$15,994 considering the fair value of the original warrants existing on the date of the amendment, according to the Black-Scholes model, and it was recorded as an increase in deficit for the nine-month period ended September 30, 2017.

In July 2017, the Company amended the terms and conditions of 2,815,500 warrants granted on July 31, 2014. Initially, each of the Warrants, entitles its holder to purchase one common share at an exercise price of \$1.25 per Share until July 31, 2017. These warrants were amended in July 2017, to extend the expiry date of the Warrants to July 31, 2018. All other terms and conditions remained similar. The fair value of the extended warrants was estimated at \$73,635 considering the fair value of the original warrants existing on the date of the amendment, according to the Black-Scholes model, and it was recorded as an increase in deficit for the nine-month period ended September 30, 2017.

### Options granted to brokers

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

	Nine-month period ended September 30, 2017		Nine-month period ended September 30, 2016	
	Number	Weighted average exercise price \$	Number	Weighted average exercise price \$
<b>Balance – Beginning of period</b>	131,200	0.91	447,750	1.00
Exercised	-	-	(422,325)	1.00
Granted	<u>230,600</u>	0.80	<u>-</u>	-
<b>Balance – End of period</b>	<u>361,800</u>	0.84	<u>121,425</u>	0.94

# ARIANNE PHOSPHATE INC.

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(in Canadian dollars)

### 12. SUPPLEMENTARY INFORMATIONS RELATED TO CASH FLOWS

	Nine-month period ended September 30, \$	Nine-month period ended September 30, \$
Net change in non-cash working capital items		
Receivable and other current assets	(263,800)	34,087
Sales taxes receivable	(5,598)	19,194
Accounts payable and accrued liabilities	(1,002,178)	136,840
	<u>(1,271,576)</u>	<u>(83,559)</u>

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

	Nine-month period ended September 30, 2017 \$	Nine-month period ended September 30, 2016 \$
Addition to exploration and evaluation assets not yet paid	303,847	243,333

### 13. RELATED PARTY TRANSACTIONS

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

	Nine-month period ended September 30, 2017 \$	Nine-month period ended September 30, 2016 \$
<b>Key management compensation <sup>(1)</sup></b>		
Share-based compensation	79,439	100,185
Management fees	72,250	29,750
	<u>151,689</u>	<u>129,735</u>
Salaries and fringe benefits <sup>(2)</sup>	317,677	366,347
	<u>469,366</u>	<u>496,282</u>
Balance included in accounts payable and accrued liabilities	<u>-</u>	<u>-</u>

(1) The key management is composed of the Chief Executive Officer (CEO), Chief Operating Officer (COO), Chief Financial Officer (CFO), the vice-president exploration and First Nations Relations and the Executive Vice Chairman

(2) Salaries and benefits capitalized to exploration and evaluation assets amount to \$175,363 (\$78,405 in 2016).

The Company has entered into employment and management contracts with its key executives whose estimated annual remuneration amounts to \$600,000. 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 September 30<sup>th</sup>, 2017, the Company would have had to pay a total amount of \$600,000 as severance. If a change of control had occurred on September 30<sup>th</sup>, 2017, the total amounts payable to the executive team in respect of severance would have totaled \$950,000 (assuming they left after a change of control and each named executive opted to receive such compensation). If the assets of the company had been sold to an "arm's length entity" on September 30<sup>th</sup>, 2017, the total amounts payable to the executive team in respect of severance would have totaled \$1,200,000 (assuming they left after a change of control and each named executive opted to receive such compensation).

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

# ARIANNE PHOSPHATE INC.

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(in Canadian dollars)

### 14. 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. These royalties 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. The Company also has granted to other parties a 2.25% royalty on the net smelter return. The royalty may be redeemed at any time through a lump-sum payment of \$2.5 million.
- b) The Company granted contracts in relation to the development of the Lac à Paul project for a total of \$377,508. These contracts do not have termination dates and disbursements will be made in accordance with the project's milestones.
- c) The Company's future minimum operating lease payments for the rent in Chicoutimi office and Lac à Paul camp are as follows:

	Within 1 year	1 to 5 years	After 5 years	Total
September 30, 2017	38,535	131,517	-	170,052

### 15. CONTINGENCIES

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

### 16. FINANCIAL INSTRUMENTS AND FINANCIAL RISKS

#### Classification

The Company's financial instruments as at September 30, 2017 consist of cash and cash equivalents, receivable and other current assets, accounts payable and accrued liabilities, loan and credit lines. The fair value of these financial instruments approximates their carrying value due to their short-term maturity, to current market rates or they bear interest at variable rates.

The classification of financial instruments is summarized as follows:

Classification	Carrying value	Carrying value
	As at September 30, 2017	As at December 31, 2016
	\$	\$
<b>Financial assets</b>		
Cash and cash equivalents	Loans and receivables	
	1,465,127	2,229,044
	<u>1,465,127</u>	<u>2,229,044</u>
<b>Financial liabilities</b>		
Accounts payable and accrued liabilities	Financial liabilities at amortized cost	
Loan	Financial liabilities at amortized cost	
Credit lines	Financial liabilities at amortized cost	
	1,797,083	1,976,203
	3,681,203	3,551,692
	20,082,999	17,396,288
	<u>25,561,285</u>	<u>22,924,183</u>

The Company defines the fair value hierarchy under which its financial instruments are valued as follows: level 1 includes unadjusted quoted prices in active markets for identical assets or liabilities; level 2 includes inputs other than quoted prices in level 1 that are observable for assets or liabilities, either directly or indirectly; and level 3 includes inputs for the asset or liability that are not based on observable market data. Marketable securities were considered a level 1. There was no transfer of hierarchy level as at September 30, 2017 and December 31, 2016.

# ARIANNE PHOSPHATE INC.

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(in Canadian dollars)

### Financial risks

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

#### Credit risk

The Company's credit risk is primarily attributable to cash and cash equivalents and receivable and other current assets. Cash and cash equivalents are deposited in Canadian chartered bank accounts or invested in a diversified manner in securities having an investment-grade rating (AA-), from which management believes the risk of loss to be minimal. Receivable and other current assets mainly consists of sales taxes receivable and mining tax credits due from the Quebec government. Management believes that the credit risk concentration with respect to financial instruments included in amounts receivable is minimal.

#### Liquidity risk

Liquidity risk is the risk that the Company will not have sufficient cash resources to meet its financial obligations as they come due. The Company's liquidity and operating results may be adversely affected if the Company's access to the capital market is hindered, whether as a result of a downturn in stock market conditions generally or related to matters specific to the Company. The Company generates cash flows primarily from its financing activities. As at September 30, 2017, the Company had cash and cash equivalents of \$1,465,127 (\$2,229,044 as at December 31, 2016) to settle current liabilities of \$21,880,082 (\$19,372,491 as at December 31, 2016). The Company regularly evaluates its cash position to ensure preservation and security of capital as well as maintenance of liquidity (Refer to note 1 for the use of the going concern assumption).

The following are the contractual maturities of financial liabilities, including interest where applicable as at September 30, 2017:

	Carrying amount \$	Contractual cash flows \$	0 to 12 months \$	12 to 24 months \$	More than 24 months \$
Accounts payable and accrued liabilities	1,797,083	1,797,083	1,797,083	-	-
Credit lines	20,082,999	20,260,533	20,260,533	-	-
Loan	3,681,203	4,760,625	328,000	326,356	4,106,268

#### Interest rate risk

According to the third non-revolving credit line and amendments made to the first and second credit lines dated October 20, 2015, the interest rate has been modified from a variable to fixed rate and therefore, the Company has no interest rate risk as at December 31, 2016 and September 30, 2017. The Company's policy as it relates to its cash balances is to invest excess cash in financial instruments held with a Canadian chartered bank.

#### Currency risk

As at September 30, 2017, the Company has a bank account in US dollars for an amount of \$192 (\$89,366 as at December 31, 2016). The Company estimates that a variation of  $\pm 10\%$  in exchange rates on that date would have resulted in a variation of approximately \$19 in 2017 (\$8,936 as at December 31, 2016) in net loss.

## 17. SUBSEQUENT EVENT

On October 3<sup>rd</sup>, 2017, the Company extended the term of 1,184,500 common share purchase warrants issued as part of a private placement which closed on October 16, 2014 for gross proceeds of \$2,369,000. Each of the Warrants, which were part of the units being issued, entitles its holder to purchase one common share of the Company at an exercise price of \$1.25 per Common Share until October 15, 2017. The Company has elected to extend the expiry date of the Warrants to October 15, 2018. No other Warrant terms are amended. The Company will deliver a notice of extension to the registered holders of the Warrants. The fair value of the extended warrants was estimated at \$22,609 considering the fair value of the original warrants existing on the date of the amendment, according to the Black-Scholes model, and it will be recorded as an increase in deficit for the twelve-month period ending December 31, 2017.