

**ARIANNE PHOSPHATE INC.  
CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS  
(UNAUDITED)  
NINE-MONTH PERIODS ENDED SEPTEMBER 30, 2019 AND SEPTEMBER 30, 2018  
(in Canadian dollars)**



Condensed consolidated interim financial statements for the three and nine-month period ended September 30, 2019 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<br>September 30,<br>2019 | As at<br>December 31,<br>2018 |
|---|--------------------------------|-------------------------------|
| <b>ASSETS</b>                                     |                                |                               |
| <b>Current assets</b>                             |                                |                               |
| Cash and cash equivalents (note 4)                | 1,063,193                      | 2,076,731                     |
| Receivables and other current assets              | 112,166                        | 145,149                       |
| Sales taxes receivable                            | 58,721                         | 43,672                        |
| Mining tax credit receivable                      | 79,079                         | 272,318                       |
|   | <u>1,313,159</u>               | <u>2,537,870</u>              |
| <b>Non-current assets</b>                         |                                |                               |
| Mining tax credit receivable                      | 68,905                         | 79,079                        |
| Investment property – Outfitters (note 5)         | 306,198                        | 282,669                       |
| Property, plant and equipment (note 6)            | 61,377,613                     | 56,887,529                    |
| Right-of-use assets (note 7)                      | 317,405                        | -                             |
|   | <u>62,070,121</u>              | <u>57,249,277</u>             |
| <b>Total assets</b>                               | <u>63,383,280</u>              | <u>59,787,147</u>             |
| <b>LIABILITIES</b>                                |                                |                               |
| <b>Current liabilities</b>                        |                                |                               |
| Accounts payable and accrued liabilities (note 8) | 1,304,570                      | 2,461,280                     |
| Loans and working capital facility (note 9)       | 1,611,610                      | 5,324,950                     |
| Credit line (note 10)                             | 25,382,828                     | -                             |
|   | <u>28,299,008</u>              | <u>7,786,230</u>              |
| <b>Non-current liabilities</b>                    |                                |                               |
| Credit line (note 10)                             | -                              | 22,271,587                    |
| Loans and working capital facility (note 9)       | 3,688,115                      | -                             |
| Lease liabilities (note 3)                        | 307,152                        | -                             |
| Deferred income taxes                             | 3,078,886                      | 3,008,228                     |
| <b>Total liabilities</b>                          | <u>35,373,161</u>              | <u>33,066,045</u>             |
| <b>Equity</b>                                     |                                |                               |
| Capital stock (note 12)                           | 62,671,155                     | 60,194,364                    |
| Warrants (note 12)                                | 892,003                        | 1,260,413                     |
| Contributed surplus                               | 14,800,536                     | 13,865,552                    |
| Deficit   | (50,353,575)                   | (48,599,227)                  |
| <b>Total equity</b>                               | <u>28,010,119</u>              | <u>26,721,102</u>             |
| <b>Total liabilities and equity</b>               | <u>63,383,280</u>              | <u>59,787,147</u>             |
| <b>GOING CONCERN</b> (note 1)                     |                                |                               |
| <b>COMMITMENTS</b> (note 15)                      |                                |                               |

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) Andrew Malashewsky, CFO

# ARIANNE PHOSPHATE INC.

## CONSOLIDATED INTERIM STATEMENTS OF LOSS AND COMPREHENSIVE LOSS FOR THE THREE AND NINE-MONTH PERIODS ENDED SEPTEMBER 30, 2019 AND 2018

(In Canadian dollars, except for loss per share and weighted average number of shares outstanding)

|   | Three-month<br>period ended<br>September 30,<br>2019 | Three-month<br>period ended<br>September<br>30, 2018 | Nine-month<br>period ended<br>September<br>30, 2019 | Nine-month<br>period ended<br>September<br>30, 2018 |
|---|--|--|---|---|
|   | \$   | \$   |   | \$  |
| <b>EXPENSES</b>   |  |  |   |   |
| Salaries and benefits   | 107,679  | 192,497  | 401,902   | 616,107   |
| Share-based compensation  | 40,626   | 21,363   | 139,852   | 97,399  |
| Professional and consultant fees                                  | 42,730   | 64,670   | 340,953   | 157,748   |
| Management fees   | 65,000   | 47,500   | 220,833   | 142,500   |
| Registration and listing fees                                     | 7,700  | 7,820  | 59,784  | 75,845  |
| Annual general meeting  | (936)  | 5,731  | 13,368  | 15,331  |
| Communications  | 47,397   | 78,673   | 196,810   | 270,773   |
| Promotion, representation and travel                              | 25,190   | 26,620   | 79,591  | 70,218  |
| Insurance   | 7,668  | 8,706  | 25,862  | 28,933  |
| Rent and office expenses  | 40,339   | 42,666   | 123,604   | 154,141   |
| Depreciation of property, plant and equipment                     | 13,508   | 7,159  | 26,086  | 22,648  |
| Gain on disposal property, plant and equipment                    | -  | -  | -   | (30,000)  |
| Bank charges  | 1,725  | 1,486  | 4,512   | 3,646   |
| Governmental grant  | -  | -  | -   | (428,170)   |
| <b>Operating loss</b>   | <b>398,626</b>                                       | <b>504,891</b>                                       | <b>1,633,157</b>                                    | <b>1,197,119</b>                                    |
| <b>OTHER EXPENSES (INCOME)</b>                                    |  |  |   |   |
| Interest income   | (4,189)  | (3,217)  | (14,498)  | (11,973)  |
| Foreign exchange loss   | 129  | 503  | 9,978   | 3,583   |
| Net loss (income) of investment property – Outfitters<br>(Note 5) | 9,037  | 14,706   | (16,006)  | 52,904  |
|   | 4,977  | 11,992   | (20,526)  | 44,514  |
| <b>LOSS BEFORE INCOME TAXES</b>                                   | <b>403,603</b>                                       | <b>516,883</b>                                       | <b>1,612,631</b>                                    | <b>1,241,633</b>                                    |
| Deferred income taxes   | 25,574   | 14,759   | 70,657  | 193,388   |
| <b>NET LOSS AND COMPREHENSIVE LOSS FOR<br/>THE PERIOD</b>         | <b>429,177</b>                                       | <b>531,642</b>                                       | <b>1,683,288</b>                                    | <b>1,435,021</b>                                    |
| <b>BASIC AND DILUTED LOSS PER SHARE</b>                           | <b>0.01</b>  | <b>0.01</b>  | <b>0.01</b>   | <b>0.02</b>   |
| <b>WEIGHTED AVERAGE NUMBER OF SHARES<br/>OUTSTANDING</b>          | <b>107,268,533</b>                                   | <b>99,923,023</b>                                    | <b>107,493,589</b>                                  | <b>99,923,023</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, 2019 AND DECEMBER 31, 2018

(in Canadian dollars, except for the number of shares)

|  | Capital stock | Capital stock | Warrants  | Contributed surplus | Deficit      | Total equity |
|--|---------------|---------------|-----------|---------------------|--------------|--------------|
|  | Common shares | \$            | \$        | \$                  | \$           | \$           |
| <b>Balance as at January 1, 2019</b>           | 105,803,943   | 60,194,364    | 1,260,413 | 13,865,552          | (48,599,227) | 26,721,102   |
| Net loss and comprehensive loss for the period | -             | -             | -         | -                   | (1,683,288)  | (1,683,288)  |
| Share-based compensation (note 12)             | -             | -             | -         | 139,852             | -            | 139,852      |
| Grant of warrants (note 12)                    | -             | -             | 409,162   | -                   | -            | 409,162      |
| Grant of broker warrants (note 12)             | -             | -             | -         | 3,301               | -            | 3,301        |
| Private Placement (note 11)                    | 4,928,425     | 2,141,996     | 49,054    | -                   | -            | 2,191,050    |
| Share issuance expenses                        | -             | -             | -         | -                   | (71,060)     | (71,060)     |
| Exercise of warrants (note 12)                 | 705,882       | 334,795       | (34,795)  | -                   | -            | 300,000      |
| Warrants expired                               | -             | -             | (791,831) | 791,831             | -            | -            |
| <b>Balance as at September 30, 2019</b>        | 111,438,250   | 62,671,155    | 892,003   | 14,800,536          | (50,353,575) | 28,010,119   |
| <b>Balance as at January 1, 2018</b>           | 103,570,610   | 58,828,558    | 1,547,839 | 13,515,903          | (46,596,910) | 27,095,390   |
| Net loss and comprehensive loss for the period | -             | -             | -         | -                   | (1,930,086)  | (1,930,086)  |
| Share-based compensation (note 12)             | -             | -             | -         | 113,298             | -            | 113,298      |
| Grant of warrants (note 12)                    | -             | -             | 145,579   | -                   | -            | 145,579      |
| Warrants expired                               | -             | -             | (436,351) | 436,351             | -            | -            |
| Private Placement (note 11)                    | 2,233,333     | 1,365,806     | -         | -                   | -            | 1,365,806    |
| Share issuance expenses                        | -             | -             | -         | -                   | (68,885)     | (68,885)     |
| Modification of warrants (note 12)             | -             | -             | 3,346     | -                   | (3,346)      | -            |
| <b>Balance as at December 31, 2018</b>         | 105,803,943   | 60,194,364    | 1,260,413 | 13,865,552          | (48,599,227) | 27,721,102   |

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 THREE AND NINE-MONTH PERIODS ENDED SEPTEMBER 30, 2019 AND 2018 (in Canadian dollars)

|  | Three-month<br>period ended<br>September 30,<br>2019 | Three-month<br>period ended<br>September<br>30, 2018 | Nine-month<br>period ended<br>September<br>30, 2019 | Nine-month<br>period ended<br>September<br>30, 2018 |
|--|--|--|---|---|
|  | \$   | \$   |   | \$  |
| <b>CASH FLOW FROM (USED IN)</b>                              |  |  |   |   |
| <b>OPERATING ACTIVITIES</b>                                  |  |  |   |   |
| Net loss for the period                                      | (429,177)  | (531,642)  | (1,683,288)   | (1,435,021)   |
| Adjustments for:   |  |  |   |   |
| Share-based payments   | 40,626   | 21,362   | 139,852   | 97,399  |
| Gain on disposal - Property, plant and equipment             | -  | -  | -   | (30,000)  |
| Loss on disposal - Investment property - Outfitters          | -  | 5,255  | -   | 5,255   |
| Depreciation – Investment property - Outfitters              | 5,572  | 4,841  | 16,292  | 15,313  |
| Depreciation – Property, plant and equipment                 | 13,510   | 7,157  | 26,086  | 22,648  |
| Income taxes and deferred taxes                              | 25,574   | 14,758   | 70,658  | 193,388   |
| Net change in non-cash working capital items (note 13)       | 25,062   | 931,917  | (257,441)   | 500,539   |
|  | <u>(318,833)</u>                                     | <u>453,648</u>                                       | <u>(1,687,841)</u>                                  | <u>(630,479)</u>                                    |
| <b>INVESTING ACTIVITIES</b>                                  |  |  |   |   |
| Proceeds of tax credit                                       | -  | -  | 258,264   | -   |
| Disposal of property, plant and equipment                    | -  | -  | -   | 30,000  |
| Acquisition of property, plant and equipment                 | (489,608)  | -  | (1,918,308)   | (6,743)   |
| Acquisition of property, plant and equipment – Outfitter     | (725)  | -  | (39,821)  | -   |
| Acquisition of mining properties                             | -  | -  | -   | (30,571)  |
| Acquisition of exploration and evaluation assets             | -  | (1,113,992)  | -   | (1,132,283)   |
|  | <u>(490,333)</u>                                     | <u>(1,113,992)</u>                                   | <u>(1,699,865)</u>                                  | <u>(1,139,597)</u>                                  |
| <b>FINANCING ACTIVITIES</b>                                  |  |  |   |   |
| Transaction costs  | (2,757)  | -  | (31,325)  | (11,014)  |
| Proceeds from the issuance of units                          | 691,050  | -  | 2,191,050   | 1,407,000   |
| Share issuance expenses                                      | (43,311)   | -  | (67,759)  | (72,005)  |
| Warrants exercised   | -  | -  | 300,000   | -   |
| Principal payments on lease obligation                       | (17,798)   | -  | (17,798)  | -   |
|  | <u>627,184</u>                                       | <u>-</u>   | <u>2,374,168</u>                                    | <u>1,323,981</u>                                    |
| <b>CHANGE IN CASH AND CASH EQUIVALENTS DURING THE PERIOD</b> |  |  |   |   |
|  | (181,982)  | (660,344)  | (1,013,538)   | (446,090)   |
| <b>CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD</b>        | <u>1,245,175</u>                                     | <u>1,589,130</u>                                     | <u>2,076,731</u>                                    | <u>1,374,881</u>                                    |
| <b>CASH AND CASH EQUIVALENTS, END OF PERIOD</b>              | <u>1,063,193</u>                                     | <u>928,786</u>                                       | <u>1,063,193</u>                                    | <u>928,789</u>                                      |
| Supplementary cash flow information (note 13)                |  |  |   |   |
| Interest received  | 4,189  | 3,217  | 14,498  | 11,973  |

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 *Business Corporations Act* (Quebec) (QBCA). The Company is engaged in the development of its Lac à Paul phosphate property located in Quebec, Canada. The Company has a National Instrument 43-101 compliant technical report for its mineral reserve and resource estimate and for a feasibility study on the Lac à Paul property. In October 2018, management determined that the technical feasibility and commercial viability of the Lac à Paul property had been established and accordingly, the development phase for the Lac à Paul property has commenced.

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, 2019, the Company recorded a net loss of \$1,063,193 and has an accumulated deficit of \$50,353,575 as at September 30, 2019. 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, 2019, the Company had a negative working capital of \$26,985,849. Management estimates that the working capital will not be sufficient to meet the Company's obligations and budgeted expenditures through September 30, 2020. 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 2020.

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 consolidated financial statements for the year ended December 31, 2018. These condensed consolidated interim financial statements should be read in conjunction with the Company annual consolidated financial statements for the year ended December 31, 2018, 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 26, 2019.

#### New accounting policies adopted in 2019

##### Leases

The Corporation leases offices and equipment. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. Prior to January 1, 2019, leases of offices and equipment were classified as operating leases. Payments made under operating leases, net of any incentives received from the lessor, were charged to profit or loss on a straight-line basis over the period of the lease. From January 1, 2019, leases are recognized as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Corporation. Each lease payment is allocated between the lease liabilities and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the lease liabilities for each period. The weighted average incremental borrowing rate applied to the lease liabilities on January 1, 2019 was 4.5%. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. Assets and liabilities arising from leases are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

# ARIANNE PHOSPHATE INC.

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(in Canadian dollars)

- fixed payments, less any lease incentives receivable;
- variable lease payment that are based on an index or a rate;
- amounts expected to be payable by the lessee under residual value guarantees;
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option;
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

### Right-of-use assets

The Corporation recognizes right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognized, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Unless the Corporation is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognized right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term.

### Lease liabilities

At the commencement date of the lease, the Corporation recognizes lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Corporation and payments of penalties for terminating a lease, if the lease term reflects the Corporation exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognized as expense in the period on which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Corporation uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset.

### Short-term leases

The Corporation applies the short-term lease recognition exemption to all its short-term leases (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). Lease payments on short-term leases are expensed on a straight-line basis over the lease term.

### Lease and non-lease components

For all its leases, the Corporation applies the practical expedient exemption not to separate non-lease components from lease components, and instead accounts for each lease component and any associated non lease components as a single lease component.

### Determining the lease term of contracts with renewal or termination options

The Corporation determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised. The Corporation elected to use the recognition exemptions for lease contracts that, at the commencement date, have a remaining lease term of 12 months or less and do not contain a purchase option ('short-term leases').

## 3. NEW ACCOUNTING STANDARDS AND INTERPRETATIONS

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### IFRS 16, Leases

In January 2016, the IASB issued IFRS 16. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, which is the customer ("lessee") and the supplier ("lessor"). IFRS 16 replaces IAS 17, Leases, and related interpretations. All leases result in the lessee obtaining the right to use an asset at the start of the lease and, if lease payments are made over time, also obtaining financing. Accordingly, IFRS 16 will eliminate the classification of leases as either operating leases or finance leases as is required by IAS 17 and, instead, introduces a single lessee accounting model. Applying that model, a lessee is required to recognize: i) assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value; and ii) depreciation of lease assets separately from interest on lease liabilities in the statements of income. The new standard is effective for annual periods beginning on or after January 1, 2019 with early adoption permitted if IFRS 15 is also applied.

### New accounting standard issued but not yet in effect

#### IFRIC 23 Uncertainty over Income Tax Treatments

On June 7, 2017, the IASB issued IFRIC Interpretation 23 Uncertainty over Income Tax Treatments. The interpretation provides guidance on the accounting for current and deferred tax liabilities and assets in circumstances in which there is uncertainty over income tax treatments. The interpretation is applicable for the annual period beginning on or after July 1, 2019. Earlier application is permitted. The Interpretation requires an entity to:

- contemplate whether uncertain tax treatments should be considered separately, or together as a group, based on which approach provides better predictions of the resolution;

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## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(in Canadian dollars)

- reflect an uncertainty in the amount of income tax payable (recoverable) if it is probable that it will pay (or recover) an amount for the uncertainty; and
- measure a tax uncertainty based on the most likely amount or expected value depending on whichever method better predicts the amount payable (recoverable).

The Corporation intends to adopt the Interpretation in its financial statements for the period beginning on July 1, 2019. The extent of the impact of adoption of the Interpretation has not yet been determined.

### 4. CASH AND CASH EQUIVALENTS

|                           | As at September<br>30, 2019 | As at December 31,<br>2018 |
|---------------------------|-----------------------------|----------------------------|
|                           | \$                          | \$                         |
| Cash and cash equivalents | 1,063,193                   | 2,076,731                  |

As at September 30, 2019, cash and cash equivalents comprises cash on hand amounting to \$947,916 bearing interest at a fixed rate 1.75% and an amount of \$115,277 not bearing interest. An amount of \$30,000 is restricted in connection with the Company's credit card agreement.

As at December 31, 2018, cash and cash equivalents comprise cash on hand amounting to \$1,857,521 bearing interest at a fixed rate 1.75% and an amount of \$219,210 not bearing interest. An amount of \$30,000 is restricted in connection with the Company's credit card agreement.

### 5. INVESTMENT PROPERTY – OUTFITTERS

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

|   | Nine-month<br>period ended<br>September 30,<br>2019 | Nine-month<br>period ended<br>September 30,<br>2018 |
|---|---|---|
|   | \$  | \$  |
| Outfitters income                                     | 90,037  | 79,337  |
| Operating expenses:                                   |   |   |
| Management fees                                       | 57,517  | 45,138  |
| Repair and maintenance                                | 5,682   | 15,724  |
| Supplies  | 9,538   | 15,553  |
| Advertising, promotion and travel                     | 16,178  | 15,109  |
| Taxes and licenses                                    | 5,603   | 9,021   |
| Insurance   | 10,854  | 10,482  |
| Bad debt expense                                      | -   | 286   |
| Interest and bank charges                             | 180   | 360   |
| Loss (Gain) on disposal                               | (47,813)  | 5,255   |
| Depreciation of property, plant and equipment         | 16,292  | 15,313  |
| Net income (loss) of investment property – Outfitters | 16,006  | (52,904)  |

The carrying value, net of amortization, for the outfitter operating assets is \$306,198 as at September 30, 2019 (\$282,669 as at December 31, 2018).

# ARIANNE PHOSPHATE INC.

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(in Canadian dollars)

### 6. PROPERTY, PLANT AND EQUIPMENT

|   | Leasehold<br>improvements<br>\$ | Tools and<br>equipment<br>\$ | Computer<br>equipment<br>\$ | Land<br>\$ | Mineral<br>property under<br>development <sup>(1)</sup><br>\$ | Total<br>\$ |
|---|---------------------------------|------------------------------|-----------------------------|------------|---|-------------|
| <b>Cost</b>                                     |                                 |                              |                             |            |   |             |
| Balance as at January 1, 2018                   | 294,032                         | 127,015                      | 17,138                      | 1,426,472  | -   | 1,864,657   |
| Acquisition                                     | -                               | -                            | -                           | 6,743      | 183,543   | 190,286     |
| Gain on modification of credit line             | -                               | -                            | -                           | -          | (1,000,403)   | (1,000,403) |
| Transfer from mining properties                 | -                               | -                            | -                           | -          | 1,277,734   | 1,277,734   |
| Transfer from exploration and evaluation assets | -                               | -                            | -                           | -          | 54,270,120  | 54,270,120  |
| Borrowing costs                                 | -                               | -                            | -                           | -          | 560,798   | 560,798     |
| Balance as at December 31, 2018                 | 294,032                         | 127,015                      | 17,138                      | 1,433,215  | 55,291,792  | 57,163,192  |
| Acquisition                                     | -                               | 7,500                        | 11,980                      | -          | 4,496,125   | 4,515,605   |
| Balance as at September 30, 2019                | 294,032                         | 134,515                      | 29,118                      | 1,433,215  | 59,787,917  | 61,678,797  |
| <b>Accumulated depreciation</b>                 |                                 |                              |                             |            |   |             |
| Balance as at January 1, 2018                   | 143,586                         | 80,917                       | 9,638                       | -          | -   | 234,141     |
| Depreciation                                    | 27,479                          | 12,078                       | 1,965                       | -          | -   | 41,522      |
| Balance as at December 31, 2018                 | 171,065                         | 92,995                       | 11,603                      | -          | -   | 275,663     |
| Depreciation                                    | 17,262                          | 6,932                        | 1,327                       | -          | -   | 25,521      |
| Balance as at September 30, 2019                | 188,327                         | 99,927                       | 12,930                      | -          | -   | 301,184     |
| <b>Net book value</b>                           |                                 |                              |                             |            |   |             |
| Balance as at January 1, 2018                   | 150,446                         | 46,098                       | 7,500                       | 1,426,472  | -   | 1,630,516   |
| Balance as at December 31, 2018                 | 122,967                         | 34,020                       | 5,535                       | 1,433,215  | 55,291,792  | 56,887,529  |
| Balance as at September 30, 2019                | 105,705                         | 34,588                       | 16,188                      | 1,433,215  | 59,787,917  | 61,377,613  |

### 7. RIGHT-TO-USE ASSETS

|                                  | Buildings, Camp and<br>Accommodations<br>\$ | Total<br>\$ |
|----------------------------------|---|-------------|
| <b>Cost</b>                      |   |             |
| Balance as at December 31, 2018  | -   | -           |
| Acquisition                      | 324,950                                     | 324,950     |
| Balance as at September 30, 2019 | 324,950                                     | 324,950     |
| <b>Accumulated depreciation</b>  |   |             |
| Balance as at December 31, 2018  | -   | -           |
| Depreciation                     | 7,545                                       | 7,545       |
| Balance as at September 30, 2019 | 7,545                                       | 7,545       |
| <b>Net book value</b>            |   |             |
| Balance as at December 31, 2018  | -   | -           |
| Balance as at September 30, 2019 | 317,405                                     | 317,405     |

# ARIANNE PHOSPHATE INC.

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(in Canadian dollars)

### 8. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

|                         | As at September<br>30, 2019 | As at December<br>31, 2018 |
|-------------------------|-----------------------------|----------------------------|
|                         | \$                          | \$                         |
| Accounts payable        | 832,235                     | 1,645,333                  |
| Accrued liabilities     | 63,030                      | 503,970                    |
| Interest accrued        | -                           | 82,674                     |
| Income tax accrual      | 409,303                     | 409,303                    |
| Balance – End of period | <u>1,304,568</u>            | <u>2,641,280</u>           |

### 9. LOANS AND WORKING CAPITAL FACILITY

In September 2016, the Company closed on a \$3 million loan agreement with various third-party lenders. The loan bears interest at 8%, paid semi-annually, and has a maturity of 3 years. The Company had the ability to repay the loan after one year at its option. As part of the loan, the Company 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, 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, 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 bears interest at 8%, paid semi-annually and has a maturity of 3 years. The Company had the ability to repay the loan after one year at its option. As part of the loan, the Company issued 880,000 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 October 27, 2019. The fair value of those warrants represents \$84,961, calculated with the Black-Scholes model. Additionally, following the expiry of the regulatory hold period, should the closing price of Arianne'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.

In September 2019, the Company extended the total \$4.1 million loans. These extensions will mature on September 28, 2021 and bear interest at 8%, paid semi-annually. In connection with the loan extensions, the Company issued non-transferable warrants in the amount of 1,818 per \$1,000 face value (for a total of 7,453,800 warrants), with each warrant entitling the holder to purchase one common share of the Company at a price of \$0.55 per share for a term of 2 years expiring on September 28, 2021. These warrants replace warrants that were issued as part of the original loans in September and October of 2016. The fair value of those warrants represents \$409,162 calculated with the Black-Scholes model. An analysis under IFRS 9 was performed and this loan is classified as a new loan. No impact has been recognized in the consolidated statements of loss and comprehensive loss, since the transactions costs have been amortized and the new loan is the same amount of the previous loan less the transactions fees amortized.

|                                   | As at September<br>30, 2019 | As at December<br>31, 2018 |
|-----------------------------------|-----------------------------|----------------------------|
|                                   | \$                          | \$                         |
| Balance – Beginning of period     | 3,930,395                   | 3,728,306                  |
| Amortization of transaction costs | 169,639                     | 202,089                    |
| Transaction costs                 | (411,920)                   | -                          |
| Balance – End of period           | <u>3,688,115</u>            | <u>3,930,395</u>           |

In December 2018, the Company closed on a \$1.5 million loan agreement with various third-party lenders (the "working capital facility"). The working capital facility bears interest at 12%, payable at maturity, and has a maturity of 1 year. As part of the Working Capital Facility, the Company issued 2,117,646 non-transferable warrants, with each warrant entitling the holder to purchase one common share of the Company at a price of \$0.425 per share for a term of 1 year expiring on December 2019. The fair value of those warrants represents \$104,385, calculated with the Black-Scholes model.

# ARIANNE PHOSPHATE INC.

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(in Canadian dollars)

|  | As at September<br>30, 2019 | As at December<br>31, 2018 |
|--|-----------------------------|----------------------------|
|  | \$                          | \$                         |
| Balance – Beginning of period                                  | 1,394,555                   | -                          |
| Proceeds from the loan   | -                           | 1,500,000                  |
| Capitalized interests  | 129,959                     | 5,918                      |
| Transaction costs  | 1,162                       | (115,143)                  |
| Amortization of transactions costs                             | 85,935                      | 3,780                      |
| Balance – End of period  | <u>1,611,611</u>            | <u>1,394,555</u>           |
| <br>   |                             |                            |
| Total loans and working capital facility – current portion     | <u>1,611,611</u>            | <u>5,324,950</u>           |
| Total loans and working capital facility – non-current portion | <u>3,688,115</u>            | <u>-</u>                   |

### 10. CREDIT LINES

The Company has non-revolving credit lines with Mercury Financing Corp. (“the Lender”) which were obtained to finance the development of the Lac a Paul project. As of May 12, 2016, the lines were fully drawn, and any repayment of capital cannot subsequently be borrowed and reduces the authorized amounts. The Lender holds a first ranking security over the Company’s Lac a Paul property claims, up to an aggregate amount of \$27 million. The wholly owned subsidiary, 9252-5880 Québec Inc., has guaranteed jointly and severally the credit lines. Furthermore, the Company is subject to restrictions related to the disposal of assets and equity issuance through financing.

In December 2017, the Company has extended its credit line until January 15, 2019. The credit line bears interest at an annual rate equal to 15%, with all interests capitalized to the principal amount until the credit line matures. In connection with this transaction, the Company paid to the lender a commitment fee of 3% of the total amount of the credit facility, due on January 15, 2019. At the closing, the parties also agreed to terminate 3,717,000 non-transferable warrants which were issued to the lender in October 2015. In connection with the extension of the credit line, the Company granted 17,181,739 warrants at an exercise price of \$0.68 per warrant. Each warrant entitles the Lender to purchase one common share of the Company and shall be exercisable until January 15, 2019. The warrants are subject to a hold period of four months and one day from the date of the issuance. An amount of \$nil was allocated to the fair value of the warrants.

In December 2018, the Company has extended its credit line until June 30, 2020. The credit line bears interest at an annual rate equal to 15%, with all interests capitalized to the principal amount until the credit line matures. At the closing, the parties have also agreed to terminate 17,338,739 non-transferable warrants which were issued to the lender in December 2017 (17,181,739 warrants) and in October 2014 (157,000 warrants). In connection with this extension, the Company also paid \$20,348 of transaction fees. After the extension of the credit line, a gain of \$1,000,403 was recorded off set by an accretion of transaction cost of \$535,938. This was calculated according to IFRS 9 where the present value of the debt with the new term at the effective rate of the old debt was compared to the present value of the old debt. In connection with the extension of the credit line, the Company granted 22,417,458 warrants at an exercise price of \$0.425 per warrant. Each warrant entitles the Lender to purchase one common share of the Company and shall be exercisable until June 30, 2020. The warrants are subject to a hold period of four months and one day from the date of the issuance. An amount of \$nil was allocated to the fair value of the warrants.

|  | As at September<br>30, 2019 | As at December<br>31, 2018 |
|--|-----------------------------|----------------------------|
|  | \$                          | \$                         |
| Balance – Beginning of period                  | 22,271,587                  | 19,642,554                 |
| Proceeds from credit line                      | -                           | -                          |
| Transaction costs                              | (2,500)                     | (20,348)                   |
| Capitalized interests                          | 3,113,741                   | 3,113,846                  |
| Gain on modification on credit line            | -                           | (1,000,403)                |
| Amortization of transaction costs and discount | -                           | 535,938                    |
| Balance – End of period                        | <u>25,382,828</u>           | <u>22,271,587</u>          |

# ARIANNE PHOSPHATE INC.

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(in Canadian dollars)

### 11. CAPITAL STOCK

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#### 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<br>September 30, 2019 |                   | Year ended December 31, 2018 |                   |
|------------------------------------|---|-------------------|------------------------------|-------------------|
|                                    | Number  | Amount<br>\$      | Number                       | Amount<br>\$      |
| <b>Balance – Beginning of year</b> | 105,803,943                                   | 60,194,364        | 103,570,610                  | 58,828,558        |
| Private placement <sup>(1)</sup>   | 4,928,425                                     | 2,141,996         | 2,233,333                    | 1,365,806         |
| Exercise of warrants               | 705,882                                       | 334,795           | -                            | -                 |
| <b>Balance – End of period</b>     | <u>111,438,250</u>                            | <u>62,671,155</u> | <u>105,803,943</u>           | <u>60,194,364</u> |

As at September 30, 2019, 111,438,250 shares are issued and fully paid (2018 – 105,803,943).

(1) Value of capital stock paid in cash (private placement) is presented net of fair value of warrants units amounting to \$49,054 (year ended December 31, 2018 – \$41,194) – refer to description below.

For the period ended September 30, 2019:

On May 7, 2019 the Company has closed on a \$1,500,000 private placement. Under the terms of the offering, the Government of Quebec subscribed to 3,671,970 common shares of the Company at a price of \$0.4085 per share.

On August 22, 2019, Arianne has closed on a \$691,050 private placement. Under the terms of the offering, Arianne has issued 1,256,455 units at a price of \$0.55 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 \$0.75 until August 21, 2021.

For the period ended September 30, 2018:

On March 15, 2018 the Company has closed on a \$1,407,000 private placement. Under the terms of the offering, the Government of Quebec subscribed to 2,233,333 Units of the Company (the "Units") at a price of \$0.63 per Unit. The units consist of one common share (the "Common Share") and one-half common share purchase warrant (the "Warrant"). Each full Warrant entitles its holder to purchase one common share at a price equal to \$0.85 for a period of thirty-six (36) months following the closing date, expiring on March 14, 2021. If at any time after four (4) months and one (1) day following the closing date, the trading price of the Common Shares on the TSX Venture Exchange is equal to or exceeds \$1.25 for ten (10) consecutive trading days, as evidenced by the price at the close of market, the Company shall be entitled to notify the holders of Warrants of its intention to force the exercise of the Warrants. Upon receipt of such notice, the holders of the Warrants shall have 30 days to exercise the Warrants, failing which the Warrants will automatically expire.

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

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#### 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 2019, 1,470,000 stock options were granted to directors, consultant and employees and 200,000 stock options previously granted to director and consultants, were extended. The fair value of stock options extended amounted to \$1,923 and was estimated using the Black-Scholes pricing model with the following weighted average assumptions:

# ARIANNE PHOSPHATE INC.

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(in Canadian dollars)

|  | Nine-month<br>period ended<br>September 30,<br>2019 | Year ended<br>December 31,<br>2018 |
|--|---|------------------------------------|
| Weighted average price of share at time of grant | \$0.43  | \$0.53                             |
| Weighted average risk-free interest rate         | 1.56%   | 2.44%                              |
| Weighted average expected volatility             | 45%   | 41%                                |
| Weighted average expected life                   | 4.75 years  | 6 years                            |
| Weighted average expected dividend yield         | 0%  | 0%                                 |
| Weighted average fair value of options granted   | \$0.15  | \$0.22                             |

Company stock options were as follows:

|                                      | Nine-month period ended<br>September 30, 2019 |  | Year ended December 31,<br>2018 |  |
|--------------------------------------|---|--|---------------------------------|--|
|                                      | Number  | Weighted<br>average<br>exercise<br>price<br>\$ | Number                          | Weighted<br>average<br>exercise<br>price<br>\$ |
| <b>Balance – Beginning of period</b> | 5,999,500                                     | 0.98   | 5,842,834                       | 1.03   |
| Expired                              | (590,000)                                     | 0.91   | (200,000)                       | 0.91   |
| Granted                              | 1,470,000                                     | 0.40   | 630,000                         | 0.53   |
| Forfeited                            | -   | -  | (273,334)                       | -  |
| <b>Balance – End of period</b>       | <u>6,879,500</u>                              | 0.88   | <u>5,999,500</u>                | 0.98   |
| Exercisable at the end of the period | <u>4,686,167</u>                              | 1.06   | <u>4,751,166</u>                | 1.06   |

The following table summarize the information relating to the stock options granted under the plan.

| Exer-<br>cise<br>price<br>\$ | Options<br>outstanding<br>as at<br>December 31,<br>2018 | Weighted<br>average<br>remaining<br>contractual<br>life | Granted | Expired  | Exercised | Forfeited | Options<br>outstanding<br>as at<br>September<br>30, 2019 | Weighted<br>average<br>remaining<br>contractual<br>life as at<br>September<br>30, 2019 |
|------------------------------|---|---|---------|----------|-----------|-----------|--|--|
|                              |   |   |         |          |           |           |  |  |
| 0.15                         | 60,000  | 1.3 years   | -       | -        | -         | -         | 60,000   | 0.5 year   |
| 0.15                         | 85,000  | 1.5 years   | -       | -        | -         | -         | 85,000   | 0.7 year   |
| 0.37                         | 200,000   | 2.1 years   | -       | -        | -         | -         | 200,000  | 1.3 year   |
| 0.58                         | 150,000   | 2.1 years   | -       | -        | -         | -         | 150,000  | 1.3 year   |
| 1.25                         | 125,000   | 2.4 years   | -       | -        | -         | -         | 125,000  | 1.6 year   |
| 1.37                         | 1,050,000   | 2.6 years   | -       | -        | -         | -         | 1,050,000  | 1.9 year   |
| 1.16                         | 300,000   | 3.3 years   | -       | -        | -         | -         | 300,000  | 2.6 years  |
| 1.15                         | 184,000   | 3.7 years   | -       | -        | -         | -         | 184,000  | 2.9 years  |
| 1.07                         | 115,000   | 3.9 years   | -       | -        | -         | -         | 115,000  | 3.2 years  |
| 1.12                         | 50,000  | 4.0 years   | -       | -        | -         | -         | 50,000   | 3.3 years  |
| 1.25                         | 200,000   | 4.4 years   | -       | -        | -         | -         | 200,000  | 3.7 years  |
| 1.22                         | 200,000   | 4.4 years   | -       | -        | -         | -         | 200,000  | 3.7 years  |
| 1.19                         | 200,000   | 4.5 years   | -       | -        | -         | -         | 200,000  | 3.7 years  |
| 1.24                         | 25,000  | 4.8 years   | -       | (25,000) | -         | -         | -  | 4.0 years  |
| 1.32                         | 175,500   | 5.0 years   | -       | (15,000) | -         | -         | 160,500  | 4.2 years  |
| 1.30                         | 300,000   | 5.3 years   | -       | -        | -         | -         | 300,000  | 4.5 years  |
| 1.00                         | 350,000   | 5.8 years   | -       | (25,000) | -         | -         | 325,000  | 5.0 years  |
| 0.85                         | 385,000   | 6.4 years   | -       | -        | -         | -         | 385,000  | 5.7 years  |
| 0.86                         | 40,000  | 6.5 years   | -       | -        | -         | -         | 40,000   | 5.7 years  |
| 0.86                         | 35,000  | 6.7 years   | -       | -        | -         | -         | 35,000   | 5.9 years  |
| 0.81                         | 175,000   | 6.2 years   | -       | -        | -         | -         | 175,000  | 5.5 years  |

# ARIANNE PHOSPHATE INC.

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(in Canadian dollars)

|      |           |           |           |           |   |   |           |           |
|------|-----------|-----------|-----------|-----------|---|---|-----------|-----------|
| 0.98 | 200,000   | 0.5 year  | -         | (200,000) | - | - | -         | -         |
| 0.90 | 125,000   | 0.2 year  | -         | (125,000) | - | - | -         | -         |
| 0.76 | 400,000   | 8.3 years | -         | -         | - | - | 400,000   | 7.5 years |
| 0.77 | 200,000   | -         | -         | (200,000) | - | - | -         | -         |
| 0.62 | 40,000    | 9.0 years | -         | -         | - | - | 40,000    | 8.2 years |
| 0.41 | 200,000   | 9.7 years | -         | -         | - | - | 200,000   | 8.9 years |
| 0.58 | 430,000   | 9.8 years | -         | -         | - | - | 430,000   | 9.0 years |
| 0.43 | -         | -         | 100,000   | -         | - | - | 100,000   | 9.3 years |
| 0.40 | -         | -         | 200,000   | -         | - | - | 200,000   | 9.4 years |
| 0.40 | -         | -         | 275,000   | -         | - | - | 275,000   | 0.9 year  |
| 0.55 | -         | -         | 125,000   | -         | - | - | 125,000   | 1.3 year  |
| 0.55 | -         | -         | 470,000   | -         | - | - | 470,000   | 10 years  |
| 0.44 | -         | -         | 300,000   | -         | - | - | 300,000   | 10 years  |
|      | 5,999,500 |           | 1,470,000 | (590,000) | - | - | 6,879,500 |           |

### Warrants

During the period 8,082,028 warrants were grant (25,651,771 in 2018). The fair value of the warrants was estimated using the Black-Scholes pricing model and amounted to \$458,216 (\$145,579 in 2018) and were estimated with the following weighted average assumptions:

|  | Nine-month<br>period ended<br>September 30,<br>2019 | Year ended<br>December 31,<br>2018 |
|--|---|------------------------------------|
| Weighted average price of share at time of grant | \$0.50  | \$0.02                             |
| Weighted average risk-free interest rate         | 1.46%   | 0.23%                              |
| Weighted average expected volatility             | 49%   | 5%                                 |
| Weighted average expected life                   | 2.0 years   | 0.2 years                          |
| Weighted average expected dividend yield         | 0%  | 0%                                 |

Changes in Company warrants were as follows:

|                                      | Nine-month period ended<br>September 30, 2019 |  | Year ended December 31,<br>2018 |  |
|--------------------------------------|---|--|---------------------------------|--|
|                                      | Number  | Weighted<br>average<br>exercise<br>price<br>\$ | Number                          | Weighted<br>average<br>exercise<br>price<br>\$ |
| <b>Balance – Beginning of period</b> | 35,736,036                                    | 0.65   | 28,640,504                      | 0.90   |
| Granted                              | 8,082,028                                     | 0.57   | 25,651,771                      | 0.44   |
| Exercised                            | (705,882)                                     | 0.425  | (18,556,239)                    | 0.74   |
| Expired                              | (6,095,500)                                   | 1.25   | -                               | -  |
| <b>Balance – End of period</b>       | <u>37,016,682</u>                             | 0.54   | <u>35,736,036</u>               | 0.36   |

# ARIANNE PHOSPHATE INC.

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(in Canadian dollars)

The following table summarizes the information relating to the warrants granted:

| Exercise price<br>\$ | Expiry date    | Warrants outstanding<br>as at<br>December 31,<br>2018 | Granted   | Expired     | Exercised | Warrants outstanding<br>as at<br>September 30,<br>2019 | Weighted average<br>remaining<br>contractual life as<br>at<br>September 30, 2019 |
|----------------------|----------------|---|-----------|-------------|-----------|--|--|
| 1.25                 | July 2019      | 2,815,500   | -         | (2,815,500) | -         | -  | -  |
| 1.25                 | October 2019   | 1,027,500   | -         | -           | -         | 1,027,500  | 0.04 year  |
| 1.25                 | September 2019 | 2,400,000   | -         | (2,400,000) | -         | -  | -  |
| 1.25                 | October 2019   | 880,000   | -         | (880,000)   | -         | -  | -  |
| 1.25                 | August 2020    | 1,441,250   | -         | -           | -         | 1,441,250  | 0.9 year   |
| 0.85                 | December 2020  | 1,520,015   | -         | -           | -         | 1,520,015  | 1.25 year  |
| 0.85                 | March 2021     | 1,116,667   | -         | -           | -         | 1,116,667  | 1.45 year  |
| 0.43                 | June 2020      | 22,417,458  | -         | -           | -         | 22,417,458   | 0.75 year  |
| 0.43                 | December 2019  | 2,117,646   | -         | -           | (705,882) | 1,411,764  | 0.2 year   |
| 0.75                 | August 2021    | -   | 628,228   | -           | -         | 628,228  | 1.9 year   |
| 0.55                 | September 2021 | -   | 7,453,800 | -           | -         | 7,453,800  | 2 years  |
|                      |                | 35,736,036  | 8,082,028 | (6,095,500) | (705,882) | 37,016,682   |  |

### Options granted to brokers

During the period, 55,740 options to brokers were granted. Of this amount 22,500 were granted to Windermere, a related party, in connection with the private placement. The Company was not able to reliably determine the fair value of the services received and therefore used the fair value of the options granted to brokers as calculated using the Black-Scholes pricing model. The fair value of options granted to brokers amounted to \$3,301 and was estimated using the following weighted average assumptions:

|  | Nine-month<br>period ended<br>September<br>30, 2019 | Year ended<br>December 31,<br>2018 |
|--|---|------------------------------------|
| Weighted average price of share at time of grant | \$0.50  | \$0                                |
| Weighted average risk-free interest rate         | 1.46%   | 0%                                 |
| Weighted average expected volatility             | 48.5%   | 0%                                 |
| Weighted average expected life                   | 2 years   | 0 year                             |
| Weighted average expected dividend yield         | 0%  | 0%                                 |

Changes in Company options granted to brokers were as follows:

|                               | Nine-month period ended<br>September 30, 2019 |  | Year ended December 31,<br>2018 |  |
|-------------------------------|---|--|---------------------------------|--|
|                               | Number  | Weighted<br>average<br>exercise<br>price<br>\$ | Number                          | Weighted<br>average<br>exercise<br>price<br>\$ |
| Balance – Beginning of period | 428,600                                       | 0.81   | 428,600                         | 0.81   |
| Granted                       | 55,740  | 0.75   | -                               | -  |
| Expired                       | (96,000)                                      | 0.92   | -                               | -  |
| Balance – End of period       | 388,310                                       | 0.80   | 428,600                         | 0.81   |

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The following table summarizes the information relating to the brokers options granted:

| Exercise price<br>\$ | Expiry date    | Broker options                            | Granted | Exercised | Expired  | Broker options                          |
|----------------------|----------------|---|---------|-----------|----------|---|
|                      |                | outstanding as at<br>December 31,<br>2018 |         |           |          | outstanding as at<br>September 30, 2019 |
| 0.92                 | September 2019 | 96,000                                    | -       | -         | (96,000) | -                                       |
| 0.89                 | October 2019   | 35,200                                    | -       | -         | -        | 35,200                                  |
| 0.80                 | August 2020    | 230,600                                   | -       | -         | -        | 230,600                                 |
| 0.63                 | December 2020  | 66,800                                    | -       | -         | -        | 66,800                                  |
| 0.75                 | August 2021    | -   | 55,740  | -         | -        | 55,740                                  |
|                      |                | 428,600                                   | 55,740  | -         | (96,000) | 388,310                                 |

### 13. SUPPLEMENTARY INFORMATION RELATED TO CASH FLOWS

|  | Nine-month period<br>ended September<br>30, 2019 | Nine-month period<br>ended September<br>30, 2018 |
|--|--|--|
|  | \$   | \$   |
| Net change in non-cash working capital items |  |  |
| Receivable and other current assets          | 32,983   | 453,071  |
| Sales taxes receivable                       | (15,049)   | (75,115)   |
| Accounts payable and accrued liabilities     | (275,375)  | 122,583  |
|  | <u>(257,441)</u>                                 | <u>500,539</u>                                   |

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

|   | Nine-month period<br>ended September<br>30, 2019 | Nine-month period<br>ended September<br>30, 2018 |
|---|--|--|
|   | \$   | \$   |
| Additions to property, plant and equipment not yet paid     | 229,401  | -  |
| Additions to exploration and evaluation assets not yet paid | -  | 157,317  |

### 14. RELATED PARTY TRANSACTIONS

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

|  | Nine-month<br>period ended<br>September 30,<br>2019 | Nine-month<br>period ended<br>September 30,<br>2018 |
|--|---|---|
|  | \$  | \$  |
| <b>Key management compensation <sup>(1)</sup></b>            |   |   |
| Share-based compensation                                     | 57,135  | 42,721  |
| Management fees  | 213,333   | 142,500   |
|  | <u>270,468</u>                                      | <u>185,221</u>                                      |
| Salaries and benefits <sup>(2)</sup>                         | 217,835   | 295,503   |
|  | <u>488,303</u>                                      | <u>480,724</u>                                      |
| Balance included in accounts payable and accrued liabilities | 29,166  | -   |

(1) The key management is composed of the Chief executive officer (CEO), Chief Financial Officer (CFO), Chief Operating Officer (COO), Executive Chairman and the vice-president exploration and First Nations Relations. The CFO's compensation is paid to a related party mentioned below, Ocean Partners.

(2) Salaries and benefits capitalized to plant, property and equipment or exploration and evaluation assets amount to \$151,422 (\$168,697 for the period ended September 30, 2018).

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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 31, 2019, the Company would have had to pay a total amount of \$600,000 as severance. If a change of control had occurred on September 31, 2019, the total amounts payable to the executive team in respect of severance would have totaled \$1,050,000 (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 31, 2019, the total amounts payable to the executive team in respect of severance would have totaled \$1,300,000 (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. A rent is paid to Windermere amounting of \$1,640 on monthly basis.

Ocean Partners is also considered as a related party because a director of the Company is one of its managing directors. All agreements and transactions with Ocean Partners are already disclosed in these financial statements and are therefore not described in this note.

### 15. COMMITMENTS

- a) In August 2012, the Company granted the Lender of the 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 also granted the Lender of the 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 \$116,412. 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 and Montreal office and Lac à Paul camp are as follows:

|                    | Within 1 year | 1 to 5 years | After 5 years | Total   |
|--------------------|---------------|--------------|---------------|---------|
| September 30, 2019 | 120,239       | 257,755      | -             | 377,994 |

### 16. 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.

### 17. FINANCIAL INSTRUMENTS AND FINANCIAL RISKS

#### Classification

The Company's financial instruments as at September 30, 2019 and 2018 consist of cash and cash equivalents, receivable and other current assets, accounts payable and accrued liabilities, loans and working capital facility and credit line.

The classification of financial instruments is summarized as follows:

|  | Carrying value<br>As at September<br>30, 2019<br>\$ | Carrying value<br>at December 31, 2018<br>\$ |
|--|---|--|
| <b>Financial assets at amortized costs</b> |   |  |
| Cash and cash equivalents                  | 1,063,193   | 2,076,731                                    |
| Receivables and other assets               | 112,166   | 145,149                                      |
|  | <u>1,175,359</u>                                    | <u>2,221,880</u>                             |

# ARIANNE PHOSPHATE INC.

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(in Canadian dollars)

### Financial liabilities at amortized costs

|  |            |            |
|--|------------|------------|
| Accounts payable and accrued liabilities | 1,304,570  | 2,461,280  |
| Loans and working capital facility       | 5,299,725  | 5,324,950  |
| Credit line                              | 25,382,828 | 22,271,587 |
|  | 31,987,123 | 30,057,817 |

The Company defines the fair value hierarchy under which its financial instruments are valued as follows: level 1 includes unadjusted quoted prices in active markets for identical assets or liabilities; level 2 includes inputs other than quoted prices in level 1 that are observable for assets or liabilities, either directly or indirectly; and level 3 includes inputs for the asset or liability that are not based on observable market data. There was no transfer of hierarchy level as at September 30, 2019 and December 31, 2018.

### 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 consist 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, 2019, the Company had cash and cash equivalents of \$1,063,193 (\$2,076,731 as at December 31, 2018) to settle current liabilities of \$28,299,008 (\$7,786,230 as at December 31, 2018). 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, 2019:

|  | Carrying<br>amount<br>\$ | Contractual<br>cash flows<br>\$ | 0 to 12<br>months<br>\$ | 12 to 24<br>months<br>\$ | More than 24<br>months<br>\$ |
|--|--------------------------|---------------------------------|-------------------------|--------------------------|------------------------------|
| Accounts payable and accrued liabilities | 1,304,570                | 1,304,570                       | 1,304,570               | -                        | -                            |
| Loan and working capital facility        | 5,299,725                | 5,299,725                       | 1,611,610               | 3,688,115                | -                            |
| Credit line                              | 25,382,828               | 28,942,258                      | 28,942,258              |                          | -                            |

#### Interest rate risk

Company debt facilities bear interest at fixed rates and therefore has no interest rate risk. The Company's policy as it relates to its cash balances is to invest excess cash in financial instruments held with a Canadian chartered bank.

As at September 30, 2019, the Company's exposure to interest rate risk is summarized as follows:

|  |  |
|--|--|
| Cash and cash equivalents                | Fixed interest rate and non-interest bearing |
| Accounts payable and accrued liabilities | Non-interest bearing                         |
| Credit line                              | Fixed interest rate                          |
| Loans and working capital facility       | Fixed interest rate                          |

#### Currency risk

As at September 30, 2019, the Company has a bank account in US dollars for an amount of \$273 (\$1,324 as at December 31, 2018). The Company estimates that a variation of  $\pm 10\%$  in exchange rates on that date would have resulted in a variation of approximately \$27 as at September 30, 2019 (\$132 as at December 31, 2018).

# **ARIANNE PHOSPHATE INC.**

## **NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

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### **Fair Value risk**

Current financial assets and financial liabilities are valued at their carrying amounts, which are reasonable estimates of their fair value due to their near-term maturities; this includes cash and cash equivalents, receivables and other assets and accounts payable and accrued liabilities. Loans and working capital facility were accounted at amortized cost, and its fair value approximates its carrying value. The credit line was accounted at amortized cost, and its fair value is \$25,974,577.