

**ARIANNE PHOSPHATE INC.**  
**CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**  
**(UNAUDITED)**  
**NINE-MONTH PERIODS ENDED SEPTEMBER 30, 2020 AND SEPTEMBER 30, 2019**  
**(in Canadian dollars)**



Condensed consolidated interim financial statements for the nine-month period ended September 30, 2020 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, 2020	As at December 31, 2019
	\$	\$
<b>ASSETS</b>		
<b>Current assets</b>		
Cash and cash equivalents (note 4)	1,036,767	355,704
Receivables and other current assets	124,077	96,881
Sales taxes receivable	-	54,395
Tax credit related to resources and mining tax credit receivable	-	79,079
	<u>1,160,844</u>	<u>586,059</u>
<b>Non-current assets</b>		
Tax credit related to resources and mining tax credit receivable	141,789	111,511
Investment property – Outfitters (note 5)	283,284	300,608
Property, plant and equipment (note 6)	66,785,013	62,953,295
Right-of-use assets (note 7)	162,932	267,957
Intangible asset (note 8)	19,222	-
	<u>67,392,240</u>	<u>63,633,371</u>
	<u>68,553,084</u>	<u>64,219,430</u>
<b>Total assets</b>		
<b>LIABILITIES</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities (note 9)	1,218,196	1,317,231
Sales taxes payable	7	-
Lease liabilities (note 10)	64,732	109,834
Loans and working capital facility (note 12)	5,646,337	-
Credit line (note 11)	29,317,629	26,526,083
	<u>36,246,901</u>	<u>27,953,148</u>
<b>Non-current liabilities</b>		
Loans and working capital facility (note 12)	40,000	5,251,704
Lease liabilities (note 10)	98,243	156,834
Deferred income taxes	3,173,074	3,125,139
	<u>39,558,218</u>	<u>36,486,825</u>
<b>Total liabilities</b>		
<b>Equity</b>		
Capital stock (note 13)	64,354,302	62,677,095
Warrants (note 14)	1,097,639	810,221
Contributed surplus	15,222,991	15,066,201
Deficit	(51,680,066)	(50,820,912)
	<u>28,994,866</u>	<u>27,732,605</u>
<b>Total equity</b>		
<b>Total liabilities and equity</b>	<u>68,553,084</u>	<u>64,219,430</u>
<b>GOING CONCERN</b> (note 1)		
<b>COMMITMENTS</b> (note 17)		

The accompanying notes are an integral part of these 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 NINE-MONTH PERIODS ENDED SEPTEMBER 30, 2020 AND 2019

(In Canadian dollars)

	Three-month period ended September 30, 2020	Three-month period ended September 30, 2019	Nine-month period ended September 30, 2020	Nine-month period ended September 30, 2019
	\$	\$		\$
<b>EXPENSES</b>				
Salaries and benefits	45,124	107,679	255,541	401,902
Share-based compensation	86,054	40,626	162,670	139,852
Professional and consultant fees	24,762	42,730	94,007	340,953
Management fees	31,250	65,000	65,000	220,833
Registration and listing fees	14,500	7,700	50,931	59,784
Annual general meeting	-	(936)	-	13,368
Communications	20,807	47,397	15,152	196,810
Promotion, representation and travel	84	25,190	11,810	79,591
Insurance	12,820	7,668	41,206	25,862
Rent and office expenses	13,287	40,339	58,637	123,604
Depreciation of property, plant and equipment	18,005	13,508	79,813	26,086
Depreciation of intangible asset	8,237	-	13,730	-
Loss (gain) on disposal property, plant and equipment	(134,900)	-	(135,466)	-
Bank charges and interest	3,366	1,725	7,323	4,512
<b>Operating loss</b>	<b>143,396</b>	<b>398,626</b>	<b>720,354</b>	<b>1,633,157</b>
<b>OTHER EXPENSES (INCOME)</b>				
Interest income	(530)	(4,189)	(1,342)	(14,498)
Gain (loss) on foreign exchange loss	3,631	129	(4,011)	9,978
Net (income) loss of investment property – Outfitters (Note 5)	(304)	9,037	38,482	(16,006)
	<u>2,797</u>	<u>4,977</u>	<u>33,129</u>	<u>(20,526)</u>
<b>LOSS BEFORE INCOME TAXES</b>	<b>146,193</b>	<b>403,603</b>	<b>753,483</b>	<b>1,612,631</b>
Deferred income taxes	16,444	25,574	47,935	70,657
<b>NET LOSS AND COMPREHENSIVE LOSS FOR THE PERIOD</b>	<b>162,637</b>	<b>429,177</b>	<b>801,418</b>	<b>1,683,288</b>
<b>BASIC AND DILUTED LOSS PER SHARE</b>	<b>0.01</b>	<b>0.01</b>	<b>0.01</b>	<b>0.01</b>
<b>WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING</b>	<b>116,123,628</b>	<b>107,268,533</b>	<b>115,597,407</b>	<b>107,493,589</b>

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

# ARIANNE PHOSPHATE INC.

## CONSOLIDATED INTERIM STATEMENTS OF CHANGES IN EQUITY FOR THE NINE-MONTH PERIOD ENDED SEPTEMBER 30, 2020 AND 2019 (in Canadian dollars)

	Capital stock	Capital stock	Warrants	Contributed surplus	Deficit	Total equity
	common shares	\$	\$	\$	\$	\$
<b>Balance as at January 1, 2020</b>	111,458,250	62,677,095	810,221	15,066,201	(50,820,912)	27,732,605
Net and Comprehensive loss for the year	-	-	-	-	(801,418)	(801,418)
Share-based compensation (note 14)	-	-	-	162,670	-	162,670
Grant of warrants (note 14)	-	-	259,698	-	-	259,698
Exercise of options (note 14)	40,000	11,880	-	(5,880)	-	6,000
Private Placement (note 13)	11,700,098	1,665,327	-	-	-	1,665,327
Share issuance expenses	-	-	-	-	(30,016)	(30,016)
Modification or warrants (note 14)	-	-	27,720	-	(27,720)	-
<b>Balance as at September 30, 2020</b>	123,198,348	64,354,302	1,097,639	15,222,991	(51,680,066)	28,994,866
<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 and Comprehensive loss for the year	-	-	-	-	(2,155,757)	(2,155,757)
Share-based compensation (note 14)	-	-	-	191,927	-	191,927
Grant of warrants (note 14)	-	-	592,964	-	-	592,964
Grant of broker warrants (note 14)	-	-	-	3,301	-	3,301
Warrants expired (note 14)	-	-	(1,008,361)	1,008,361	-	-
Exercise of warrants (note 14)	705,882	334,795	(34,795)	-	-	300,000
Exercise of options (note 14)	20,000	5,940	-	(2,940)	-	3,000
Private Placement (note 13)	4,928,425	2,141,996	-	-	-	2,141,996
Share issuance expenses	-	-	-	-	(65,928)	(65,928)
<b>Balance as at December 31, 2019</b>	111,458,250	62,677,095	810,221	15,066,201	(50,820,912)	27,732,605

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

# ARIANNE PHOSPHATE INC.

## CONSOLIDATED INTERIM STATEMENTS OF CASH FLOWS FOR THE THREE -MONTH PERIODS ENDED SEPTEMBER 30, 2020 AND 2019 (In Canadian dollars)

	Three-month period ended September 30, 2020	Three-month period ended September 30, 2019	Nine-month period ended September 30, 2020	Nine-month period ended September 30, 2019
	\$	\$		\$
<b>CASH FLOW FROM (USED IN)</b>				
<b>OPERATING ACTIVITIES</b>				
Net loss for the period	(162,637)	(429,177)	(801,418)	(1,683,288)
Adjustments for:				
Share-based payments	86,054	40,626	162,670	139,852
Gain on disposal – Property, plant and equipment	(139,891)	-	(139,891)	-
Gain on disposal – right to use assets	4,425	-	4,425	-
Depreciation – Investment property - Outfitters	6,028	5,572	17,324	16,292
Depreciation – Property, plant and equipment	18,005	13,510	79,813	26,086
Depreciation – Intangible asset	8,238	-	13,730	-
Income taxes and deferred taxes	16,444	25,574	47,935	70,658
Net change in non-cash working capital items (note 15)	459,180	25,062	4,851	(257,441)
	<u>295,846</u>	<u>(318,833)</u>	<u>(610,561)</u>	<u>(1,687,841)</u>
<b>INVESTING ACTIVITIES</b>				
Proceeds of tax credit	-	-	79,079	258,264
Disposal of property, plant and equipment	155,000	-	155,000	-
Disposal of right to use assets	80,742	-	80,742	-
Acquisition of property, plant and equipment	(258,577)	(489,608)	(812,809)	(1,918,308)
Acquisition of property, plant and equipment – Outfitter	-	(725)	-	(39,821)
Acquisition of intangible asset	-	-	(32,951)	-
	<u>(22,835)</u>	<u>(490,333)</u>	<u>(530,939)</u>	<u>(1,699,865)</u>
<b>FINANCING ACTIVITIES</b>				
Proceed from loans	-	-	40,000	-
Transaction cost	(6,180)	(2,757)	(14,752)	(31,325)
Proceeds from the issuance of units	-	691,050	1,925,025	2,191,050
Share issuance expenses	(671)	(43,311)	(30,017)	(67,759)
Warrants exercised	-	-	-	300,000
Options exercised	-	-	6,000	-
Reimbursement of lease liabilities	(60,398)	(17,798)	(103,693)	(17,798)
	<u>(67,249)</u>	<u>627,184</u>	<u>1,822,563</u>	<u>2,374,168</u>
<b>CHANGE IN CASH AND CASH EQUIVALENTS DURING THE PERIOD</b>				
	205,762	(181,982)	681,063	(1,013,538)
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD</b>	831,005	1,245,175	355,704	2,076,731
<b>CASH AND CASH EQUIVALENTS, END OF PERIOD</b>	<u>1,036,767</u>	<u>1,063,193</u>	<u>1,036,767</u>	<u>1,063,193</u>
Supplementary cash flow information (note 15)				
Interest received	529	4,189	1,342	14,498

The accompanying notes are an integral part of these 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 consolidated interim financial statements have been prepared on the basis of 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, 2020, the Company recorded a net loss of \$801,418 (2019 – \$1,683,288 for the period ended September 30, 2019) and has an accumulated deficit of \$51,680,066 as at September 30, 2020 (\$50,820,912 as at December 31, 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, 2020, the Company had a negative working capital of \$35,086,057. Management estimates that the working capital will not be sufficient to meet the Company's obligations and budgeted operating and development expenditures through September 30, 2021. 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 financing for 2021.

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 consolidated interim financial statements.

These 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, 2019. These condensed consolidated interim financial statements should be read in conjunction with the Company annual consolidated financial statements for the year ended December 31, 2019, 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 19, 2020.

### 3. NEW ACCOUNTING STANDARD ADOPTED AND NEW ACCOUNTING STANDARD ISSUED BUT NOT YET IN EFFECT

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#### **New accounting standard adopted** **Amendments to IAS 1 *Presentation of Financial Statements***

The IASB has made amendments to IAS 1 *Presentation of Financial Statements* which use a consistent definition of materiality throughout IFRS and the Conceptual Framework for Financial Reporting, clarify when information is material and incorporate some of the guidance in IAS 1 about immaterial information. In particular, the amendments clarify that information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity. Materiality depends on the nature or magnitude of information, or both. An entity assesses whether information, either individually or in combination with other information, is material in the context of its financial statements taken as a whole. The amendments to IAS 1 are effective for financial years beginning on or after January 1, 2020 and doesn't have a significant impact on the consolidated interim financial statements disclosures.

# ARIANNE PHOSPHATE INC.

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(in Canadian dollars)

### 4. CASH AND CASH EQUIVALENTS

	As at September 30, 2020	As at December 31, 2019
	\$	\$
Cash and cash equivalents	<u>1,036,767</u>	<u>355,704</u>

As at September 30, 2020, cash and cash equivalents comprise cash on hand amounting to \$952,066 (bearing interest at a fixed rate of 1.20% and an amount of \$84,701 not bearing interest. As at September 30, 2020 an amount of \$12,000 is restricted in connection with the Company's credit card agreement.

As at December 31, 2019, cash and cash equivalents comprise cash on hand amounting to \$295,282 (bearing interest at a fixed rate of 1.20% and an amount of \$60,422 not bearing interest. As at December 31, 2019 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 period ended September 30, 2020	Nine-month period ended September 30, 2019
	\$	\$
Outfitters income	-	90,037
Other income	10,000	-
Operating expenses:		
Management fees	9,550	57,517
Repair and maintenance	3,700	5,682
Supplies	541	9,538
Advertising, promotion and travel	1,076	16,178
Taxes and licenses	4,637	5,603
Insurance	11,596	10,854
Interest and bank charges	58	180
Gain on disposal	-	(47,813)
Depreciation of property, plant and equipment	17,324	16,292
	<u>48,482</u>	<u>74,031</u>
Gain (loss) of investment property – Outfitters	<u>(38,482)</u>	<u>16,006</u>

The carrying value, net of amortization, for the outfitter operating assets is \$283,284 as at September 30, 2020 (\$300,608 as at December 31, 2019).

# ARIANNE PHOSPHATE INC.

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(in Canadian dollars)

### 6. PROPERTY, PLANT AND EQUIPMENT

	Leasehold improvements \$	Tools and equipment \$	Computer equipment \$	Land \$	Mineral property under development \$	Total \$
<b>Cost</b>						
Balance as at January 1, 2019	294,032	127,015	17,138	1,433,215	55,291,792	57,163,192
Acquisition	-	7,500	12,740	-	1,007,969	1,028,209
Borrowing costs	-	-	-	-	5,071,568	5,071,568
Balance as at December 31, 2019	294,032	134,515	29,878	1,433,215	61,371,329	63,262,969
Acquisition	-	-	-	-	430,418	430,418
Borrowing costs	-	-	-	-	3,444,711	3,444,711
Disposal	-	(108,305)	-	-	-	(108,305)
Balance as at September 30, 2020	294,032	26,210	29,878	1,433,215	65,246,458	67,029,793
<b>Accumulated depreciation</b>						
Balance as at January 1, 2019	171,065	92,995	11,603	-	-	275,663
Depreciation	22,488	9,209	2,313	-	-	34,011
Balance as at December 31, 2019	193,553	102,204	13,916	-	-	309,673
Depreciation	14,193	5,203	3,339	-	-	22,735
Disposal	-	(87,628)	-	-	-	(87,628)
Balance as at September 30, 2020	207,746	19,779	17,225	-	-	244,781
<b>Net book value</b>						
Balance as at December 31, 2019	100,479	32,311	15,962	1,433,215	61,371,359	62,953,295
Balance as at September 30, 2020	86,286	6,431	12,623	1,433,215	65,246,458	66,785,013

### 7. RIGHT-TO-USE ASSETS

	Buildings, Camp and Accommodations \$	Total \$
<b>Cost</b>		
Balance as at January 1, 2019	310,767	310,767
Acquisition	30,496	30,496
Disposal	(115,663)	(115,663)
Balance as at September 30, 2020	225,600	225,600
<b>Accumulated depreciation</b>		
Balance as at January 1, 2019	-	-
Depreciation	42,810	42,810
Balance as at December 31, 2019	42,810	42,810
Depreciation	62,280	62,280
Disposal	(42,422)	(42,422)
Balance as at September 30, 2020	62,668	62,668
<b>Net book value</b>		
Balance as at December 31, 2019	267,957	267,957
Balance as at September 30, 2020	162,932	162,932

# ARIANNE PHOSPHATE INC.

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(in Canadian dollars)

### 8. INTANGIBLE ASSET

	License \$	Total \$
<b>Cost</b>		
Balance as at December 31, 2019	-	-
Acquisition	32,951	32,951
Balance as at September 30, 2020	32,951	32,951
<b>Accumulated depreciation</b>		
Balance as at December 31, 2019	-	-
Depreciation	13,729	13,729
Balance as at September 30, 2020	13,729	13,729
<b>Net book value</b>		
Balance as at December 31, 2019	-	-
Balance as at September 30, 2020	19,222	19,222

### 9. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	As at September 30, 2020 \$	As at December 31, 2019 \$
Accounts payable	651,709	764,064
Accrued liabilities	157,184	59,643
Interest accrued	-	84,221
Income tax accrual	409,303	409,303
Balance – End of period	1,218,196	1,317,231

### 10. LEASE LIABILITIES

	As at September 30, 2020 \$	As at December 31, 2019 \$
Balance – Beginning of year	266,668	-
New debt obligations under lease liabilities	30,496	310,767
Reimbursement of lease liabilities	(65,734)	(44,099)
Grant	12,001	-
Disposal	(80,456)	-
Balance – End of year	162,975	266,668
Current portion	64,732	109,834
Non-current portion	98,243	156,834

### 11. CREDIT LINE

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. 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

# ARIANNE PHOSPHATE INC.

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(in Canadian dollars)

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.

In June 2020, the Company has extended its credit line until June 15, 2021. 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 22,417,458 non-transferable warrants which were issued to the lender in December 2018. In connection with this extension, the Company also paid \$8,573 of transaction fees. After the extension of the credit line, a gain of \$893,516 was recorded. 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 26,780,000 warrants at an exercise price of \$0.2466 per warrant. Each warrant entitles the Lender to purchase one common share of the Company and shall be exercisable until June 15, 2021. 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 30, 2020	As at December 31, 2019
	\$	\$
Balance – Beginning of year	26,526,083	22,271,587
Transaction costs	(14,752)	(2,500)
Capitalized interests	3,079,884	3,608,069
Gain on modification on credit line	(893,516)	-
Amortization of transaction costs and discount	619,930	648,927
Balance – End of year	<u>29,317,629</u>	<u>26,526,083</u>

## 12. LOANS AND WORKING CAPITAL FACILITY

In September 2016, the Company closed on a \$3 million loan agreement with various third-party lenders (the “Loans”). The Loans 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 (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 which expired 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 which expired on September 28, 2019. The fair value of the broker warrants was \$23,026, calculated using the Black- Scholes model.

In October 2016, the Company closed an additional \$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 (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 which expired on October 27, 2019. The fair value of those warrants represented \$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. In connection, the Company also issued 35,200 non-transferable broker warrants. Each broker warrant was exercisable at \$0.89 for a period of 3 years which expired on October 27, 2019. The fair value of the broker warrants is \$7,456 and is calculated using the Black-Scholes model. An amount of accrued interest of \$80,789 is included in the accounts payable and accrued liabilities.

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

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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 transaction costs have been amortized and the new loan is the same amount of the previous loan less the transactions fees amortized.

	As at September 30, 2020 \$	As at December 31, 2019 \$
Balance – Beginning of period	3,728,024	3,930,395
Transaction costs	-	(421,089)
Amortization of transactions costs	149,844	218,718
Balance – End of period	<u>3,877,868</u>	<u>3,728,024</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 (refer to note 14), 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 which expired on December 2019. The fair value of those warrants represents \$104,385, calculated with the Black-Scholes model.

In December 2019, the Company extended the total \$1.5 million loan. This extension will mature on June 18, 2021 and bear interest at 12%, capitalized monthly. In connection with the loan extensions, the Company issued non-transferable warrants in the amount of 2,222 per \$1,000 face value (for a total of 3,756,583 warrants), with each warrant entitling the holder to purchase one common share of the Company at a price of \$0.27 per share for a term of 18 months expiring on June 18, 2021. These warrants replace warrants that were issued as part of the original loans in December 2018. The fair value of those warrants represents \$134,748 calculated with the Black-Scholes model. An analysis under IFRS 9 was performed and this loan is classified as a new loan. This was calculated according to IFRS 9 where the present value of the debt with the new terms at the effective rate of the old debt was compared to the present value of the old debt.

	As at September 30, 2020 \$	As at December 31, 2019 \$
Balance – Beginning of period	1,523,680	1,394,555
Capitalized interests	159,147	197,131
Transaction costs	-	(138,344)
Amortization of transactions costs	85,642	108,711
Adjustment for modification of loan	-	(38,373)
Balance – End of period	<u>1,768,469</u>	<u>1,523,680</u>

In April 2020, Arianne received a loan of \$40,000 from the Canada Emergency Business Account regarding the outbreak of the Covid-19. This loan bears 0% interest until December 31, 2022.

	As at September 30, 2020 \$	As at December 31, 2019 \$
Balance – Beginning of period	-	-
Acquisition	40,000	-
Balance – End of period	<u>40,000</u>	<u>-</u>
<b>Total loans and working capital facility</b>		
Current portion	5,646,337	-
Non-current portion	40,000	5,251,704

### 13. 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-

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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, 2020		Year ended December 31, 2019	
	Number	Amount \$	Number	Amount \$
<b>Balance – Beginning of year</b>	111,458,250	62,677,095	105,803,943	60,194,364
Private placement <sup>(1)</sup>	11,700,098	1,665,327	4,928,425	2,141,996
Exercise of options	40,000	11,880	20,000	5,940
Exercise of warrants	-	-	705,882	334,795
<b>Balance – End of year</b>	<u>123,198,348</u>	<u>64,354,302</u>	<u>111,458,250</u>	<u>62,677,095</u>

(1) Value of capital stock paid in cash (private placement) is presented net of fair value of warrants units amounting to \$259,698 (2019 – 49,054) – refer to description below.

### For the year ended December 31, 2020

On February 13, 2020 the Company closed an equity financing in the amount of \$425,025 financing. Under the terms of the financing, Arianne has issued 1,700,100 units at a price of \$0.25 per unit. Each unit is comprised of one common share and one-half warrant. Each full warrant entitles the holder to purchase one common share at a price of \$0.40 until February 13, 2023.

On June 10, 2020 the Company closed an equity financing in the amount of \$1,500,000 financing. Under the terms of the financing, Arianne has issued 9,999,998 units at a price of \$0.15 per unit. Each unit is comprised of one common share and one-half warrant. Each full warrant entitles the holder to purchase one common share at a price of \$0.20 until June 10, 2023.

### For the year ended December 31, 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.

## 14. 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.

Changes in Company stock options were as follows:

	Nine-month period ended September 30, 2020		Year ended December 31, 2019	
	Number	Weighted average exercise price \$	Number	Weighted average exercise price \$
<b>Balance – Beginning of year</b>	6,859,500	0.88	5,999,500	0.98
Granted	544,050	0.21	1,470,000	0.47
Exercised	(40,000)	0.15	(20,000)	0.15
Expired	(1,444,000)	1.00	(590,000)	0.91
Forfeited	(8,437)	0.21	-	-
<b>Balance – End of year</b>	<u>5,911,113</u>	<u>0.80</u>	<u>6,859,500</u>	<u>0.88</u>
Exercisable at the end of the year	<u>4,281,850</u>	<u>0.93</u>	<u>5,060,334</u>	<u>1.03</u>

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

Exercise price \$	Options outstanding as at December 31, 2019	Granted	Expired	Exercised	Forfeited	Options outstanding as at September 30, 2020	Weighted average remaining contractual life as at September 30, 2020
0.15	40,000	-	-	(40,000)	-	-	-
0.15	85,000	-	(85,000)	-	-	-	-
0.37	200,000	-	-	-	-	200,000	0.3 year
0.58	150,000	-	-	-	-	150,000	0.3 year
1.25	125,000	-	(75,000)	-	-	50,000	0.6 year
1.37	1,050,000	-	(600,000)	-	-	450,000	0.9 year
1.16	300,000	-	-	-	-	300,000	1.6 year
1.15	184,000	-	(58,000)	-	-	126,000	1.9 year
1.07	115,000	-	(60,000)	-	-	55,000	2.2 years
1.12	50,000	-	-	-	-	50,000	2.3 years
1.25	200,000	-	-	-	-	200,000	2.7 years
1.22	200,000	-	-	-	-	200,000	2.7 years
1.19	200,000	-	-	-	-	200,000	2.7 years
1.32	160,500	-	(36,000)	-	-	124,500	3.2 years
1.30	300,000	-	(60,000)	-	-	240,000	3.5 years
1.00	325,000	-	(25,000)	-	-	300,000	4.0 years
0.85	385,000	-	(40,000)	-	-	345,000	4.7 years
0.86	40,000	-	-	-	-	40,000	4.7 years
0.86	35,000	-	-	-	-	35,000	4.9 years
0.81	175,000	-	-	-	-	175,000	4.5 years
0.76	400,000	-	(70,000)	-	-	330,000	6.5 years
0.62	40,000	-	-	-	-	40,000	7.2 years
0.41	200,000	-	-	-	-	200,000	7.9 years
0.58	430,000	-	(60,000)	-	-	370,000	8.0 years
0.43	100,000	-	-	-	-	100,000	8.3 years
0.40	200,000	-	-	-	-	200,000	8.4 years
0.40	275,000	-	(275,000)	-	-	-	-
0.55	125,000	-	-	-	-	125,000	0.3 year
0.55	470,000	-	-	-	-	470,000	9.0 years
0.44	300,000	-	-	-	-	300,000	9.0 years
0.21	-	504,050	-	-	(8,437)	495,613	9.8 years
0.18	-	40,000	-	-	-	40,000	10 years
	6,859,500	544,050	(1,444,000)	(40,000)	(8,437)	5,911,113	

### Warrants

Changes in Company warrants were as follows:

	Nine-month period ended September 30, 2020		Year ended December 31, 2019	
	Number	Weighted average exercise price \$	Number	Weighted average exercise price \$
Balance – Beginning of year	38,334,001	0.50	35,736,036	0.36
Granted	32,630,048	0.24	11,838,611	0.47
Exercised	-	-	(705,882)	0.43
Expired	(22,417,458)	0.43	(8,534,764)	0.89
Balance – End of year	48,546,591	0.21	38,334,001	0.50

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

Exercise price	Expiry date	Warrants outstanding as at December 31, 2019	Granted	Expired	Exercised	Warrants outstanding as at September 30, 2020	Weighted average remaining contractual life as at September 30, 2020
\$							
1.25	August 2022	1,441,250 <sup>(1)</sup>	-	-	-	1,441,250	1.9 year
0.85	December 2020	1,520,015	-	-	-	1,520,015	0.2 year
0.85	March 2021	1,116,667	-	-	-	1,116,667	0.5 year
0.43	June 2020	22,417,458	-	(22,417,458)	-	-	-
0.75	August 2021	628,228	-	-	-	628,228	0.9 year
0.55	September 2021	7,453,800	-	-	-	7,453,800	1.0 year
0.27	June 2021	3,756,583	-	-	-	3,756,583	0.7 year
0.40	February 2023	-	850,050	-	-	850,050	2.4 years
0.20	June 2022	-	4,999,998	-	-	4,999,998	2.7 years
0.2466	June 2021	-	26,780,000	-	-	26,780,000	0.7 year
		38,334,001	32,630,048	(22,417,458)	-	48,546,591	

- (1) In August 2020, the Company amended the terms and conditions of the 1,441,250 warrants granted on August 22, 2017. Initially, each warrant entitled its holder to acquire one common share at a price of \$1.25 per share until August 22, 2020. These warrants were amended in August 2020 to extend their expiration date to August 2022. 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 \$27,720 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 period ended September 30, 2020.

### Options granted to brokers

Changes in Company options granted to brokers were as follows:

	Nine-month period ended September 30, 2020		Year ended December 31, 2019	
	Number	Weighted average exercise price \$	Number	Weighted average exercise price \$
<b>Balance – Beginning of year</b>	353,140	0.77	428,600	0.81
Granted	-	-	55,740	0.75
Expired	(230,600)	0.80	(131,200)	0.91
<b>Balance – End of year</b>	122,540	0.68	353,140	0.77

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

Exercise price \$	Expiry date	Broker options outstanding as at December 31, 2019	Granted	Exercised	Expired	Broker options outstanding as at December 31, 2019
						September 30, 2020
0.80	August 2020	230,600	-	-	(230,600)	-
0.63	December 2020	66,800	-	-	-	66,800
0.75	August 2021	55,740	-	-	-	55,740
		353,140	-	-	(230,600)	122,540

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### 15. SUPPLEMENTARY INFORMATION RELATED TO CASH FLOWS

	Nine-month period ended September 30, 2020 \$	Nine-month period ended September 30, 2019 \$
Net change in non-cash working capital items		
Receivable and other current assets	(27,196)	32,983
Sales taxes receivable	54,402	(15,049)
Accounts payable and accrued liabilities	(22,355)	(275,375)
	<u>4,851</u>	<u>(257,441)</u>

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

	Nine-month period ended September 30, 2020 \$	Nine-month period ended September 30, 2019 \$
Addition to property, plant and equipment not yet paid	162,480	229,401
Transaction costs not yet paid	10,629	-

### 16. 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, 2020 \$	Nine-month period ended September 30, 2019 \$
<b>Key management compensation <sup>(1)</sup></b>		
Share-based compensation	104,198	57,135
Management fees	139,616	213,333
	<u>243,814</u>	<u>270,468</u>
Salaries and benefits <sup>(2)</sup>	198,272	217,835
	<u>442,086</u>	<u>488,303</u>
Balance included in accounts payable and accrued liabilities	<u>85,170</u>	<u>29,166</u>

(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.

(2) Salaries, benefits and management fees capitalized to property, plant and equipment amount to \$51,718 (\$151,422 in 2019).

The Company has entered into employment and management contracts with its key executives whose estimated annual remuneration amounts to \$475,000. 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, 2020, the Company would have had to pay a total amount of \$475,000 as severance. If a change of control had occurred on September 30, 2020, the total amounts payable to the executive team in respect of severance would have totaled \$800,000 (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, 2020, 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).

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.

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.

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### 17. 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 ("NSR"). 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 \$34,178. These contracts do not have termination dates and disbursements will be made in accordance with the project's milestones.

### 18. 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 consolidated interim financial statements, the Company was not aware of any significant events that would have a material effect on its consolidated interim financial statements.

### 19. FINANCIAL INSTRUMENTS AND FINANCIAL RISKS

#### Classification

The Company's financial instruments as at December 31, 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:

	<u>Carrying value</u> As at September 30, 2020 \$	<u>Carrying value</u> at December 31, 2019 \$
<b>Financial assets at amortized costs</b>		
Cash and cash equivalents	1,036,767	355,704
Receivables and other assets	124,077	96,881
	<u>1,160,844</u>	<u>452,585</u>
<b>Financial liabilities at amortized costs</b>		
Accounts payable and accrued liabilities	1,218,196	1,317,231
Lease liability	162,975	266,668
Loans and working capital facility	5,686,337	5,251,704
Credit line	29,317,629	26,526,083
	<u>37,545,981</u>	<u>33,361,686</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. There was no transfer of hierarchy level during the periods ended September 30, 2020 and 2019.

#### Financial risks

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

#### Credit risk

The Company's credit risk is primarily attributable to cash and cash equivalents and receivables 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. Receivables and other current assets mainly consist of interest receivable from Canadian chartered banks, 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.

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### 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, 2020, the Company had cash and cash equivalents of \$1,036,767 (\$355,704 as at December 31, 2019) to settle current liabilities of \$36,286,901 (\$27,794,480 as at December 31, 2019). 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, 2020:

	Carrying amount \$	Contractual cash flows \$	0 to 12 months \$	12 to 24 months \$	More than 24 months \$
Accounts payable and accrued liabilities	1,218,196	1,218,196	1,218,196	-	-
Lease liability	162,975	220,704	64,732	66,027	89,945
Loans and working capital facility	5,686,337	6,643,758	6,613,758	-	30,000
Credit line	29,317,629	33,249,030	33,249,030	-	-

### 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, 2020, 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, 2020, the Company has a bank account in US dollars for an amount of \$70 (\$296 as at December 31, 2019). The Company estimates that a variation of  $\pm 10\%$  in exchange rates on that date would have resulted in a variation of approximately \$7 as at September 30, 2020 (\$29 as at December 31, 2019) in net loss. The Company also had US \$171,382 and GBP 25,000 payable as at September 30, 2020.

### 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 \$30,014,426.