

**ARIANNE PHOSPHATE INC.
CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
(UNAUDITED)
THREE AND NINE-MONTH PERIODS ENDED SEPTEMBER 30, 2022 AND 2021**



Condensed consolidated interim financial statements for the three and nine-month periods ended September 30, 2022 haven't been reviewed by the auditors.

ARIANNE PHOSPHATE INC.

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ARIANNE PHOSPHATE INC.

CONSOLIDATED INTERIM STATEMENTS OF FINANCIAL POSITION

(UNAUDITED)

(In Canadian dollars)

	As at September 30, 2022	As at December 31, 2021
	\$	\$
ASSETS		
Current assets		
Cash and cash equivalents	3,623,624	5,027,247
Receivables and other current assets	148,157	130,009
Sales taxes receivable	12,428	20,118
Mining tax credit receivable	66,496	66,496
	<u>3,850,705</u>	<u>5,243,870</u>
Non-current assets		
Mining tax credit receivable	118,816	68,844
Investment property – Outfitters	247,084	260,241
Right-of-use assets	62,667	100,266
Property, plant and equipment (note 4)	62,582,289	62,179,863
	<u>63,010,856</u>	<u>62,609,214</u>
Total assets	<u>66,861,561</u>	<u>67,853,084</u>
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities	129,955	214,130
Lease liabilities	53,682	66,353
Loans	54,299	43,139
Credit line (note 5)	2,051,978	2,133,041
	<u>2,289,914</u>	<u>2,456,663</u>
Non-current liabilities		
Credit line (note 5)	16,797,699	16,262,568
Lease liabilities	21,308	43,371
Deferred income taxes	3,868,154	3,818,182
Total liabilities	<u>22,977,075</u>	<u>22,580,784</u>
Equity		
Capital stock	88,676,546	85,739,960
Warrants (note 6)	9,658,989	9,804,077
Contributed surplus	16,491,323	16,075,794
Deficit	(70,942,372)	(66,347,531)
Total equity	<u>43,884,486</u>	<u>45,272,300</u>
Total liabilities and equity	<u>66,861,561</u>	<u>67,853,084</u>

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

ARIANNE PHOSPHATE INC.

CONSOLIDATED INTERIM STATEMENTS OF LOSS AND COMPREHENSIVE LOSS FOR THE THREE AND NINE-MONTH PERIODS ENDED SEPTEMBER 30, 2022 AND 2021

(UNAUDITED)

(In Canadian dollars, except number of shares)

	Three-month period ended September 30, 2022	Three-month period ended September 30, 2021	Nine-month period ended September 30, 2022	Nine-month period ended September 30, 2021
EXPENSES				
Salaries and benefits	114,066	104,189	360,744	390,536
Share-based compensation	130,507	56,658	327,584	133,077
Professional and consultant fees	9,398	609	108,176	259,826
Management fees	25,000	20,000	75,000	62,083
Registration and listing fees	12,286	25,229	64,598	70,233
Annual general meeting	-	15,320	35,527	15,320
Communications	67,340	47,713	226,293	128,781
Promotion, representation and travel	20,076	6,094	48,820	9,085
Insurance	17,274	12,615	48,766	36,846
Rent and office expenses	12,094	16,781	46,942	45,825
Depreciation of property, plant and equipment	17,966	19,526	55,030	55,991
Bank charges	143	1,104	2,707	2,974
Government grant	(317)	(903)	(2,292)	(12,791)
Operating loss	425,833	324,935	1,397,895	1,197,786
OTHER EXPENSES (INCOME)				
Finance costs (note 7)	847,082	811,052	3,093,123	5,747,526
Foreign exchange loss	1,030	2,521	3,393	3,239
Other income	(4,500)	(4,500)	(7,500)	(7,500)
Net loss of investment property – Outfitters	17,792	11,476	53,252	64,430
	861,404	820,549	3,142,268	5,807,695
LOSS BEFORE INCOME TAXES	1,287,237	1,145,484	4,540,163	7,005,481
Deferred income taxes	13,211	13,235	49,972	55,890
NET LOSS AND COMPREHENSIVE LOSS FOR THE PERIOD	1,300,448	1,158,719	4,590,135	7,061,371
BASIC AND DILUTED LOSS PER SHARE	0.01	0.01	0.02	0.05
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING	190,028,218	161,796,459	188,428,222	152,279,117

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 PERIODS ENDED SEPTEMBER 30, 2022 AND 2021

(UNAUDITED)

(In Canadian dollars, except number of shares)

	Capital stock common shares	Capital stock \$	Warrants \$	Contributed surplus \$	Deficit \$	Total equity \$
Balance as at January 1, 2022	185,464,469	85,739,960	9,804,077	16,075,794	(66,347,531)	45,272,300
Net and Comprehensive loss for the period	-	-	-	-	(4,590,135)	(4,590,135)
Share-based compensation (note 6)	-	-	-	327,584	-	327,584
Warrants expired (note 6)	-	-	(135,364)	135,364	-	-
Exercise of broker warrants (note 6)	339,283	217,061	-	(47,419)	-	169,642
Exercise of warrants	217,500	53,224	(9,724)	-	-	43,500
Debt conversion	4,166,096	2,666,301	-	-	-	2,666,301
Share issuance expenses	-	-	-	-	(4,706)	(4,706)
Balance as at September 30, 2022	190,187,348	88,676,546	9,658,989	16,491,323	(70,942,372)	43,884,486
Balance as at January 1, 2021	123,198,348	64,354,302	1,133,214	15,226,269	(56,836,384)	23,877,401
Net and Comprehensive loss for the period	-	-	-	-	(7,061,371)	(7,061,371)
Share-based compensation	-	-	-	133,077	-	133,077
Grant of warrants	-	-	8,412,413	-	-	8,412,413
Warrants expired	-	-	(575,124)	575,124	-	-
Exercise of warrants	28,946,666	7,134,153	(96,872)	-	-	7,037,281
Exercise of options	34,800	12,406	-	(5,098)	-	7,308
Debt conversion	21,709,655	9,335,151	-	-	-	9,335,151
Private Placement	11,500,000	4,880,173	869,827	-	-	5,750,000
Share issuance expenses	-	-	-	-	(610,184)	(610,184)
Grant of broker warrants	-	-	-	82,460	-	82,460
Modification of warrants	-	-	70,599	-	(70,599)	-
Balance as at September 30, 2021	185,389,469	85,716,185	9,814,057	16,011,832	(64,578,538)	46,963,536

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

ARIANNE PHOSPHATE INC.

CONSOLIDATED INTERIM STATEMENTS OF CASH FLOWS
FOR THE NINE-MONTH PERIODS ENDED SEPTEMBER 30, 2022 AND 2021
(UNAUDITED)
(In Canadian dollars)

	Nine-month period ended September 30, 2022	Nine-month period ended September 30, 2021
	\$	\$
CASH FLOW FROM (USED IN)		
OPERATING ACTIVITIES		
Net loss for the period	(4,590,135)	(7,061,371)
Adjustments for:		
Share-based payments	327,584	133,077
Depreciation – Investment property - Outfitters	13,157	14,899
Depreciation – Property, plant and equipment	55,030	55,991
Depreciation – Intangible asset	-	14,899
Income taxes and deferred taxes	49,972	55,890
Tax credit adjustment	-	409,301
Finance costs	3,131,529	5,544,440
Noncash grant	-	(846)
	<u>(1,012,863)</u>	<u>(848,619)</u>
Changes in non-cash working capital items		
Receivables and other current assets	(18,148)	2,087
Sales taxes receivable	7,690	(4,673)
Accounts payable and accrued liabilities	(75,042)	(636,773)
	<u>(85,500)</u>	<u>(639,359)</u>
	<u>(1,098,363)</u>	<u>(1,487,978)</u>
INVESTING ACTIVITIES		
Proceeds of tax credit	-	922,748
Acquisition of property, plant and equipment	(478,962)	(518,504)
Acquisition of property, plant and equipment – Outfitter	-	(3,143)
Disposal of property, plant and equipment	-	336,800
	<u>(478,962)</u>	<u>737,901</u>
FINANCING ACTIVITIES		
Proceeds from the issuance of units	-	5,750,000
Share issuance expenses	(4,706)	(527,725)
Warrants exercised	43,500	433,333
Broker warrants exercised	169,642	-
Options exercised	-	7,308
Repayment of lease liabilities	(34,734)	(122,541)
	<u>173,702</u>	<u>5,540,375</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS DURING THE PERIOD	(1,403,623)	4,790,298
CASH AND CASH EQUIVALENTS BEGINNING OF PERIOD	5,027,247	628,910
CASH AND CASH EQUIVALENTS END OF PERIOD	<u>3,623,624</u>	<u>5,419,208</u>
Supplementary cash flow information		
Interest received	44,968	5,358

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

ARIANNE PHOSPHATE INC.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(UNAUDITED)

(In Canadian dollars)

1. STATUTE OF INCORPORATION, NATURE OF ACTIVITIES AND LIQUIDITY RISK

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.

As at September 30, 2022, the Company had a working capital of \$1,560,791. Management of the Corporation believes that it has sufficient funds to maintain the status of its current obligations and keep its properties in good standing, to pay its ongoing general and administrative expenses and to meet its liabilities, obligations and existing commitments beyond the ensuing 12 months as they fall due, with the financing closed on June 4, 2021. In assessing whether the going concern assumption is appropriate, management takes into account all available information about the future. To continue the Company’s future operations and fund its development expenditures, the Company will periodically need to raise additional funds, which may be completed 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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 International Accounting Standard (“IAS”) 34, *Interim Financial Reporting*, as issued by the International Accounting Standards Board (“IASB”). These condensed consolidated interim financial statements should be read in conjunction with the Company annual consolidated financial statements for the year ended December 31, 2021, which have been prepared in accordance with IFRS as issued by the 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, 2021.

The Board of Directors approved these condensed consolidated interim financial statements on November 22, 2022.

3. NEW ACCOUNTING STANDARD ADOPTED

New accounting standard adopted

Amendments to IAS 16 *Property, plant and equipment*

The IASB has made amendments to *IAS 16 Property, plant and equipment*, which will be effective for financial years beginning on or after January 1, 2022. Proceeds from selling items before the related item of Property, plant and equipment is available for use should be recognized in profit or loss, together with the costs of producing those items. The Company will therefore need to distinguish between the costs associated with producing and selling items before the item of Property, plant and equipment (pre-production revenue) is available for use and the costs associated with making the item of Property, plant and equipment available for its intended use. For the sale of items that are not part of a company’s ordinary activities, the amendments will require the Company to disclose separately the sales proceeds and related production cost recognized in profit or loss and specify the line items in which such proceeds and costs are included in the statement of loss and comprehensive loss. These amendments have no impact on the Company’s consolidated financial statements. While these amendments did not have retrospective effects upon adoption, any future sales of products and related costs of sales occurring before commercial production is achieved will be recorded in the statement of loss and comprehensive loss.

ARIANNE PHOSPHATE INC.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(UNAUDITED)

(In Canadian dollars)

4. PROPERTY, PLANT AND EQUIPMENT

	Leasehold improvements	Tools and equipment	Computer equipment	Rolling equipment	Land	Mineral property under development	Total
	\$	\$	\$	\$	\$	\$	\$
Cost							
As at December 31, 2021	294,032	23,410	29,878	37,635	1,096,415	60,973,590	62,454,961
Acquisition	-	-	-	-	-	470,871	470,871
Tax credit	-	-	-	-	-	(49,972)	(36,761)
As at September 30, 2022	294,032	23,410	29,878	37,635	1,096,415	61,394,489	62,889,071
Accumulated depreciation							
As at December 31, 2021	226,999	19,963	21,255	6,880	-	-	275,097
Depreciation	9,313	1,175	1,702	6,283	-	-	18,472
As at September 30, 2022	236,312	21,138	22,957	13,163	-	-	293,569
Net book value							
As at December 31, 2021	67,033	3,447	8,623	30,755	1,096,415	62,973,590	62,179,863
As at September 30, 2022	57,720	2,272	6,921	24,472	1,096,415	61,394,489	62,582,289

5. 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. The combined credit lines have been extended in 2017, 2018, 2019 and 2021.

On June 30, 2021, the Company extended its credit line until March 31, 2026. The credit line bears interest at an annual rate equal to 8%, with all interests capitalized to the principal amount, to be paid annually in cash or in common shares of the Company. On June 30, 2021, the Lender also exercised 26,780,000 warrants into the Company's common shares, thereby reducing the credit facility of \$6,603,948. In conjunction with the amended credit line, the Lender received 32 million non-transferable share purchase warrants, exercisable at a price of \$0.33 per warrant for a period of 5 years. These warrants are subject to a "warrant blocker" provision meaning the Lender's holdings can only go above 19.9% of the issued and outstanding common shares of the Company in certain limited circumstances. The warrants are subject to a hold period of four months and one day from the date of the issuance. An amount of \$8,412,413 was allocated to the fair value of the warrants, using the Black-Scholes pricing model. In connection with this extension, the Company also paid \$47,522 of transaction fees.

Since the terms of the extended credit facility were substantially different, the modification was considered as an extinguishment of the original credit line. The difference between the carrying value of the credit line extinguished and the new credit line was recognized in the statement of loss, through a gain of \$1,211,484.

In 2021, the Company increased the buyback purchase price of the existing production fee granted in favour of the Lender to \$11.25M. After the first anniversary, since the Company had not settled the Mercury debt, the Company had granted an additional Production Fee of \$0.25 per tonne. This additional production fee can be bought back at \$2,250,000.

The Company has undertaken to raise additional funds in the amount of \$3M within the 1-year anniversary of the closing of the transaction, and every anniversary thereafter for the three subsequent years, for total cumulative gross proceeds of \$12M. As at March 31, 2022 the Company raised \$5.75M, which is credited against the amount to be raised. Should the Company not raise additional funds on a yearly and cumulative basis, the Company shall issue the Lender an additional 5M non-transferable share purchase warrants per year where a funding milestone has not been met (maximum of 20M non-transferable warrants). Each warrant will be exercisable at a price per share equal to the market price on the date such warrants must be issued by the Company and will expire on the date the amended credit facility expires- for the first 4 years of the amended credit facility, in the event the Company has not repaid the Loan in full and the Lender remains the creditor of the Company in relation to such Loan, the Company shall grant the Lender an additional annual production fee of \$0.25/tonne, which may be bought back by the Company for \$2.25M, for a maximum annual additional production fee of \$1/tonne (which may be bought back by the Company for a total amount of \$9M).

On April 1st, 2022, the Company issued 4,166,096 common shares at a price of \$0.512 per share, in lieu of cash, as its annual interest payment to Mercury as at, March 31, 2022. The Company had at its sole option to issue the interest by way of shares or cash, such cash amount would have been equal to \$2,133,041. A loss on settlement of \$533,260 has been recorded in the statement of loss (note 7).

ARIANNE PHOSPHATE INC.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(UNAUDITED)

(In Canadian dollars)

	As at September 30, 2022	As at December 31, 2021
	\$	\$
Balance – Beginning of the period	18,395,609	30,660,613
Interest paid in shares	(2,133,041)	-
Repayment by exercise of warrants	-	(6,603,948)
Amortization of transaction costs	-	1,420,462
Debt extinction	-	(24,892,949)
New debt under IFRS 9	-	15,269,052
Capitalized interests and accretion	2,587,109	2,542,379
Balance – End of the period	<u>18,849,677</u>	<u>18,395,609</u>
Current portion	2,051,978	2,133,041
Non-current portion	16,797,699	16,262,568

6. STOCK OPTIONS, WARRANTS AND OPTIONS GRANTED TO BROKERS

Stock options

Changes in Company stock options were as follows:

	Nine-month period ended September 30, 2022		Year ended December 31, 2021	
	Number	Weighted average exercise price \$	Number	Weighted average exercise price \$
Balance – Beginning of the period	6,807,500	0.66	6,014,447	0.77
Granted	1,250,000	0.57	1,845,000	0.42
Exercised	-	-	(109,800)	0.20
Expired	(821,833)	0.88	(878,813)	0.96
Forfeited	(146,667)	0.22	(63,334)	0.39
Balance – End of period	<u>7,089,000</u>	0.63	<u>6,807,500</u>	0.66
Exercisable at the end of the period	<u>5,111,334</u>	0.71	<u>4,785,416</u>	0.77

Warrants

Changes in Company warrants were as follows:

	Nine-month period ended September 30, 2022		Year ended December 31, 2021	
	Number	Weighted average exercise price \$	Number	Weighted average exercise price \$
Balance – Beginning of period	45,022,875	0.42	48,546,591	0.36
Granted	-	-	37,750,000	0.39
Exercised	(217,500)	0.20	(28,946,666)	0.24
Expired	(1,441,250)	1.25	(12,327,050)	0.49
Balance – End of period	<u>43,364,125</u>	0.40	<u>45,022,875</u>	0.42

ARIANNE PHOSPHATE INC.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(UNAUDITED)

(In Canadian dollars)

Options granted to brokers

Changes in Company options granted to brokers were as follows:

	Nine-month period ended September 30, 2022		Year ended December 31, 2021	
	Number	Weighted average exercise price \$	Number	Weighted average exercise price \$
Balance – Beginning of period	590,000	0.50	55,740	0.75
Granted	-	-	590,000	0.50
Exercised	(339,283)	0.50	-	-
Expired	-	-	(55,740)	0.75
Balance – End of period	<u>250,717</u>	<u>0.50</u>	<u>590,000</u>	<u>0.50</u>

7. FINANCE COSTS

	Nine-month period ended September 30, 2022	Nine-month period ended September 30, 2021
	\$	\$
Accretion and interest on loans	1,702	282,405
Accretion and interest on credit line	2,587,109	3,062,510
Loss on conversion	533,260	3,502,575
Gain on extension of credit line	-	(1,211,484)
Interest expense on lease liabilities	18,786	25,762
Interest income	(47,734)	(5,358)
Transaction costs	-	91,117
	<u>3,093,123</u>	<u>5,747,526</u>

8. FAIR VALUE OF FINANCIAL INSTRUMENTS

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 nine-month periods ended September 30, 2022, and 2021.

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 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 \$26,485,585.