



**ARIANNE PHOSPHATE INC.**  
**CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2016 AND 2015**  
(in Canadian dollars)

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March 22, 2017

## **Independent Auditor's Report**

### **To the Shareholders of Arianne Phosphate Inc.**

We have audited the accompanying consolidated financial statements of Arianne Phosphate Inc., which comprise the consolidated statements of financial position as at December 31, 2016 and 2015 and the consolidated statements of loss and comprehensive loss, changes in equity and cash flows for the years then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

#### **Management's responsibility for the consolidated financial statements**

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

#### **Auditor's responsibility**

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

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**Opinion**

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Arianne Phosphate Inc. as at December 2016 and 2015 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

**Emphasis of matter**

Without qualifying our opinion, we draw attention to Note 1 in the consolidated financial statements which describes matters and conditions that indicate the existence of a material uncertainty that may cast significant doubt about Arianne Phosphate Inc.'s ability to continue as a going concern.

*PricewaterhouseCoopers LLP<sup>1</sup>*

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<sup>1</sup> CPA auditor, CA, public accountancy permit n° A123642

**ARIANNE PHOSPHATE INC.**  
**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**  
**AS AT DECEMBER 31**  
(In Canadian dollars)

	2016	2015
	\$	\$
<b>ASSETS</b>		
<b>Current assets</b>		
Cash and cash equivalents (note 5)	2,229,044	91,920
Receivables and other current assets	133,377	76,760
Sales taxes receivable	71,413	109,528
Tax credit related to resources and mining tax credit receivable	1,498,894	1,106,305
	<u>3,932,728</u>	<u>1,384,513</u>
<b>Non-current assets</b>		
Tax credit related to resources and mining tax credit receivable	125,861	392,589
Investment property – Outfitters (note 6)	333,355	363,719
Property, plant and equipment (note 7)	1,043,432	281,817
Intangible assets (note 8)	-	117,018
Mining properties (note 9)	1,245,640	1,217,177
Exploration and evaluation assets (note 10)	44,741,815	40,502,866
	<u>47,490,103</u>	<u>42,875,186</u>
<b>Total assets</b>	<u>51,422,831</u>	<u>44,259,699</u>
<b>LIABILITIES</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities	1,976,203	1,672,540
Credit line (note 11)	17,396,288	-
	<u>19,372,491</u>	<u>1,672,540</u>
<b>Non-current liabilities</b>		
Credit line (note 11)	-	12,561,084
Loan (note 12)	3,551,692	-
Deferred income taxes (note 15)	2,242,252	2,084,722
<b>Total liabilities</b>	<u>25,166,435</u>	<u>16,318,346</u>
<b>Equity</b>		
Capital stock (note 13)	54,783,402	53,977,978
Warrants (note 14)	2,540,438	1,957,387
Contributed surplus	11,693,008	11,344,855
Deficit	(42,760,452)	(39,338,867)
<b>Total equity</b>	<u>26,256,396</u>	<u>27,941,353</u>
<b>Total liabilities and equity</b>	<u>51,422,831</u>	<u>44,259,699</u>

**GOING CONCERN** (note 1)

**COMMITMENTS** (note 18)

**EVENTS AFTER REPORTING PERIOD** (note 22)

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

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

(s) Jim Cowley, Director and Interim CFO

**ARIANNE PHOSPHATE INC.**  
**CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS**

**FOR THE YEARS ENDED DECEMBER 31**  
(In Canadian dollars)

	<b>2016</b>	<b>2015</b>
	\$	\$
<b>EXPENSES</b>		
Salaries and benefits	1,136,804	1,614,108
Share-based compensation	390,008	640,058
Professional and consultant fees	473,133	662,401
Management fees	52,500	113,716
Registration and listing fees	64,160	69,103
Annual shareholders' meeting	31,501	38,419
Communications	387,485	274,879
Promotion, representation and travel	151,922	238,330
Insurance	38,561	46,955
Rent and office expenses	159,335	159,238
Depreciation of property, plant and equipment	18,496	57,401
Loss on disposal property, plant and equipment, and intangible assets (note 7 & 8)	55,833	-
Bank charges	8,753	11,614
<b>Operating loss</b>	<u>2,968,491</u>	<u>3,926,222</u>
<b>OTHER EXPENSES (INCOME)</b>		
Interest income	(4,347)	(17,966)
Foreign exchange loss (gain)	(17,710)	21,495
Net loss of investment property – Outfitters (note 6)	102,944	132,672
	<u>80,887</u>	<u>136,201</u>
<b>LOSS BEFORE INCOME TAXES</b>	<u>3,049,378</u>	<u>4,062,423</u>
Expense (recovery) of deferred income taxes	125,790	(84,677)
<b>NET AND COMPREHENSIVE LOSS FOR THE YEAR</b>	<u>3,175,168</u>	<u>3,977,746</u>
<b>BASIC AND DILUTED LOSS PER SHARE</b>	<u>0.03</u>	<u>0.04</u>
<b>WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING</b>	<u>97,319,436</u>	<u>95,329,865</u>

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

**ARIANNE PHOSPHATE INC.**  
**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**  
**FOR THE YEARS ENDED DECEMBER 31**  
(in Canadian dollars)

	Capital stock	Capital stock	Warrants	Contributed surplus	Deficit	Total equity
	common shares	\$	\$	\$	\$	\$
<b>Balance as at January 1, 2016</b>	96,825,755	53,977,978	1,957,387	11,344,855	(39,338,867)	27,941,353
Net and Comprehensive loss for the year	-	-	-	-	(3,175,168)	(3,175,168)
Share-based compensation (note 14)	-	-	-	390,008	-	390,008
Grant of warrants (note 14)	-	-	351,399	-	-	351,399
Grant of options granted to brokers (note 14)	-	-	-	30,479	-	30,479
Exercise of options granted to brokers (note 14)	422,325	494,659	-	(72,334)	-	422,325
Exercise of warrants (note 14)	400,000	310,765	(14,765)	-	-	296,000
Modification of warrants (note 14)	-	-	246,417	-	(246,417)	-
<b>Balance as at December 31, 2016</b>	97,648,080	54,783,402	2,540,438	11,693,008	(42,760,452)	26,256,396
<b>Balance as at January 1, 2015</b>	95,325,755	51,593,734	2,816,369	9,636,224	(35,273,199)	28,773,128
Net loss for the year	-	-	-	-	(3,977,746)	(3,977,746)
Comprehensive loss for the year	-	-	-	-	(3,977,746)	(3,977,746)
Share-based compensation (note 14)	-	-	-	640,058	-	640,058
Warrants granted (note 14)	-	-	1,295,665	-	-	1,295,665
Warrants exercised (note 14)	1,500,000	2,384,244	(1,064,244)	-	-	1,320,000
Warrants expired (note 14)	-	-	(1,178,325)	1,178,325	-	-
Modification of Warrants (note 14)	-	-	87,922	-	(87,922)	-
Deferred income tax	-	-	-	(109,752)	-	(109,752)
<b>Balance as at December 31, 2015</b>	96,825,755	53,977,978	1,957,387	11,344,855	(39,338,867)	27,941,353

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

**ARIANNE PHOSPHATE INC.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED DECEMBER 31**  
(In Canadian dollars)

	<b>2016</b>	<b>2015</b>
	\$	\$
<b>CASH FLOW FROM (USED IN)</b>		
<b>OPERATING ACTIVITIES</b>	(3,175,168)	(3,977,746)
Net loss for the year		
Adjustments for:		
Share-based payments	390,008	640,058
Depreciation – Investment property - Outfitters	30,493	37,130
Depreciation – Property, plant and equipment	18,496	57,401
Tax on investment property – outfitter	31,740	24,830
Loss on disposal	55,833	-
Income taxes and deferred taxes	125,790	(84,677)
	<u>(2,522,808)</u>	<u>(3,303,004)</u>
Net change in non-cash working capital items (note 16)	(608,254)	(681,561)
	<u>(3,131,062)</u>	<u>(3,984,565)</u>
<b>INVESTING ACTIVITIES</b>		
Tax credit related to resources and mining tax credit received	-	869,174
Acquisition of property, plant and equipment - Outfitters	(129)	(6,319)
Acquisition of property, plant and equipment	(2,407)	-
Acquisition of mining properties	(28,463)	(1,270)
Acquisition of exploration and evaluation assets	(2,292,768)	(1,447,754)
	<u>(2,323,767)</u>	<u>(586,169)</u>
<b>FINANCING ACTIVITIES</b>		
Proceeds from credit line	3,275,000	1,000,000
Proceeds from loan	4,100,000	-
Transaction costs	(205,372)	(175,066)
Issuance of shares – Exercise of broker options	422,325	-
	<u>7,591,953</u>	<u>824,934</u>
<b>CHANGE IN CASH AND CASH EQUIVALENTS DURING THE YEAR</b>	2,137,124	(3,745,800)
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	91,920	3,837,720
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<u>2,229,044</u>	<u>91,920</u>
Supplementary cash flow information (note 16)		
Interest received	4,347	17,966

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



# **ARIANNE PHOSPHATE INC.**

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

### **DECEMBER 31, 2016 AND 2015**

(in Canadian dollars)

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

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

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

These consolidated 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 year ended December 31, 2016, the Company recorded a net loss of \$3,175,168 (2015 – \$3,977,746) and has an accumulated deficit of \$42,760,452 as at December 31, 2016 (2015 – \$39,338,867). 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 December 31, 2016, the Company had a negative working capital of \$15,439,763 (negative working capital of \$288,027 in 2015), and has an undrawn non-revolving credit line of \$291,887. Management estimates that the working capital will not be sufficient to meet the Company's obligations and budgeted expenditures through December 31, 2017. 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 2017.

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 financial statements.

These consolidated 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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The significant accounting policies used in the preparation of these consolidated financial statements are described below.

##### **Basis of preparation**

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), as issued by the International Accounting Standards Board (IASB). The Company has consistently applied the accounting policies used in the preparation of its IFRS consolidated financial statements, including the comparative figures. The accounting policies applied in these consolidated financial statements are based on IFRS effective for the year ended December 31, 2016, as issued and outstanding as of March 22, 2017, the date when the Board of Directors approved the consolidated financial statements.

##### **Basis of measurement**

These consolidated financial statements have been prepared on a historical cost basis.

##### **Functional and presentation currency**

The presentation currency and the functional currency of all operations of the Company and its subsidiaries is the Canadian dollar, since it represents the currency of the primary economic environment in which the Company and its subsidiaries operate.

Transactions in foreign currencies are translated at the exchange rates prevailing at the time they are incurred. At each closing date, assets and liabilities denominated in foreign currencies are converted at the closing exchange rate. Exchange differences are recorded in the consolidated statements of loss for the year.

# **ARIANNE PHOSPHATE INC.**

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

### **DECEMBER 31, 2016 AND 2015**

(in Canadian dollars)

#### **Basis of consolidation**

These consolidated financial statements incorporate the accounts of the Company and accounts of entities it controls, including Oroplata Exploration Inc., Phosphate Canada Inc. and 9252-5880 Québec Inc., which are all wholly owned subsidiaries.

Control is defined by the authority to direct the financial and operating policies of a business in order to obtain benefits from its activities. The amounts presented in the consolidated financial statements of subsidiaries have been adjusted, if necessary, so that they meet the accounting policies adopted by the Company.

Profit or loss or other comprehensive loss of subsidiaries set up, acquired or sold during the year are recorded from the actual date of acquisition or until the effective date of the sale, if any. All intercompany transactions, balances, income and expenses are eliminated at consolidation.

#### **Financial instruments**

Financial assets and financial liabilities are recognized when the Company becomes a party to the contractual provisions of the instrument. Financial assets are derecognized when the rights to receive cash flows from the assets have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership.

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated statements of financial position when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously.

At initial recognition, the Company classifies its financial instruments in the following categories, depending on the purpose for which the instruments were acquired.

##### *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. The Company's loans and receivables comprise cash and cash equivalents and receivables and other current assets, and are included in current assets.

Loans and receivables are initially recognized at the amount expected to be received less, when material, a discount to reduce the loans and receivables to fair value. Subsequently, loans and receivables are measured at amortized cost using the effective interest method less a provision for impairment.

##### *Financial liabilities at amortized cost*

Financial liabilities at amortized cost are initially recognized at fair value less transaction costs directly attributable. Thereafter, they are measured at amortized cost using the effective interest method and include all financial liabilities other than derivative instruments. Accounts payable and accrued liabilities and credit line are classified as financial liabilities at amortized cost.

#### **Transaction costs**

Transaction costs related to loans and receivables are added to the carrying value of the asset, and transaction costs related to financial liabilities at amortized cost are netted against the carrying value of the liability. They are then recognized over the expected life of the instrument using the effective interest method.

Transaction costs include fees and commissions paid to agents, advisers, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Transaction costs do not include debt premiums or discounts, financing costs or internal administrative or holding costs.

#### **Effective interest method**

The effective interest method is a method of calculating the amortized cost of a financial asset/liability and of allocating interest income/expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash flows (including transaction costs) through the expected life of the financial asset/liability, or, if appropriate, a shorter period.

#### **Grants**

Grants are recognized only when there is a reasonable assurance that the grants will be received, once the Company has complied with the terms of such grants. Grants related to property, plant and equipment are deducted from the cost of those assets. Grants related to expenses are deducted from them.

# ARIANNE PHOSPHATE INC.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### DECEMBER 31, 2016 AND 2015

(in Canadian dollars)

#### Impairment of financial assets

At each reporting date, the Company assesses whether there is objective evidence that a financial asset is impaired. If such evidence exists, the Company recognizes an impairment loss, as follows:

- a) Financial assets carried at amortized cost: The loss is the difference between the amortized cost of the financial asset and the present value of the estimated future cash flows, discounted using the instrument's original effective interest rate. The carrying amount of the asset is reduced by this amount either directly or indirectly through the use of an allowance account. Impairment losses are reversed in subsequent periods if the amount of the loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized.

#### Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, bank balances and highly liquid short-term investments with original maturities of three (3) months or less from the date of purchase and which are readily convertible to known amounts of cash.

#### Tax credit related to resources and mining tax credit

The Company is entitled to a tax credit related to resources of 28% (28% in 2015) on eligible exploration expenses incurred in the province of Quebec. In addition, the Company is entitled to a mining tax credit equal to 16% of 50% of eligible exploration expenditures, reduced by the tax credit related to resources. These amounts are based on estimates made by management and that the Company is reasonably certain that they will be received. At this time, the tax credit related to resources and mining tax credit are recorded as a reduction of exploration and evaluation assets.

#### Investment property – Outfitters

Investment property is a property (land or a building – or part of a building – or both) held to earn rental income or for capital appreciation or both, rather than for (a) use in the production or supply of goods or services or for administrative purposes; or (b) sale in the ordinary course of business. An investment property is measured initially at cost. Transaction costs are included in the initial measurement. The Company uses the cost model as its accounting policy on all of its investment property. After recognition, an investment property is carried at its cost less any accumulated depreciation and any accumulated impairment losses.

Each property, plant and equipment part included in investment property – Outfitters is depreciated separately over its useful life (separate depreciation by significant component of the cost of each property, plant and equipment, when applicable).

Rental income and direct operating expenses arising from investment property – Outfitters, including depreciation of property, plant and equipment, are recognized in the consolidated statements of loss as “net loss of investment property – Outfitters”.

Depreciation of property, plant and equipment comprised in the investment property – Outfitters is calculated using the declining balance method on the basis of the following rates:

Category	Rates
Buildings	4%
Leasehold improvements	20%
Computer equipment	30%
Equipment and furniture	30%

#### Property, plant and equipment

Property, plant and equipment are accounted for at historical cost less any accumulated depreciation charge and impairment losses. Historical cost includes expenditures that are directly attributable to the acquisition of the asset. Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost can be measured reliably.

Depreciation of tools and equipment, rolling equipment and computer equipment are calculated using the declining method at a rate of 30% and depreciation of leasehold improvements is calculated using the declining method at a rate of 20%.

Gains or losses on disposal of property, plant and equipment are determined by comparing the net proceeds with the net carrying amount of the asset and are included in the consolidated statement of loss.

#### Intangible assets

Intangible assets composed of a mine planning software are accounted for at historical cost less any accumulated depreciation charge and impairment losses. Historical cost includes expenditures that are directly attributable to the acquisition of the asset. Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost can be measured reliably.

# **ARIANNE PHOSPHATE INC.**

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

### **DECEMBER 31, 2016 AND 2015**

(in Canadian dollars)

Depreciation of intangible assets is calculated using the linear method over 5 years.

Gains or losses on intangible assets are determined by comparing the net proceeds with the net carrying amount of the asset and are included in the consolidated statement of loss.

#### **Leases**

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments under an operating lease are charged to the consolidated statements of loss on a straight-line basis over the period of the lease. Related expenses, such as maintenance and insurance expenses, are charged to the consolidated statements of loss as incurred.

The economic ownership of a leased asset is transferred to the lessee if the lessee bears substantially all the risks and rewards related to the ownership of the leased asset. The related asset is then recognized at the inception of the lease as the fair value of the leased asset or, if lower, the present value of the lease payments. A corresponding amount is recognized as a finance leasing liability, irrespective of whether some of these lease payments are payable up-front at the date of inception of the lease.

#### **Mining properties and exploration and evaluation assets**

All expenditures incurred prior to securing the legal rights to explore an area are expensed immediately.

Mining properties includes rights in mining properties, paid or acquired through a business combination or an acquisition of assets, and costs related to the initial search for mineral deposits with economic potential or to obtain more information about existing mineral deposits. Mining rights are recorded at acquisition cost less accumulated impairment losses.

Exploration and evaluation expenditures for each separate area of interest are capitalized. Exploration and evaluation expenditures include the cost of but are not limited to:

- establishing the volume and grade of deposits through drilling of core samples, trenching and sampling activities in an ore body;
- determining the optimal methods of extraction and metallurgical and treatment processes;
- studies related to surveying, transportation and infrastructure requirements;
- permitting activities; and
- economic evaluations to determine whether development of the mineralized material is commercially justified, including scoping, prefeasibility and feasibility studies.

Exploration and evaluation expenditures include overhead expenses directly attributable to the related activities.

Once the technical feasibility and commercial viability of the extraction of resources from a particular mineral property has been determined, expenditures are reclassified to "Mine development assets" within property, plant and equipment. A mandatory impairment test is required to be performed immediately prior to the reclassification. Property, plant and equipment are carried at cost until the properties to which they relate are placed into commercial production, sold, abandoned or determined by management to be impaired. The establishment of technical feasibility and commercial viability of a mineral property is assessed based on a combination of factors, such as:

- Results of studies;
- Status of permits and rights and other agreements to allow access rights;
- Ability to raise project financing; and
- Approval by management and/or Board of Directors to proceed to development.

Upon transfer of "Mining properties and exploration and evaluation assets" into "Mine development assets", all subsequent expenditures on the construction, installation or completion of infrastructure facilities are capitalized within "Mine development assets". After production starts, all assets included in "Mine development assets" are transferred to "Producing mines assets". At such time as commercial production commences, these costs will be charged to operations on a unit of production method based on proven and probable reserves.

#### **Borrowing costs**

Borrowing costs attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognized in the consolidated statements of loss in the year in which they are incurred.

#### **Impairment of non-financial assets**

Property, plant and equipment, intangible assets, investment property – Outfitters, mining properties and exploration and evaluation assets are reviewed for impairment if there is any indication that the carrying amount may not be recoverable. Exploration and evaluation assets and mining properties are reviewed by area of interest. If any such indication is present, the recoverable amount of the asset is estimated in order to determine whether impairment exists. Where the asset does not generate cash flows that are independent from other assets, the Company estimates the recoverable amount of the asset group to which the asset belongs.

# **ARIANNE PHOSPHATE INC.**

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

### **DECEMBER 31, 2016 AND 2015**

(in Canadian dollars)

An asset's recoverable amount is the higher of fair value less costs to dispose of and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value, using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset or asset group is estimated to be less than its carrying amount, the carrying amount is reduced to the recoverable amount. Impairment is recognized immediately in the consolidated statements of loss. Where an impairment subsequently reverses, the carrying amount is increased to the revised estimate of recoverable amount but only to the extent that this does not exceed the carrying value that would have been determined if no impairment had previously been recognized. A reversal is recognized as a reduction in the impairment charge for the period.

#### **Provisions**

A provision is a liability for which the maturity or the amount is uncertain. A provision is recognized if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably and it is more likely than not that an outflow of economic benefits will be required to settle the obligation.

Provisions for environmental restoration, restructuring costs and legal claims, where applicable, are recognized when (i) the Company has a present legal or constructive obligation as a result of past events; (ii) it is probable that an outflow of resources will be required to settle the obligation; and (iii) the amount can be reliably estimated.

Provisions are measured at management's best estimate of the expenditure required to settle the obligation at the end of the reporting period, and are discounted to present value where the effect is material. The increase in the provision due to passage of time is recognized as finance costs. Changes in assumptions or estimates are reflected in the period in which they occur.

Provision for environmental restoration represents the legal and constructive obligations associated with the eventual closure of the Company's property and equipment. These obligations consist of costs associated with reclamation and monitoring of activities and the removal of tangible assets. The discount rate used is based on a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability, excluding the risks for which future cash flow estimates have already been adjusted.

#### **Share-based payment transactions**

The fair value of stock options granted to employees is recognized as an expense, or capitalized to exploration and evaluation assets over the vesting period with a corresponding increase in the contributed surplus. An individual is classified as an employee when the individual is an employee for legal or tax purposes (direct employee) or provides services similar to those performed by a direct employee, including directors of the Company.

The fair value is measured at the grant date and recognized over the period during which the options vest. The fair value of the options granted is measured using the Black-Scholes pricing model, taking into account the terms and conditions upon which the options were granted. At each consolidated statement of financial position reporting date, the amount recognized as an expense is adjusted to reflect the actual number of share options that are expected to vest.

#### *Equity-settled share-based payment transactions*

For transactions with parties other than employees, the Company measures the goods or services received, and the corresponding increase in equity, directly, at the fair value of the goods or services received, unless that fair value cannot be estimated reliably. When the Company cannot estimate reliably the fair value of the goods or services received, it measures their value, and the corresponding increase in equity, indirectly, by reference to the fair value of the equity instruments granted.

All equity-settled share-based compensation (except brokers options) are ultimately recognized as an expense in the consolidated statements of loss with a corresponding credit to contributed surplus, in equity. Equity-settled share-based compensation to brokers, in respect of an equity or debt financing, are recognized respectively as issuance cost of the equity instruments with a corresponding credit to deficit or against the financial liabilities.

#### **Warrants**

As part of its financing activities, the Company may grant warrants. Each warrant entitles its holder to purchase a determined number of shares at a price determined at grant for a certain period of time. Proceeds from unit placements are allocated between shares and warrants issued using the relative fair value method on a pro rata basis. The Company uses the Black-Scholes pricing model to determine the fair value of warrants issued.

#### **Share issuance expenses**

Share issuance expenses are recorded as an increase of the deficit in the year in which they are incurred.

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#### Basic and diluted loss per share

The basic net loss per share is calculated using the weighted average of shares outstanding during the year. The diluted net loss per share, which is calculated with the treasury method, is equal to the basic net loss per share, due to the anti-dilutive effect of stock options, warrants and options granted to brokers.

#### Deferred taxes

Deferred taxes are recognized in respect of temporary differences between the carrying amounts of assets and liabilities and the amounts used for taxation purposes, except when deferred income results from an initial recognition of goodwill or from initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss at the time of the transaction.

Deferred taxes are measured at the tax rates that are expected to be applied to temporary differences when they will reverse, based on the laws that have been enacted or substantively enacted by the end of the reporting year and which are expected to apply to taxable income in the years during which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets, liabilities and equity of a change in tax rates is recognized in income or loss in the year that includes the enactment date. Income tax on the profit or loss for the periods presented comprises current and deferred taxes. Income tax is recognized in profit or loss except to the extent that it relates to items recognized directly in other comprehensive loss or in equity, in which case it is recognized in other comprehensive loss or in equity, respectively.

A deferred tax asset is recognized for unused tax losses and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be used. At the end of each financial reporting period, the Company reassesses the deferred tax asset not recognized. Where appropriate, the Company records a deferred tax asset that had not been recorded previously to the extent it has become probable that future taxable profits will recover the deferred tax asset.

#### Segment disclosures

The Company currently operates in a single segment: the acquisition, exploration and development of mining properties. All of the Company's activities are conducted in Canada.

### 3. NEW ACCOUNTING STANDARDS

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

The Company has not yet adopted certain standards, interpretations to existing standards and amendments which have been issued but have an effective date of later than January 1, 2016. Many of these updates are not relevant to the Company and are therefore not discussed herein.

##### IFRS 2 - Share based payments

In June 2016, the IASB issued an amendment to IFRS 2 to clarify the measurement for cash-settled, share-based payments and the accounting for modifications that change an award from cash-settled to equity-settled. The mandatory effective date of the amendment to IFRS 2 is for annual periods beginning on or after January 1, 2018. The Company will evaluate the impact of adopting IFRS 2 in its consolidated financial statements.

##### 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. Management is currently reviewing the impact of adopting IFRS 16 in its consolidated financial statements.

##### IFRS 9, Financial Instruments ("IFRS 9")

In July 2014, the IASB issued IFRS 9 – *Financial Instruments*. The IASB has previously published versions of IFRS 9 that introduced new classification and measurement requirements (in 2009 and 2010) and a new hedge accounting model (in 2013). The July 2014 publication represents the final version of the Standard, replaces earlier versions of IFRS 9 and substantially completes the IASB's project to replace IAS 39 – *Financial Instruments: Recognition and Measurement*.

This standard replaces the current multiple classification and measurement models for financial assets and liabilities with a single model that has only three classification categories: amortized cost and fair value through other comprehensive income and fair value through profit or loss. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset or liability. The standard introduces a new, expected loss impairment model that will require more timely recognition of expected credit losses. Specifically, the new Standard requires entities to account for expected credit losses from when financial instruments are first recognised and it lowers the threshold for recognition of full lifetime expected losses. The new standard also introduces a substantially-reformed model for hedge accounting with

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enhanced disclosures about risk management activity and aligns hedge accounting more closely with risk management. The new standard is effective for annual periods beginning on or after January 1, 2018 with early adoption permitted. The extent of the impact of the adoption of IFRS 9 has not yet been determined.

#### 4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

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The preparation of consolidated financial statements in accordance with IFRS requires management to make estimates and assumptions that affect the application of accounting policies as well as the carrying amounts of assets, liabilities, revenues and expenses. Actual results may differ from those estimates.

The estimates and underlying assumptions are reviewed regularly. Any revisions to accounting estimates are recognized in the period during which the estimates are revised and in future periods affected by these revisions.

Critical judgments in applying accounting policies

a) Going concern

The assessment of the Company's ability to execute its strategy by funding future working capital and exploration and evaluation activities involves judgment. Estimates and assumptions are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Areas of significant judgments in assessing whether the going concern assumption is appropriate relate to the expected timing of collecting the tax credits receivable from the Quebec government and to secure its financing on a timely basis.

b) Borrowing costs

During the year ended December 31, 2016, the Company capitalized borrowing costs that were directly attributable to the acquisition, construction or production of a qualifying asset, the Lac à Paul project, as management determined that it is probable that they will result in future economic benefits to the Company and the costs can be measured reliably.

Critical judgments in applying accounting estimates

a) Impairment of non-financial assets

The Company's recoverable amount measurements with respect to the carrying amount of non-financial assets are based on numerous assumptions and may differ significantly from actual recoverable amounts. The recoverable amounts are based, in part, on certain factors that may be partially or totally outside of the Company's control. This evaluation involves a comparison of the estimated recoverable amounts of non-financial assets to their carrying values. The estimated recoverable amounts may differ from actual recoverable amounts, and these differences may be significant and could have a material impact on the Company's financial position and results of operations. Non-financial assets are reviewed for an indication of impairment at each consolidated statement of financial position date. This determination requires significant judgment. Factors which could trigger an impairment review include, but are not limited to, significant negative industry or economic trends, interruptions in exploration and evaluation activities and significant drop in commodity prices. The Company reviews exploration and evaluation assets for impairment indicators considering the following:

- The period for which the Company has the right to explore in the specific area has expired during the period or will expire in the near future, and is not expected to be renewed.
- Substantive expenditure on further exploration for and evaluation of mineral resources in the specific area is neither budgeted nor planned.
- Exploration for and evaluation of mineral resources in the specific area have not led to the discovery of commercially viable quantities of mineral resources, and the entity has decided to discontinue such activities in the specific area.
- Sufficient data exist to indicate that, although a development in the specific area is likely to proceed, the carrying amount of the exploration and evaluation asset is unlikely to be recovered in full from successful development or by sale.

Based on an impairment analysis performed in 2016, we determined that no impairment indicator was present for our mining properties and corresponding exploration and evaluation assets.

b) Establishment of technical feasibility and commercial viability of a mineral property

The establishment of technical feasibility and commercial viability of a mineral property is assessed based on a combination of factors. By its nature, this assessment requires significant judgment.

As at December 31, 2016, management determined that the technical feasibility and commercial viability had not yet been established for the Lac à Paul Project and as such the mineral properties are still considered to be at the exploration and evaluation stage.

If a different conclusion had been reached, certain costs included in "Exploration and evaluation assets" could have been reclassified into "Mine development assets" and a mandatory impairment test would have been performed immediately prior to the reclassification.

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c) Uncertain tax positions

The Company received a notice of assessment from Revenu Québec in February 2014 for the year ended December 31, 2012, disallowing certain expenditures in the calculation of its fiscal year 2012 tax credit related to mining resources, amounting to approximately \$722,000 for 2012. The Company is in disagreement with the notice of assessment, and management intends to dispute the notice and justify its original claims. The Company estimates the potential exposure to be a reduction of the credits for mining duties refundable for losses of an aggregate amount of \$485,000 as at December 31, 2016 and 2015.

Credits for mining duties refundable for losses for the current and prior periods are measured at the amount expected to be recovered from Revenue Québec, using the tax rates and tax laws that have been enacted or substantively enacted at the consolidated statement of financial position date.

Uncertainties exist with respect to the interpretation of tax regulations, including mining duties for losses, and the amount and timing of their collection. The calculation of the Company's credits for mining duties refundable for losses necessarily involves a degree of estimation and judgment in respect of certain items whose tax treatment cannot be finally determined until resolution of an opposition process has been reached with the relevant taxation authority or, as appropriate, through a formal legal process. Differences arising between the actual results following final resolution of some of these items and the assumptions made, or future changes to such assumptions, could necessitate adjustments to credits for mining duties refundable for losses and income tax expense in future periods. The resolution of issues can, and often does, take many years to resolve. The inherent uncertainty regarding the outcome of these items means that eventual resolution could differ from the accounting estimates and therefore impact the Company's financial position and its financial performance and cash flows.

**5. CASH AND CASH EQUIVALENTS**

	2016 \$	2015 \$
Cash and cash equivalents	2,229,044	91,920

As at December 31, 2016, cash and cash equivalents comprise cash on hand amounting to \$1,317,836 bearing interest at a fixed rate 0.8% and an amount of \$911,208 (December 31, 2015 - \$91,920) not bearing interest.

As at December 31, 2016 and 2015 an amount of \$30,000 is restricted in connection with the Company's credit card agreement.

**6. INVESTMENT PROPERTY – OUTFITTERS**

Property, plant and equipment of investment property – Outfitters are as follows:

	Buildings \$	Leasehold improvements \$	Equipment and furniture \$	Computer equipment \$	Total \$
<b>Cost</b>					
Balance as at December 31, 2014	344,665	49,490	169,099	2,577	565,831
Acquisition	-	-	6,319	-	6,319
Balance as at December 31, 2015	344,665	49,490	175,418	2,577	572,150
Acquisition	-	-	880	-	880
Disposition	-	-	(750)	-	(750)
Balance as at December 31, 2016	344,665	49,490	175,548	2,577	572,280
<b>Accumulated depreciation</b>					
Balance as at December 31, 2014	39,560	24,151	105,897	1,693	171,301
Depreciation	12,204	5,068	19,593	265	37,130
Balance as at December 31, 2015	51,764	29,219	125,490	1,958	208,431
Depreciation	-	-	14,973	-	14,973
Disposition	11,716	4,054	(435)	186	15,521
Balance as at December 31, 2016	63,480	33,273	140,028	2,144	238,925
<b>Net book value</b>					
Balance as at December 31, 2015	292,901	20,271	49,928	619	363,719
Balance as at December 31, 2016	281,185	16,217	35,520	433	333,355



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As at December 31, 2016, the fair value of investment property approximates its carrying value. This fair value is classified as a level 3. Level 3 includes inputs for the asset or liability that are not based on observable market data.

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

	<b>2016</b>	<b>2015</b>
	<b>\$</b>	<b>\$</b>
Outfitters income	<u>72,883</u>	<u>66,355</u>
Operating expenses:		
Management fees	50,699	61,180
Repair and maintenance	12,283	19,441
Supplies	11,373	12,121
Advertising, promotion and travel	15,495	19,752
Taxes and licenses	7,995	10,712
Communications	1,889	2,547
Insurance	11,653	11,175
Bad debt expense	1,630	-
Interest and bank charges	141	139
Depreciation of property, plant and equipment	30,929	37,130
Tax on investment property – outfitter	<u>31,740</u>	<u>24,830</u>
	<u>175,827</u>	<u>199,027</u>
Net loss of investment property – Outfitters	<u>102,944</u>	<u>132,672</u>

**7. PROPERTY, PLANT AND EQUIPMENT**

	<b>Leasehold improvements</b>	<b>Tools and equipment</b>	<b>Rolling equipment</b>	<b>Computer equipment</b>	<b>Land <sup>(i)</sup></b>	<b>Total</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
<b>Cost</b>						
Balance as at December 31, 2014	305,443	128,740	10,376	11,919	-	456,478
Balance as at December 31, 2015	305,443	128,740	10,376	11,919	-	456,478
Acquisition	-	-	-	950	812,031	812,981
Disposition	(11,411)	(22,500)	(10,376)	3,315 <sup>(ii)</sup>	-	(40,972)
Balance as at December 31, 2016	<u>294,032</u>	<u>106,240</u>	<u>-</u>	<u>16,184</u>	<u>812,031</u>	<u>1,228,487</u>
<b>Accumulated depreciation</b>						
Balance as at December 31, 2014	34,844	55,161	1,556	980	-	92,541
Depreciation	54,120	22,073	2,646	3,281	-	82,120
Balance as at December 31, 2015	88,964	77,234	4,202	4,261	-	174,661
Depreciation	23,283	8,026	1,897	1,804	-	35,010
Disposition	(4,035)	(15,621)	(6,099)	1,139	-	(24,616)
Balance as at December 31, 2016	<u>108,212</u>	<u>69,639</u>	<u>-</u>	<u>7,204</u>	<u>-</u>	<u>185,055</u>
<b>Net book value</b>						
Balance as at December 31, 2015	216,479	51,506	6,174	7,658	-	281,817
Balance as at December 31, 2016	<u>185,820</u>	<u>36,601</u>	<u>-</u>	<u>8,980</u>	<u>812,031</u>	<u>1,043,432</u>

- i. The Company had options to buy land in order to develop its project. As at December 31st, 2016 the Company exercised those options.  
ii. Reclassification from leasehold improvements to computer equipment

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### 8. INTANGIBLE ASSETS

	Intangible assets \$
<b>Cost</b>	
Balance as at December 31, 2015	167,168
Disposition	(167,168)
Balance as at December 31, 2016	-
<b>Accumulated depreciation</b>	
Balance as at December 31, 2015	50,150
Depreciation	25,076
Disposition	(75,226)
Balance as at December 31, 2016	-
<b>Net book value</b>	
Balance as at December 31, 2015	117,018
Balance as at December 31, 2016	-

### 9. MINING PROPERTIES

	Royalties (NSR) %	Balance as at December 31, 2015 \$	Additions \$	Impairments \$	Disposal \$	Balance as at December 31, 2016 \$
<b>Properties in Quebec</b>						
Lac à Paul (100%)	2.25	1,217,177	28,463	-	-	1,245,640

	Royalties (NSR) %	Balance as at December 31, 2014 \$	Additions \$	Impairment \$	Disposals \$	Balance as at December 31, 2015 \$
<b>Properties in Quebec</b>						
Lac à Paul (100%)	2.25	1,215,907	1,270	-	-	1,217,177

### 10. EXPLORATION AND EVALUATION ASSETS

	Balance as at December 31, 2015 \$	Additions \$	Tax credits \$	Impairments \$	Reclassificat ion \$	Balance as at December 31, 2016 \$
<b>Quebec</b>						
Lac à Paul	40,502,866	4,439,510	(125,861)	-	(74,700)	44,741,815

	Balance as at December 31, 2014 \$	Additions \$	Tax credits \$	Impairments \$	Reclassificat ion \$	Balance as at December 31, 2015 \$
<b>Quebec</b>						
Lac à Paul	36,623,579	4,026,255	(146,968)	-	-	40,502,866

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For the years ended December 31, 2016 and 2015, the following expenses, related to discovery of mineral resources, have been included in the cost of exploration and evaluation assets:

	<b>2016</b>	<b>2015</b>
	<b>\$</b>	<b>\$</b>
Drilling	-	-
Stripping and road repairs	6,539	-
Camp, travel and lodging and general expenses	202,780	204,795
Chemical analysis	30,921	8,740
Planning and supervision	424,074	204,612
Professional fees and independent technical reports	1,768,192	1,751,568
Borrowing costs	1,965,412	1,798,388
Depreciation of property, plant and equipment	16,516	24,719
Depreciation of intangible asset	25,076	33,433
	<u>4,439,510</u>	<u>4,026,255</u>
Tax credits related to resources and mining tax credit	(125,861)	(146,968)
Reclassification	<u>(74,700)</u>	
	4,238,949	3,879,287
Balance – Beginning of year	40,502,866	36,623,579
Balance – End of year	<u><u>44,741,815</u></u>	<u><u>40,502,866</u></u>

## 11. CREDIT LINE

In August 2012 and July 2013, the Company entered into agreements to obtain non-revolving credit lines for an authorized amount of respectively \$10 million and \$2.5 million to finance a feasibility study for the Lac à Paul property and to cover the general and administrative expenditures related to this property. The conditions of the credit line will remain effective as long as the Company meets milestones established with Mercury Financing Corp. (the "Lender") related to obtaining specific studies and specific permits (Certificates of Authorization for Construction and Exploitation). Those credit lines were gradually disbursed as a result of written draw requests from the Company. Any repayment of capital may not be borrowed subsequently and shall reduce the authorized amount.

Those credit lines bore interest at a variable rate on the basis of three-month CDOR plus 500 basis points. Interests were capitalized quarterly until the earlier of the following dates: (a) December 31, 2013 for the August 2012 agreement and June 30, 2014 for the June 2013 agreement or (b) the date at which time the Company raises cumulative net cash proceeds of at least \$21 million by way of equity, debt or other instruments. Subsequently, interest was payable quarterly until maturity.

These credit lines and all unpaid interest were repayable in full on the earlier of the following dates: (a) December 31, 2015; (b) the date at which time the Company raises cumulative net cash proceeds of at least \$51 million by way of equity, debt or other instruments; and (c) the date of change of control of the Company. These agreements also provide a royalty (see note 18).

In connection with obtaining the credit line of August 2012, the Company granted 2,500,000 warrants at an exercise price of \$0.88 per warrant and 1,500,000 warrants at an exercise price of \$1.32 per warrant. Some warrants are subject to an acceleration clause. In connection with obtaining the credit line of June 2013, the Company granted 375,000 warrants at an exercise price of \$1.77 per warrant and 625,000 warrants at an exercise price of \$1.18 per warrant, which were subject to a four-month holding period. The Company was not able to reliably determine the fair value of the services received and therefore used the fair value of the warrants as calculated using the Black-Scholes pricing model. The fair value of warrants was estimated at \$1,940,500 and \$378,986 respectively.

Initial transaction costs related to these credit lines amounted to \$2,350,197 and \$484,158 for 2012 and 2013 and consisted of the fair value of warrants and fees paid in cash amounting to \$409,698 and \$100,914 respectively. Transaction costs are amortized at an effective rate of 7.10%, representing \$679,659 for the year ended December 31, 2016 (2015 - \$2,206,460 and \$441,898\$).

In March 2015, the Company issued 400,000 warrants to the Lender. The warrants were issued in relation to an agreement with the Lender to defer interest payments on the credit lines. The agreement provides for the deferral of approximately \$600,000 in interest payable to the Lender until maturity of the credit lines on December 31, 2015. Each warrant entitles the Lender to purchase one common share of the Company at an exercise price of \$0.74. The warrants shall be exercisable for a period of one year from the date of the signature of the Agreement. The warrants are subject to a hold period of four months and have a fair value of \$14,765.

On October 20, 2015, the Company signed amendments for the first and second credit lines to defer capital and interest payments to December 31, 2017. The interest rate was modified and is now equal to 6.25% per annum commencing on December 31, 2014 and terminating on December 31, 2017. The interest is capitalized quarterly until December 31, 2017.

On October 20, 2015 (the "Closing Date"), the Company obtained a third non-revolving credit line amounting to \$4,566,887 to finance exclusively the general and administrative operations and other activities related to the project development for the Lac à Paul project. This credit line will be gradually disbursed until the termination date (the "Termination date"), following written draw requests from the Company. Any repayment of

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capital may not be borrowed subsequently and shall reduce the authorized amount. During the year ended December 31, 2015, the Company drew an additional \$1,000,000 from the credit lines and repaid \$1,320,000 by granting 1,500,000 shares to the Lender in connection with the warrants exercised (see note 14). As at December 31, 2016, the Company has an amount of \$291,881 available.

The third credit line bears interest at a fixed rate equal to 6.25% per annum commencing on the Closing Date. The interest is capitalized quarterly from the Closing Date until December 31, 2017.

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

Under this third agreement, the Company is subject to restrictions related to disposal of assets and equity issuance through financing.

In connection with obtaining the third credit line, the Company granted 5,000,000 warrants at an exercise price of \$0.86 per warrant and 2,500,000 warrants at an exercise price of \$1.08 per warrant. Each warrant entitles the Lender to purchase one common share of the Company and shall be exercisable until December 31, 2017. The warrants are subject to a hold period of four months and one day from the date of the issuance. If the credit line is reduced or repaid within one year of the Closing Date, a pro rata number of the warrants must have their term reduced to the later of (i) one year from the Closing Date and (ii) 30 days from the reduction or repayment of the credit line.

The Company was not able to reliably determine the fair value of the services received and therefore used the fair value of the warrants as calculated using the Black-Scholes pricing model. The fair value of warrants was estimated at \$1,280,900.

The transaction costs related to the third credit line amount to \$1,508,182 and consist of the fair value of warrants and fees amounting to \$227,282. The transaction costs are capitalised and amortized until December 31, 2017 at an effective rate of 7.10%, representing \$810,504 for the year ended December 31, 2016. As part of the transaction costs on closing, an arrangement fee of \$45,669 was paid to Windermere Capital ("Windermere"), a related party company further described in note 17 and a commitment fee of \$91,338 was paid to the Lender.

Since the new term for the three credit lines is December 31, 2017, the amount of \$17,396,288 is reclassified in the current liabilities (\$12,561,084 in the non-current liabilities in 2015).

In connection with these three agreements, the Company provided as guarantee a first mortgage on the Lac à 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.

	<b>2016</b>	<b>2015</b>
	<b>\$</b>	<b>\$</b>
Balance – Beginning of year	12,561,084	12,605,641
Proceeds from credit lines	3,275,000	1,000,000
Debt repayment by proceeds from the issuance of shares related to the warrants exercises	(296,000)	(1,320,000)
Transaction costs	-	(1,522,945)
Capitalized interests	1,045,700	867,288
Amortization of transaction costs	810,504	931,100
Balance – End of year	<u>17,396,288</u>	<u>12,561,084</u>
Summary		
	<b>2016</b>	<b>2015</b>
	<b>\$</b>	<b>\$</b>
Nominal amount of credit lines including capitalized interests	18,075,946	14,051,246
Unamortized transaction costs	(679,658)	(1,490,162)
Balance of credit line – End of year	<u>17,396,288</u>	<u>12,561,084</u>
Current portion	<u>17,396,288</u>	-
Non-current portion	-	<u>12,561,084</u>

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**12. LOAN**

In September 2016, the Company closed on a \$3 million loan agreement with various third party lenders (the "Loan"). The loan will bear interest at 8%, paid semi-annually, and has a maturity of 3 years with the Company having the ability to repay the loan after one year at its option. As part of the loan, the Company has issued 2,400,000 non-transferable warrants (refer to note 14), with each warrant entitling the holder to purchase one common share of the Company at a price of \$1.25 per share for a term of 3 years expiring on September 28, 2019. The fair value of those warrants represents \$266,708 and is calculated with the Black- Scholes model. Additionally, following the expiry of the regulatory hold period, should the closing price of the Company's common shares on the TSX Venture Exchange be equal to or higher than \$2 for 10 consecutive days, the Company shall have the right to force the exercise of the warrants by providing the warrant holders with a 30-day notice period, following which the warrants will automatically expire. The Company also issued 96,000 broker warrants related to this loan at a price of \$0.92 per share for a term of 3 years expiring on September 28, 2019. The fair value of the broker warrants is \$23,026 and is calculated using the Black- Scholes model.

In October 2016, the Company closed on a \$1.1 million loan agreement with various third party lenders. The loan will bear interest at 8%, paid semi-annually and has a maturity of 3 years with the Company having the ability to repay the loan after one year at its option. As part of the loan, the Company has issued 880,000 non-transferable warrants (refer to note 14),, with each warrant entitling the holder to purchase one common share of the Company at a price of \$1.25 per share for a term of 3 years expiring on October 27, 2019. The fair value of those warrants represents \$84,961 and is calculated with the Black- Scholes model. Additionally, following the expiry of the regulatory hold period, should the closing price of 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. An amount of accrued interest of \$80,789 is included in the accounts payable and accrued liabilities.

	<b>2016</b>
	<b>\$</b>
Balance – Beginning of period	-
Proceeds from loan	4,100,000
Transaction costs	(548,308)
Balance – End of period	<u>3,551,692</u>

**Summary**

	<b>2016</b>
	<b>\$</b>
Nominal amount of loan	4,100,000
Unamortized transaction costs	(548,308)
Balance of loan – End of year	<u>3,551,692</u>
Non-current portion	<u>3,551,692</u>

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**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-cumulative dividend of 8% redeemable by the Company at the amount paid-in.

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

	Number	2016 Amount \$	Number	2015 Amount \$
<b>Balance – Beginning of year</b>	96,825,755	53,977,978	95,325,755	51,593,734
Warrants exercised <sup>(1)</sup>	400,000	310,765	1,500,000	2,384,244
Options granted to brokers exercised <sup>(2)</sup>	422,325	494,659	-	-
<b>Balance – End of year</b>	<u>97,648,080</u>	<u>54,783,402</u>	<u>96,825,755</u>	<u>53,977,978</u>

As at December 31, 2016, 97,648,080 shares are issued and fully paid (2015 – 96,825,755).

(1) This amount includes fair value of exercised warrants amounting to \$14,765 (2015 – \$1,064,244).

(2) This amount includes fair value of brokers options exercised amounting to \$72,334 (2015 – nil).

**Year ended December 31, 2016**

On March 2016, the Company issued 400,000 shares in relation to the warrants exercised. Also, in August 2016 the Company issued 422,325 shares in relation to the options granted to brokers which were exercised.

**Year ended December 31, 2015**

On December 30, 2015, the Company issued 1,500,000 shares in relation to the warrants exercised by the lender.

**14. STOCK OPTIONS, WARRANTS AND OPTIONS GRANTED TO BROKERS**

**Stock options**

In November 2012, the Company's Board of Directors approved a new policy related to the grant of stock options, without substituting the existing plan. Under this new policy, each share purchase option granted under this policy is vested by its holder on a basis of 33% every year on a three-year period from the date of grant.

The shareholders of the Company approved on May 28, 2015 a stock option (the "plan") whereby the Board of Directors may grant stock options of the Company to directors, officers, employees and suppliers. The terms of stock options are determined by the Board of Directors.

The vesting conditions of stock options awarded to consultants are as follows: 25% three months after the date of grant, 25% six months after the date of grant, 25% nine months after the date of grant and 25% one year after the date of grant.

Stock options expire no later than ten years after being granted. The exercise price of each share purchase option is determined by the Board of Directors and may not be lower than the market price of the common shares at the time of grant.

The plan provides that (i) the maximum number of common shares in the capital of the Company that may be reserved for issuance under the plan shall be equal to 10% common shares; (ii) the maximum number of common shares which may be reserved for issuance to an employee, officer or director may not exceed 5% of the outstanding common shares at the time of grant; and (iii) the maximum number of shares which may be reserved for issuance to consultants and investors representative may not exceed 2% of the outstanding common shares at the time of grant.

Any share purchase option is settled in shares in accordance with Company policies.

The Company currently estimates the volatility of its common shares based on historical data from the Company.

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During 2016, 775,000 stock options were granted to directors and consultants (545,000 to directors and employees in 2015). The fair value of stock options granted to directors and consultants amounted to \$281,142 (\$331,940 in 2015) and was estimated using the Black-Scholes pricing model with the following weighted average assumptions:

	<b>2016</b>	<b>2015</b>
Weighted average price of share at time of grant	\$0.75	\$0.88
Weighted average risk-free interest rate	0.85%	1.25%
Weighted average expected volatility	57%	69%
Weighted average expected life	4.9 years	6.0 years
Weighted average expected dividend yield	0%	0%
	<b>2016</b>	<b>2015</b>
	<b>\$</b>	<b>\$</b>
Weighted average fair value of options granted	\$0.35	0.55

Changes in Company stock options were as follows:

	<b>2016</b>		<b>2015</b>	
	<b>Number</b>	<b>Weighted average exercise price \$</b>	<b>Number</b>	
			<b>Weighted average exercise price \$</b>	
<b>Balance – Beginning of year</b>	5,121,167	1.10	6,019,167	1.17
Granted	775,000	0.39	545,000	0.85
Expired	(96,667)	1.18	(1,126,667)	1.33
Forfeited	(350,000)	1.16	(316,333)	1.04
<b>Balance – End of year</b>	<u>5,449,500</u>	1.08	<u>5,121,167</u>	1.10
Exercisable at the end of the year	<u>3,921,000</u>	1.11	<u>3,482,667</u>	1.12

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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, 2015	Weighted average remaining contractual life	Granted	Expired	Exercised	Forfeited	Options outstanding as at December 31, 2016	Weighted average remaining contractual life
0.15	60,000	4.3 years	-	-	-	-	60,000	3.3 years
0.15	85,000	4.5 years	-	-	-	-	85,000	3.5 years
0.37	200,000	5.1 years	-	-	-	-	200,000	4.1 years
0.58	150,000	5.1 years	-	-	-	-	150,000	4.1 years
1.25	125,000	5.4 years	-	-	-	-	125,000	4.4 years
1.37	1,050,000	5.6 years	-	-	-	-	1,050,000	4.6 years
1.16	300,000	6.3 years	-	-	-	-	300,000	5.3 years
1.15	260,000	6.7 years	-	(76,000)	-	-	184,000	5.7 years
1.07	115,000	6.9 years	-	-	-	-	115,000	5.9 years
1.12	50,000	7.0 years	-	-	-	-	50,000	6.0 years
1.25	208,333	7.4 years	-	(8,333)	-	-	200,000	6.4 years
1.22	200,000	7.4 years	-	-	-	-	200,000	6.4 years
1.19	200,000	7.5 years	-	-	-	-	200,000	6.5 years
1.17	200,000	7.7 years	-	-	-	(66,667)	133,333	6.7 years
1.24	100,000	7.8 years	-	-	-	-	100,000	6.8 years
1.32	202,834	8.0 years	-	(12,334)	-	-	190,500	7.0 years
1.30	495,000	8.3 years	-	-	-	(150,000)	345,000	7.3 years
1.00	575,000	8.8 years	-	-	-	(133,333)	441,667	7.8 years
0.85	470,000	9.4 years	-	-	-	-	470,000	8.4 years
0.86	40,000	9.5 years	-	-	-	-	40,000	8.5 years
0.86	35,000	9.7 years	-	-	-	-	35,000	8.7 years
0.81	-	-	375,000	-	-	-	375,000	8.2 years
0.98	-	-	200,000	-	-	-	200,000	2.5 years
1.25	-	-	200,000	-	-	-	200,000	1.9 years
	<b>5,121,167</b>		<b>775,000</b>	<b>(96,667)</b>	<b>-</b>	<b>(350,000)</b>	<b>5,449,500</b>	



# ARIANNE PHOSPHATE INC.

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Exercise price \$	Options outstanding as at December 31, 2014	Weighted average remaining contractual life	Granted	Expired	Exercised	Forfeited	Options outstanding as at December 31, 2015	Weighted average remaining contractual life
0.15	60,000	5.3 years	-	-	-	-	60,000	4.3 years
0.15	85,000	5.5 years	-	-	-	-	85,000	4.5 years
0.37	200,000	6.1 years	-	-	-	-	200,000	5.1 years
0.58	150,000	6.1 years	-	-	-	-	150,000	5.1 years
1.25	200,000	6.4 years	-	(75,000)	-	-	125,000	5.4 years
1.37	1,150,000	6.6 years	-	(100,000)	-	-	1,050,000	5.6 years
1.76	250,000	6.8 years	-	(250,000)	-	-	-	6.3 years
1.16	500,000	7.3 years	-	(200,000)	-	-	300,000	6.3 years
1.15	500,000	7.7 years	-	(240,000)	-	-	260,000	6.7 years
1.07	115,000	7.9 years	-	-	-	-	115,000	6.9 years
1.12	50,000	8.0 years	-	-	-	-	50,000	7.0 years
1.25	225,000	8.4 years	-	-	-	(16,667)	208,333	7.4 years
1.22	200,000	8.4 years	-	-	-	-	200,000	7.4 years
1.19	200,000	8.5 years	-	-	-	-	200,000	7.5 years
1.17	200,000	8.7 years	-	-	-	-	200,000	7.7 years
1.10	133,334	8.5 years	-	(133,334)	-	-	-	-
1.24	100,000	8.8 years	-	-	-	-	100,000	7.8 years
1.32	255,833	9.0 years	-	(28,333)	-	(24,666)	202,834	8.0 years
1.30	595,000	9.3 years	-	(100,000)	-	-	495,000	8.3 years
1.00	850,000	9.8 years	-	-	-	(275,000)	575,000	8.8 years
0.85	-	-	470,000	-	-	-	470,000	9.4 years
0.86	-	-	40,000	-	-	-	40,000	9.5 years
0.86	-	-	35,000	-	-	-	35,000	9.7 years
	6,019,167		545,000	(1,126,667)	-	316,333	5,121,167	

### Warrants

During 2016, 3,280,000 warrants were granted (7,900,000 in 2015). The fair value of the warrants was calculated using the Black-Scholes pricing model and amounted to \$351,399 (\$1,424,012 in 2015) and were estimated with the following weighted average assumptions:

	2016	2015
Weighted average price of share at time of grant	\$0.93	\$0.89
Weighted average risk-free interest rate	0.51%	0.55%
Weighted average expected volatility	45%	49.4%
Weighted average expected life	3 years	2.1 years
Weighted average expected dividend yield	0%	0%
	<b>2016</b>	<b>2015</b>
	<b>\$</b>	<b>\$</b>
Weighted average fair value of warrants granted	0.11	0.16

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Changes in Company warrants were as follows:

	Number	2016 Weighted average exercise price \$	Number	2015 Weighted average exercise price \$
<b>Balance – Beginning of year</b>	13,117,500	1.07	9,217,500	1.24
Granted	3,280,000	1.25	7,900,000	0.92
Exercised	(400,000)	0.74	(1,500,000)	0.88
Expired	-	-	(2,500,000)	1.35
<b>Balance – End of year</b>	15,997,500	1.12	13,117,500	1.07

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

Exercise price \$	Expiry date	Warrants outstanding as at December 31, 2015	Granted	Expired	Exercised	Warrants outstanding as at December 31, 2016	Weighted average remaining contractual life as at December 31, 2016
1.25 <sup>(1)</sup>	July 2017	2,815,500	-	-	-	2,815,500	0.6 year
1.25 <sup>(2)</sup>	October 2017	1,184,500	-	-	-	1,184,500	0.8 year
0.74	December 2017	400,000	-	-	(400,000)	-	-
0.86	December 2017	5,000,000	-	-	-	5,000,000	1.0 year
1.08	December 2017	2,500,000	-	-	-	2,500,000	1.0 year
1.45	January 2018	1,217,500	-	-	-	1,217,500	1.1 years
1.25	September 2019	-	2,400,000	-	-	2,400,000	2.7 years
1.25	October 2019	-	880,000	-	-	880,000	2.8 years
		13,117,500	3,280,000	-	(400,000)	15,997,500	

<sup>(1)</sup> In July 2016, the Company amended the terms and conditions of the 2,815,500 warrants granted during the year ended December 31, 2014. Initially, each warrant entitled its holder to acquire one common share at a price of \$1.25 per share for a period of two years ending in July 2016. These warrants were amended in July 2016 to extend their expiration date to July 2017. 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 \$183,904 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 year ended December 31, 2016.

<sup>(2)</sup> In October 2016, the Company amended the terms and conditions of the 1,184,500 warrants granted during the year ended December 31, 2014. Initially, each warrant entitled its holder to acquire one common share at a price of \$1.25 per share for a period of two years ending in July 2016. These warrants were amended in July 2016 to extend their expiration date to October 2017. 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 \$62,513 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 year ended December 31, 2016.

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Exercise price \$	Expiry date	Warrants outstanding as at December 31, 2014	Granted	Expired	Exercised	Warrants outstanding as at December 31, 2015	Weighted average remaining contractual life as at December 31, 2015
0.88	December 2015	1,500,000	-	-	(1,500,000)	-	-
1.32	December 2015	1,500,000	-	(1,500,000)	-	-	-
1.77	December 2015	375,000	-	(375,000)	-	-	-
1.18	December 2015	116,525	-	(116,525)	-	-	-
1.18	December 2015	508,475	-	(508,475)	-	-	-
1.25	December 2016	4,000,000	-	-	-	4,000,000	0.7 year
1.45	January 2017	1,217,500	-	-	-	1,217,500	1.1 year
0.74	December 2017	-	400,000	-	-	400,000	0.2 year
0.86	December 2017	-	5,000,000	-	-	5,000,000	2.0 year
1.08	December 2017	-	2,500,000	-	-	2,500,000	2.0 year
		<u>9,217,500</u>	<u>7,900,000</u>	<u>(2,500,000)</u>	<u>(1,500,000)</u>	<u>13,117,500</u>	

**Options granted to brokers**

During 2016, 131,200 options to brokers were granted to Windermere, a related party, in connection with the loan. The Company was not able to reliably determine the fair value of the services received from Windermere 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 \$30,482 and was estimated using the following weighted average assumptions:

	2016	2015
Weighted average price of share at time of grant	\$0.93	\$0.96
Weighted average risk-free interest rate	0.51%	1.09%
Weighted average expected volatility	45%	37%
Weighted average expected life	3 years	2 years
Weighted average expected dividend yield	0%	0%
	<b>2016</b>	<b>2015</b>
	<b>\$</b>	<b>\$</b>
Weighted average fair value of warrants granted	0.23	0.17

Changes in Company options granted to brokers were as follows:

	Number	2016 Weighted average exercise price \$	Number	2015 Weighted average exercise price \$
<b>Balance – Beginning of year</b>	447,750	1.00	792,659	1.09
Granted	131,200	0.91	-	-
Exercised	(422,325)	1.00	-	-
Expired	(25,425)	-	(344,909)	1.21
<b>Balance – End of year</b>	<u>131,200</u>	<u>0.91</u>	<u>447,750</u>	<u>1.00</u>

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

Exercise price \$	Expiry date	Broker options	Granted	Exercised	Expired	Broker options
		outstanding as at December 31, 2015				outstanding as at December 31, 2016
1.00	July 2016	422,325	-	(422,325)	-	-
1.00	October 2016	25,425	-	-	(25,425)	-
0.92	September 2019	-	96,000	-	-	96,000
0.89	October 2019	-	35,200	-	-	35,200
		<u>447,750</u>	<u>131,200</u>	<u>(422,325)</u>	<u>(25,425)</u>	<u>131,200</u>

  

Exercise price \$	Expiry date	Broker options	Granted	Exercised	Expired	Broker options
		outstanding as at December 31, 2014				outstanding as at December 31, 2015
1.10	July 2015	214,165	-	-	(214,165)	-
1.40	December 2015	130,744	-	-	(130,744)	-
1.00	July 2016	422,325	-	-	-	422,325
1.00	October 2016	25,425	-	-	-	25,425
		<u>792,659</u>	<u>-</u>	<u>-</u>	<u>(344,909)</u>	<u>447,750</u>

**15. DEFERRED TAXES**

In 2016, the Company recorded a deferred income tax liability of \$2,242,252 with respect to Quebec mining duties and a corresponding deferred tax expense in the consolidated statements of loss for the year ended December 31, 2016.

The major components of deferred income tax recovery are as follows:

	2016 \$	2015 \$
Deferred tax recovery relating to the origination and reversal of temporary differences	125,790	(84,677)
<b>Total deferred income tax recovery</b>	<u>125,790</u>	<u>(84,677)</u>

The Company's income tax provision consists of the following:

	2016 \$	2015 \$
Loss before income taxes	(3,049,377)	(4,062,423)
Income tax computed at Canadian statutory rate of 26.9%	(820,282)	(1,092,792)
Non-deductible expenses	107,718	177,839
Income tax benefit of mining duties	(33,838)	(6,745)
Book-to-tax	(36,325)	-
Unrecognized tax benefits	782,727	752,533
Adjustments from prior years	-	4,517
Expired losses	-	53,655
Quebec mining duty tax	125,790	25,075
Other	-	1,241
Income tax expense	<u>125,790</u>	<u>(84,677)</u>
Income tax expense		
Current		
Deferred	<u>125,790</u>	<u>(84,677)</u>

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The analysis of deferred income tax assets and liabilities as at December 31, 2016 is as follows:

	2015 \$	Loss \$	2016 \$
<b>Deferred income tax assets</b>			
Non-capital losses carried forward	6,588,439	838,906	7,427,345
	<u>6,588,439</u>	<u>838,906</u>	<u>7,427,345</u>
<b>Deferred income tax liabilities</b>			
Exploration and evaluation assets	(6,588,439)	(838,906)	(7,427,345)
Mining duties tax	(2,040,216)	(125,790)	(2,166,006)
Tax on investment property – outfitter	(44,506)	(31,740)	(76,246)
	<u>(8,673,161)</u>	<u>996,436</u>	<u>(9,669,597)</u>
<b>Total deferred income tax liabilities</b>	<u>(2,084,722)</u>		<u>(2,242,252)</u>

The ability to realize the tax benefits is dependent upon a number of factors, including the future profitability of operations. Deferred tax assets are recognized only to the extent that it is probable that sufficient taxable profits will be available to allow the asset to be recovered. Accordingly, some deferred tax assets have not been recognized; these deferred tax assets not recognized amount to \$7,247,345.

As at December 31, the Company had unrecognized deferred tax assets as follows:

	2016 \$	2015 \$
Non-capital losses carried forward	3,680,972	3,544,356
Mining properties	834,990	439,358
Non-refundable tax credits	465,169	462,638
Income tax benefit of mining duties	573,992	548,818
Share issue costs	81,307	154,027
Other assets	511,537	196,920
	<u>6,147,967</u>	<u>5,346,117</u>

As at December 31, 2016, the Company had accumulated non-capital losses for Federal tax purposes of approximately \$44,579,972 (\$40,294,488 in 2015) which can be used to reduce taxable income in future years as follows:

The Company has accumulated non-capital losses for income tax purposes as at December 31, 2016.

These losses will expire as follows:

	Federal \$	Provincial \$
2026	357,018	140,186
2027	554,979	206,152
2028	829,462	-
2029	623,080	264,454
2030	623,519	568,161
2031	1,259,966	-
2032	4,279,969	1,736,553
2033	14,892,530	14,782,740
2034	9,835,644	9,712,235
2035	6,272,264	6,073,884
2036	5,051,541	4,961,904
	<u>44,579,972</u>	<u>38,446,269</u>

\* The deferred income tax on non-capital losses has been partially recorded.

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The Company has also accumulated capital losses for tax purposes of approximately \$0 (\$0 in 2015), and these losses can be carried forward indefinitely.

The Company is subject to federal and provincial income taxes and provincial mining taxes. Tax laws are complex and can be subject to different interpretations. The Company has prepared its tax provision based on the interpretation of tax laws which it believes represents the probable outcome. The Company may be required to change its provision for income taxes if the tax authorities ultimately are not in agreement with the Company's interpretation.

**16. SUPPLEMENTARY INFORMATIONS RELATED TO CASH FLOWS**

Net change in non-cash working capital items	<b>2016</b>	<b>2015</b>
	\$	\$
Receivable and other current assets	(56,617)	(12,887)
Sales taxes receivable	38,115	83,555
Accounts payable and accrued liabilities	(589,752)	(702,229)
Provision	-	(50,000)
	<u>(608,254)</u>	<u>(681,561)</u>

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

	<b>2016</b>	<b>2015</b>
	\$	\$
Addition to exploration and evaluation assets not yet paid	145,574	721,961
Addition to property, plant and equipment not yet paid	709,650	-
Transaction costs not yet paid	-	52,216

**17. RELATED PARTY TRANSACTIONS**

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

	<b>2016</b>	<b>2015</b>
	\$	\$
<b>Key management compensation</b> <sup>(1)</sup>		
Share-based compensation	115,422	279,872
Management fees	52,500	113,717
	<u>167,922</u>	<u>393,589</u>
Salaries and benefits <sup>(2)</sup>	377,280	633,352
	<u>545,202</u>	<u>1,026,941</u>
Balance included in accounts payable and accrued liabilities	<u>-</u>	<u>6,250</u>

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

(2) Salaries and benefits capitalized to exploration and evaluation assets amount to \$204,015 (\$128,169 in 2015).

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 December 31, 2016, the Company would have had to pay a total amount of \$600,000 as severance. If a change of control had occurred on December 31, 2016, the total amounts payable to the executive team in respect of severance would have totaled \$950,000 (assuming they left after a change of control and each named executive opted to receive such compensation). If the assets of the company had been sold to an "arm's length entity" on December 31, 2016, the total amounts payable to the executive team in respect of severance would have totaled \$1,200,000 (assuming they left after a change of control and each named executive opted to receive such compensation).

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

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**18. COMMITMENTS**

- a) The Company granted the Lender of the August, 2012 credit line a royalty of \$1 per ton of phosphate concentrate sales from the Lac à Paul project. This royalty may be redeemed at any time through a lump-sum payment of \$6 million. In July 2013, the Company also granted the Lender of the second credit line a royalty of \$0.25 per ton of phosphate concentrate sales from the Lac à Paul project. This royalty may be redeemed at any time through a lump-sum payment of \$1.5 million. These royalties will have to be redeemed by the Company for the same amount in the event of a change of control where at least 90% of the issued and outstanding shares of the Company are acquired, purchased or held by a third party, either through a tender offer or other transaction with the same result. The Company also has granted to other parties a 2.25% royalty on the net smelter return. The royalty may be redeemed at any time through a lump-sum payment of \$2.5 million.
- b) The Company granted contracts in relation to the development of the Lac à Paul project for a total of \$523,400. These contracts do not have termination dates and disbursements will be made in accordance with the project's milestones.
- c) The Company's future minimum operating lease payments for the rent in Chicoutimi office, trucks rental and Lac à Paul camp are as follows:

	Within 1 year	1 to 5 years	After 5 years	Total
December 31, 2016	119,682	68,975	-	188,657

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

**20. FINANCIAL INSTRUMENTS AND FINANCIAL RISKS**

**Classification**

The Company's financial instruments as at December 31, 2016 and 2015 consist of cash and cash equivalents, receivable and other current assets, accounts payable and accrued liabilities, loan payable and credit line. The fair value of these financial instruments approximates their carrying value due to their short-term maturity, to current market rates or they bear interest at variable rates.

The classification of financial instruments is summarized as follows:

		As at December 31, 2016 \$	Carrying value As at December 31, 2015 \$
<b>Financial assets</b>			
Cash and cash equivalents	Loans and receivables	2,229,044	91,920
		<u>2,229,044</u>	<u>91,920</u>
<b>Financial liabilities</b>			
Accounts payable and accrued liabilities	Financial liabilities at amortized cost	1,976,203	1,672,540
Loan	Financial liabilities at amortized cost	3,551,692	-
Credit line	Financial liabilities at amortized cost	17,396,288	12,561,084
		<u>22,924,183</u>	<u>14,233,624</u>

The Company defines the fair value hierarchy under which its financial instruments are valued as follows: level 1 includes unadjusted quoted prices in active markets for identical assets or liabilities; level 2 includes inputs other than quoted prices in level 1 that are observable for assets or liabilities, either directly or indirectly; and level 3 includes inputs for the asset or liability that are not based on observable market data. Marketable securities were considered a level 1. There was no transfer of hierarchy level during the years ended December 31, 2016 and 2015.

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**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 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.

**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 December 31, 2016, the Company had cash and cash equivalents of \$2,229,044 (\$91,920 as at December 31, 2015) to settle current liabilities of \$19,372,491 (\$1,672,540 as at December 31, 2015). 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 December 31, 2016:

	Carrying amount \$	Contractual cash flows \$	0 to 12 months \$	12 to 24 months \$	More than 24 months \$
Accounts payable and accrued liabilities	1,976,203	1,976,203	1,976,203	-	-
Loan	3,551,692	4,432,625	323,255	328,000	5,083,879
Credit line	17,396,288	20,562,518	20,562,518	-	-

**Interest rate risk**

According to the third non-revolving credit line and amendments made to the first and second credit lines dated October 20, 2015, the interest rate has been modified from a variable to fixed rate and therefore, the Company has no interest rate risk as at December 31, 2016. 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 December 31, 2016, 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
Loan	Fixed interest rate

**Currency risk**

As at December 31, 2016, the Company has a bank account in US dollars for an amount of \$89,366 (\$951 in 2015). The Company estimates that a variation of  $\pm 10\%$  in exchange rates on that date would have resulted in a variation of approximately \$8,936 in 2016 (\$95 in 2015) in net loss.

**21. POLICIES AND PROCESSES FOR MANAGING CAPITAL**

As at December 31, 2016, the capital of the Company consists of equity amounting to \$26,256,396 (\$27,941,353 in 2015). The Company's capital management objective is to have sufficient capital to be able to meet its exploration, mining development plan and permitting in order to ensure the growth of its activities. It also has the objective to have sufficient cash to finance the exploration and evaluation expenditures, the investing activities and the working capital requirements. The variation of capital components is explained in the consolidated statements of changes in equity.

There were no significant changes in the Company's approach to capital management during the year ended December 31, 2016.



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**22. EVENTS AFTER THE REPORTING PERIOD**

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In January 2017, 1,217,500 shares purchase warrants issued to shareholders on July 30, 2013 has been extended. Effective as of January 27, 2017, the warrants have been extended for a 12-month period and will expire on January 27, 2018.

In March 2017, the Company received a notice from Revenu Quebec for the tax credit related to resources and mining rights related to the year 2014. The company will receive \$192,856 and \$399,327.