

**ARIANNE PHOSPHATE INC.  
CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS  
(UNAUDITED)  
SIX-MONTHS PERIOD ENDED JUNE 30, 2016 AND JUNE 30, 2015  
(in Canadian dollars)**



Condensed consolidated interim financial statements for the six months period ended June 30, 2016 haven't been reviewed by the auditors.

# ARIANNE PHOSPHATE INC.

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

	As at June 30, 2016	As at December 31, 2015
	\$	\$
<b>ASSETS</b>		
<b>Current assets</b>		
Cash and cash equivalents (note 3)	212,611	91,920
Receivables and other current assets	69,465	76,760
Sales taxes receivable	168,993	109,528
Tax credit related to resources and mining tax credit receivable	1,351,926	1,106,305
	<u>1,802,995</u>	<u>1,384,513</u>
<b>Non-current assets</b>		
Tax credit related to resources and mining tax credit receivable	207,456	392,589
Investment property – Outfitters	348,252	363,719
Property, plant and equipment (note 5)	250,368	281,817
Intangible assets (note 6)	100,301	117,018
Mining properties (note 7)	1,245,640	1,217,177
Exploration and evaluation assets (note 8)	43,000,861	40,502,866
	<u>45,152,878</u>	<u>42,875,186</u>
<b>Total assets</b>	<u><u>46,955,873</u></u>	<u><u>44,259,699</u></u>
<b>LIABILITIES</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities	2,045,325	1,672,540
	<u>2,045,325</u>	<u>1,672,540</u>
<b>Non-current liabilities</b>		
Credit line (note 9)	15,946,107	12,561,084
Deferred income taxes	2,095,043	2,084,722
<b>Total liabilities</b>	<u>20,086,475</u>	<u>16,318,346</u>
<b>Equity</b>		
Capital stock	54,288,743	53,977,978
Warrants	1,942,622	1,957,387
Contributed surplus	11,592,850	11,344,855
Deficit	(40,954,817)	(39,338,867)
<b>Total equity</b>	<u>26,869,398</u>	<u>27,941,353</u>
<b>Total liabilities and equity</b>	<u><u>46,955,873</u></u>	<u><u>44,259,699</u></u>
<b>GOING CONCERN</b> (note 1)		
<b>COMMITMENTS</b> (note 13)		
<b>SUBSEQUENT EVENT</b> (note 16)		

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

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

(s) James Cowley, CFO

# ARIANNE PHOSPHATE INC.

## CONSOLIDATED INTERIM STATEMENTS OF LOSS AND COMPREHENSIVE LOSS FOR SIX MONTHS PERIOD ENDED JUNE 30

(In Canadian dollars)

	Three months period ended June 30, 2016	Three months period ended June 30, 2015	Six months period ended June 30, 2016	Six months period ended June 30, 2015
	\$	\$	\$	\$
<b>EXPENSES</b>				
Salaries and fringe benefits	384,830	403,614	709,319	779,458
Share-based compensation	109,710	205,188	247,995	405,372
Professional and consultant fees	57,767	134,655	241,763	195,968
Management fees	6,250	65,450	12,500	88,375
Registration and listing fees	7,930	15,115	50,630	53,161
Annual general meeting	34,879	38,419	34,879	38,419
Communications	41,110	86,895	98,626	144,132
Promotion, representation and travel	39,604	71,074	60,717	114,220
Insurance	9,078	11,382	19,992	24,081
Rent and office expenses	42,385	40,683	76,884	79,013
Bank charges	2,059	2,047	5,458	8,162
Depreciation of property, plant and equipment	11,398	14,350	22,797	28,700
<b>Operating loss</b>	<u>747,000</u>	<u>1,088,872</u>	<u>1,581,560</u>	<u>1,959,061</u>
<b>OTHER EXPENSES (INCOME)</b>				
Interest income	(117)	(7,023)	(259)	(26,300)
Foreign exchange (gain) loss	(555)	3,967	(2,313)	1,841
Net loss of investment property – Outfitters (Note 4)	9,366	35,169	26,642	58,110
	<u>8,694</u>	<u>32,113</u>	<u>24,070</u>	<u>33,651</u>
<b>LOSS BEFORE INCOME TAXES</b>	<u>755,694</u>	<u>1,120,985</u>	<u>1,605,630</u>	<u>1,992,712</u>
Deferred income taxes	10,321	17,210	10,321	36,683
<b>NET LOSS FOR THE PERIOD</b>	<u>766,015</u>	<u>1,138,195</u>	<u>1,615,951</u>	<u>2,029,395</u>
Other comprehensive loss that may be reclassified subsequently to net income:	-	-	-	-
<b>COMPREHENSIVE LOSS FOR THE PERIOD</b>	<u>766,015</u>	<u>1,138,195</u>	<u>1,615,951</u>	<u>2,029,395</u>
<b>BASIC AND DILUTED LOSS PER SHARE</b>	<u>0.01</u>	<u>0.01</u>	<u>0.02</u>	<u>0.02</u>
<b>WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING</b>	<u>97,225,755</u>	<u>95,325,755</u>	<u>96,941,919</u>	<u>95,325,755</u>

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

**ARIANNE PHOSPHATE INC.**  
**CONSOLIDATED INTERIM STATEMENTS OF CHANGES IN EQUITY**  
**FOR SIX MONTH PERIOD ENDED JUNE 30**  
(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 loss and comprehensive loss for the period	-	-	-	-	(1,615,951)	(1,615,951)
Share-based compensation	-	-	-	247,995	-	247,995
Warrants (note 10)	400,000	310,765	(14,765)	-	-	296,000
<b>Balance as at June 30, 2016</b>	<b>97,225,755</b>	<b>54,288,743</b>	<b>1,942,622</b>	<b>11,592,850</b>	<b>(40,954,817)</b>	<b>26,869,398</b>
<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 and comprehensive loss for the period	-	-	-	-	(2,029,395)	(2,029,395)
Share-based compensation	-	-	-	405,372	-	405,372
Value assigned to warrants	-	-	14,765	-	-	14,765
<b>Balance as at June 30, 2015</b>	<b>95,325,755</b>	<b>51,593,734</b>	<b>2,831,134</b>	<b>10,041,596</b>	<b>(37,302,594)</b>	<b>27,163,870</b>

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

**ARIANNE PHOSPHATE INC.**  
**CONSOLIDATED INTERIM STATEMENTS OF CASH FLOWS**  
**FOR SIX MONTH PERIOD ENDED JUNE 30**  
(In Canadian dollars)

	<b>2016</b>	<b>2015</b>
	\$	\$
<b>CASH FLOW FROM (USED IN)</b>		
<b>OPERATING ACTIVITIES</b>		
Net loss for the period	(1,615,951)	(2,029,395)
Adjustments for:		
Share-based payments	247,995	405,372
Depreciation – Investment property - Outfitters	15,467	18,407
Depreciation – Property, plant and equipment	22,797	28,700
Deferred income taxes	10,321	36,920
Net change in non-cash working capital items (note 11)	(588,384)	(303,361)
	<u>(1,907,755)</u>	<u>(1,843,357)</u>
<b>INVESTING ACTIVITIES</b>		
Tax credit related to resources and mining tax credit received	-	459,871
Acquisition of property, plant and equipment – Outfitters	-	(6,319)
Acquisition of mining properties	(28,463)	(1,270)
Acquisition of exploration and evaluation assets	(676,398)	(1,079,473)
	<u>(704,861)</u>	<u>(627,191)</u>
<b>FINANCING ACTIVITIES</b>		
Proceeds from credit line	2,775,000	-
Transaction cost	(41,693)	-
	<u>2,733,307</u>	<u>-</u>
<b>CHANGE IN CASH AND CASH EQUIVALENTS DURING THE PERIOD</b>	120,691	(2,470,548)
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD</b>	91,920	3,837,720
<b>CASH AND CASH EQUIVALENTS, END OF PERIOD</b>	<u>212,611</u>	<u>1,367,172</u>
Supplementary cash flow information		
Interest received	259	26,300

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



# **ARIANNE PHOSPHATE INC.**

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

(in Canadian dollars)

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

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

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

These condensed consolidated interim financial statements have been prepared on the basis of accounting principles applicable to a going concern, which contemplates the realization of assets and settlement of liabilities in the normal course of business as they come due. In assessing whether the going concern assumption is appropriate, management takes into account all available information about the future, which is at least, but not limited to, 12 months from the end of the reporting period. For the period ended June 30, 2016, the Company recorded a net loss of \$1,615,951 (2015 – \$ 2,029,395) and has an accumulated deficit of \$40,954,817 as at June 30, 2016 (\$39,338,867 as at December 31, 2015). 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 June 30, 2016, the Company had a negative working capital of \$242,330 (negative working capital of \$288,027 as at December 31, 2015), and has an undrawn non-revolving credit line of \$791,887. Management estimates that the working capital will not be sufficient to meet the Company's obligations and budgeted expenditures through June 30, 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 in 2016.

Any funding shortfall may be met in the future in a number of ways including, but not limited to, the issuance of new equity, debt financing or securing capital from potential partners. While management has been successful in securing financing in the past, there can be no assurance that it will be able to do so in the future or that these sources of funding or initiatives will be available to the Company or that they will be available on terms which are acceptable to the Company. If management is unable to obtain new funding, the Company may be unable to continue its operations, and amounts realized for assets might be less than amounts reflected in the condensed consolidated interim financial statements.

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

### **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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These condensed consolidated interim financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") applicable to the preparation of interim financial statements, including IAS 34, Interim Financial Reporting, as issued by the International Accounting Standards Board ("IASB").

The accounting policies followed in these condensed consolidated interim financial statements are consistent with those applied in the Company's annual financial statements for the year ended December 31, 2015. These condensed consolidated interim financial statements should be read in conjunction with the Company annual financial statements for the year ended December 31, 2015 which have been prepared in accordance with IFRS as issued by the IASB.

The Board of Directors approved these condensed consolidated interim financial statements on August 25, 2016.

# ARIANNE PHOSPHATE INC.

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(in Canadian dollars)

### 3. CASH AND CASH EQUIVALENTS

	As at June 30, 2016 \$	As at December 31, 2015 \$
Cash and cash equivalents	<u>212,611</u>	<u>91,920</u>

As at June 30, 2016, cash and cash equivalents comprises cash on hand amounting to \$212,611, not bearing interest. An amount of \$30,000 is restricted in connection with the Company's credit card agreement.

As at December 31, 2015, cash and cash equivalents comprises cash on hand amounting to \$91,920, not bearing interest.

### 4. INVESTMENT PROPERTY – OUTFITTERS

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

	Six-month period ended June 30, 2016 \$	Six-month period ended June 30, 2015 \$
Outfitters income	<u>41,865</u>	<u>40,434</u>
Operating expenses:		
Management fees	18,424	29,779
Repair and maintenance	11,851	12,543
Supplies	6,310	9,555
Advertising, promotion and travel	4,790	17,475
Taxes and licenses	4,391	6,294
Insurance	5,619	4,182
Interest and bank charges	95	72
Depreciation of property, plant and equipment	15,467	18,407
Tax on investment property – outfitter	-	237
Bad debts	<u>1,560</u>	<u>-</u>
	<u>68,507</u>	<u>98,544</u>
Net loss of investment property – Outfitters	<u>26,642</u>	<u>58,110</u>



# ARIANNE PHOSPHATE INC.

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(in Canadian dollars)

### 5. PROPERTY, PLANT AND EQUIPMENT

	Leasehold improvements \$	Tools and equipment \$	Rolling equipment \$	Computer equipment \$	Total \$
<b>Cost</b>					
Balance as at January 1, 2015	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
Balance as at June 30, 2016	305,443	128,740	10,376	11,919	456,478
<b>Accumulated depreciation</b>					
Balance as at January 1, 2015	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	21,648	7,726	926	1,149	31,449
Balance as at June 30, 2016	110,612	84,960	5,128	5,410	206,110
<b>Net book value</b>					
Balance as at January 1, 2015	270,599	73,579	8,820	10,939	363,937
Balance as at December 31, 2015	216,479	51,506	6,174	7,658	281,817
Balance as at June 30, 2016	194,831	43,780	5,248	6,509	250,368

### 6. INTANGIBLE ASSETS

	Intangible assets \$
<b>Cost</b>	
Balance as at January 1, 2015	-
Acquisition	167,168
Balance as at December 31, 2015	167,168
Balance as at June 30, 2016	167,168
<b>Accumulated depreciation</b>	
Balance as at January 1, 2015	16,717
Depreciation	33,433
Balance as at December 31, 2015	50,150
Depreciation	16,717
Balance as at June 30, 2016	66,867
<b>Net book value</b>	
Balance as at January 1, 2015	150,451
Balance as at December 31, 2015	117,018
Balance as at June 30, 2016	100,301

### 7. MINING PROPERTIES

	Royalties (NSR) %	Balance as at December 31, 2015 \$	Additions \$	Impairments \$	Disposal \$	Balance as at June 30, 2016 \$
<b>Properties in Quebec</b>						
Lac à Paul (100%)	2.75	1,217,177	28,463	-	-	1,245,640

# ARIANNE PHOSPHATE INC.

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(in Canadian dollars)

### 8. EXPLORATION AND EVALUATION ASSETS

	Balance as at December 31, 2015 \$	Additions \$	Tax credits \$	Impairments \$	Disposals \$	Balance as at June 30 , 2016 \$
<b>Quebec</b>						
Lac à Paul	40,502,866	2,558,483	(60,488)	-	-	43,000,861

For the six-month periods ended June 30, 2016 and 2015, the following expenses, related to discovery of mineral resources, have been included in the cost of exploration and evaluation assets:

	Six-month period ended June 30, 2016 \$	Six-month period ended June 30, 2015 \$
Camp, travel and lodging and general expenses	76,738	97,973
Chemical analysis	14,220	4,796
Line cutting and geophysics	6,539	-
Planning and supervision	72,500	108,036
Professional fees and independent technical reports	1,467,617	1,020,162
Borrowing costs	895,500	882,858
Depreciation of property, plant and equipment	8,652	12,360
Depreciation of intangible asset	16,717	16,716
	<u>2,558,483</u>	<u>2,142,901</u>
Tax credits related to resources and mining tax credit	(60,488)	(93,808)
	<u>2,497,995</u>	<u>2,049,093</u>
Balance – Beginning of period	40,502,866	36,623,579
Balance – End of period	<u>43,000,861</u>	<u>38,672,672</u>

### 9. CREDIT LINE

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

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

On October 20, 2015, the Company obtained a third non-revolving credit line amounting to \$4,566,887, bearing interest at a fixed rate of 6.25% per annum, to finance exclusively the general and administrative operations and other activities related to the project development for the Lac à Paul project. This credit line will be gradually disbursed until the termination date, December 31, 2017. As at June 30, 2016, the Company drew \$3,775,000 from the credit lines and repaid \$1,616,000 by granting of 1,900,000 shares to the Lender in connection with the warrants exercised. As at June 30, 2016, the Company has an undrawn non-revolving credit line of \$791,887.

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

# ARIANNE PHOSPHATE INC.

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(in Canadian dollars)

The credit line has a current portion of \$15,946,107 at the end of June 30, 2016 (\$12,561,084 as at December 31, 2015).

	Six-month period ended June 30, 2016	As at December 31, 2015
	\$	\$
Balance – Beginning of period	12,561,084	12,605,641
Debt repayment by proceeds from the issuance of shares related to the warrants exercised	(296,000)	(1,320,000)
Proceeds from credit lines	2,775,000	1,000,000
Transaction cost	-	(1,522,945)
Capitalized interests	476,963	867,288
Amortization of transaction costs	429,060	931,100
Balance – End of period	<u>15,946,107</u>	<u>12,561,084</u>

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

#### Stock options

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

During the second quarter of 2016, 575,000 stock options were granted. The fair value of stock options granted amounted to \$254,174 and was estimated using the Black-Scholes pricing model with the following weighted average assumptions:

	Six-month period ended June 30, 2016	Six-month period ended June 30, 2015
Weighted average price of share at time of grant	\$0.90	\$0.88
Weighted average risk-free interest rate	0.82%	1.26%
Weighted average expected volatility	58.4%	81%
Weighted average expected life	4.5 years	6.0 years
Weighted average expected dividend yield	0%	0%
Weighted average fair value of options granted	0.41	0.61

Company stock options were as follows:

	Six-month period ended June 30, 2016		Six-month period ended June 30, 2015	
	Number	Weighted average exercise price \$	Number	Weighted average exercise price \$
<b>Balance – Beginning of period</b>	5,121,167	1.10	6,019,167	1.02
Expired	(96,667)	1.18	(665,000)	1.45
Forfeited	(271,667)	1.03	(41,333)	1.29
Granted	<u>575,000</u>	0.90	<u>510,000</u>	0.85
<b>Balance – End of period</b>	<u>5,327,833</u>	1.09	<u>5,822,834</u>	1.10
Exercisable at the end of the period	<u>3,937,666</u>	1.12	<u>3,350,834</u>	1.12

# ARIANNE PHOSPHATE INC.

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(in Canadian dollars)

### Warrants

	Six-month period ended June 30, 2016	Six-month period ended June 30, 2015
Weighted average price of share at time of grant	-	\$0.74
Weighted average risk-free interest rate	-	0.54%
Weighted average expected volatility	-	53%
Weighted average expected life	-	1 year
Weighted average expected dividend yield	-	0%
Weighted average fair value of options granted	-	0.04

Changes in Company warrants were as follows:

	Six-month period ended June 30, 2016		Six-month period ended June 30, 2015	
	Number	Weighted average exercise price \$	Number	Weighted average exercise price \$
<b>Balance – Beginning of period</b>	13,117,500	1.07	9,217,500	1.24
Granted	-	-	400,000	0.74
Exercised	(400,000)	0.74	-	-
<b>Balance – End of period</b>	12,717,500	1.08	9,617,500	1.22

### Options granted to brokers

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

	Six-month period ended June 30, 2016		Six-month period ended June 30, 2015	
	Number	Weighted average exercise price \$	Number	Weighted average exercise price \$
<b>Balance – Beginning of period</b>	447,750	1.00	792,659	1.09
<b>Balance – End of period</b>	447,750	1.00	792,659	1.09

## 11. SUPPLEMENTARY INFORMATIONS RELATED TO CASH FLOWS

	Six-month period ended June 30, 2016 \$	Six-month period ended June 30, 2015 \$
Net change in non-cash working capital items		
Receivable and other current assets	7,294	(22,571)
Sales taxes receivable	(59,465)	101,377
Grant receivable	-	(12,595)
Accounts payable and accrued liabilities	(536,213)	(319,572)
Provision	-	(50,000)
	(588,384)	(303,361)

# ARIANNE PHOSPHATE INC.

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(in Canadian dollars)

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

	Six-month period ended June 30, 2016 \$	Six-month period ended June 30, 2015 \$
Addition to exploration and evaluation assets not yet paid	961,215	151,495

## 12. RELATED PARTY TRANSACTIONS

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

	Six-month period ended June 30, 2016 \$	Six-month period ended June 30, 2015 \$
<b>Key management compensation <sup>(1)</sup></b>		
Share-based compensation	67,493	311,663
Management fees	-	88,375
	<u>67,493</u>	<u>400,038</u>
Salaries and fringe benefits <sup>(2)</sup>	279,158	388,358
	<u>346,651</u>	<u>788,396</u>
Balance included in accounts payable and accrued liabilities	<u>-</u>	<u>25,750</u>

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

(2) Salaries and fringe benefits capitalized to exploration and evaluation assets amount to \$54,261 (\$51,534 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 June 30, 2016, the Company would have had to pay a total amount of \$600,000 as severance. If a change of control had occurred on June 30, 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).

## 13. COMMITMENTS

- The Company has granted the Lender of the August, 2012 credit line a royalty of \$1 per ton of phosphate concentrate sales from the Lac à Paul project. This royalty may be redeemed at any time through a lump-sum payment of \$6 million. In July 2013, the Company has also granted the Lender of the second credit line a royalty of \$0.25 per ton of phosphate concentrate sales from the Lac à Paul project. This royalty may be redeemed at any time through a lump-sum payment of \$1.5 million. These royalties will have to be redeemed by the Company for the same amount in the event of a change of control where at least 90% of the issued and outstanding shares of the Company are acquired, purchased or held by a third party, either through a tender offer or other transaction with the same result.
- The Company granted contracts in relation to the development of the Lac à Paul project for a total of \$235,999. These contracts do not have termination dates and disbursements will be made in accordance with the project's milestones.
- 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
June 30, 2016	\$97,647	\$127,535	-	225,182\$

## 14. CONTINGENCIES

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

# ARIANNE PHOSPHATE INC.

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(in Canadian dollars)

### 15. FINANCIAL INSTRUMENTS AND FINANCIAL RISKS

#### Classification

The Company's financial instruments as at June 30, 2016 consist of cash and cash equivalents, receivable and other current assets, accounts payable and accrued liabilities 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:

Classification	Carrying value	
	As at June 30, 2016 \$	As at December 31, 2015 \$
<b>Financial assets</b>		
Cash and cash equivalents	Loans and receivables	
	212,611	91,920
	<u>212,611</u>	<u>91,920</u>
<b>Financial liabilities</b>		
Accounts payable and accrued liabilities	Financial liabilities at amortized cost	
	2,045,325	1,672,540
Credit line	Financial liabilities at amortized cost	
	15,946,107	12,561,084
	<u>17,991,432</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 as at June 30, 2016 and December 31, 2015.

#### Financial risks

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

#### Credit risk

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

#### Liquidity risk

Liquidity risk is the risk that the Company will not have sufficient cash resources to meet its financial obligations as they come due. The Company's liquidity and operating results may be adversely affected if the Company's access to the capital market is hindered, whether as a result of a downturn in stock market conditions generally or related to matters specific to the Company. The Company generates cash flows primarily from its financing activities. As at June 30, 2016, the Company had cash and cash equivalents of \$212,611 (\$91,920 as at December 31, 2015) to settle current liabilities of \$2,045,325 (\$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 June 30, 2016:

	Carrying amount \$	Contractual cash flows \$	0 to 12 months \$	12 to 24 months \$	More than 24 months \$
Accounts payable and accrued liabilities	2,045,325	2,045,325	2,045,325	-	-
Credit line	15,946,107	19,537,583	-	19,537,583	-

# **ARIANNE PHOSPHATE INC.**

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

(in Canadian dollars)

### **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, 2015 and June 30, 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.

### **Currency risk**

As at June 30, 2016, the Company has a bank account in US dollars for an amount of \$310 (\$951 as at December 31, 2015). The Company estimates that a variation of  $\pm 10\%$  in exchange rates on that date would have resulted in a variation of approximately \$31 in 2016 (\$95 as at December 31, 2015) in net loss.

### **16. SUBSEQUENT EVENT**

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On July 29, 2016, the Company issued 422,325 shares for a gross proceeds of \$422,325 following the exercise of warrants to Windermere Capital (Canada) Inc..

The Company extended the term of 2,815,500 common share purchase warrants ("Warrants") issued as part of a private placement which was closed on July 31, 2014. Each of the Warrants entitles its holder to purchase one common share of the Company at an exercise price of \$ 1.25 per common share until July 31, 2016. The Company has elected to extend the expiry date of the Warrants to July 31, 2017. No other Warrant terms were amended.