

**ARIANNE PHOSPHATE INC.
CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
(UNAUDITED)
NINE MONTHS PERIODS ENDED SEPTEMBRE 30, 2015 AND SEPTEMBER 30, 2014
(in Canadian dollars)**



Condensed consolidated interim financial statements for the nine month period ended September 30, 2015 haven't been reviewed by the auditors.

ARIANNE PHOSPHATE INC.

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ARIANNE PHOSPHATE INC.

CONSOLIDATED INTERIM STATEMENTS OF FINANCIAL POSITION AS AT SEPTEMBER 30, 2015 (In Canadian dollars)

	September 30, 2015	December 31, 2014
	\$	\$
ASSETS		
Current assets		
Cash and cash equivalents (note 3)	255,559	3,837,720
Receivables and other current assets	71,976	63,872
Sales taxes receivable	149,162	193,083
Grant receivable	12,595	-
Tax credit related to resources and mining tax credit receivable	-	309,954
	<u>489,292</u>	<u>4,404,629</u>
Non-current assets		
Tax credit related to resources and mining tax credit receivable	1,466,928	1,501,843
Investment property – Outfitters	373,368	394,530
Property, plant and equipment (note 5)	302,347	363,937
Intangible assets (note 6)	125,377	150,451
Mining properties	1,217,177	1,215,907
Exploration and evaluation assets (note 7)	39,223,214	36,623,579
	<u>42,708,411</u>	<u>40,250,247</u>
Total assets	<u>43,197,703</u>	<u>44,654,876</u>
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities	850,977	1,191,290
Provision	-	50,000
Current portion of the credit line (note 8)	13,911,749	12,605,641
	<u>14,762,726</u>	<u>13,846,931</u>
Non-current liabilities		
Deferred income taxes	2,054,384	2,034,817
Total liabilities	<u>16,817,110</u>	<u>15,881,748</u>
Equity		
Capital stock	51,593,734	51,593,734
Warrants	2,907,076	2,816,369
Contributed surplus	10,237,335	9,636,224
Deficit	(38,357,552)	(35,273,199)
Total equity	<u>26,380,593</u>	<u>28,773,128</u>
Total liabilities and equity	<u>43,197,703</u>	<u>44,654,876</u>
GOING CONCERN (note 1)		
COMMITMENTS (note 12)		
SUBSEQUENT EVENT (note 15)		

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

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

(s) James Cowley, CFO

ARIANNE PHOSPHATE INC.
CONSOLIDATED INTERIM STATEMENTS OF LOSS
(In Canadian dollars)

	Three month period ended September 30, 2015	Three month period ended September 30, 2014	Nine month period ended September 30, 2015	Nine month period ended September 30, 2014
	\$	\$	\$	\$
EXPENSES				
Salaries and fringe benefits	286,512	391,947	1,065,973	1,247,159
Share-based compensation	129,929	135,235	535,301	733,482
Professional and consultant fees	273,376	160,813	469,343	722,604
Management fees	12,842	65,000	101,217	220,000
Registration and listing fees	6,871	9,282	60,031	56,944
Annual general meeting	-	64,881	41,601	78,118
Communications	74,441	92,538	218,572	355,848
Promotion, representation and travel	44,318	87,762	155,358	295,959
Insurance	11,452	13,251	35,533	36,603
Rent and office expenses	41,860	49,320	120,872	171,495
Bank charges	1,750	1,365	9,912	7,616
Gain on disposal of mining properties	-	-	-	(180,000)
Depreciation of property, plant and equipment and intangible assets	14,350	9,464	43,050	30,543
Operating loss	897,701	1,080,858	2,856,763	3,776,372
OTHER EXPENSES (INCOME)				
Interest income	(1,776)	(9,783)	(28,076)	(50,855)
Interest expense	-	213,032	-	610,052
Finance expenses	-	1,675	-	97,604
Foreign exchange loss	1,978	1,837	3,819	2,593
Gain on disposal of marketable securities	-	(14,100)	-	(14,100)
Net loss of investment property – Outfitters (Note 4)	32,656	12,590	90,765	99,161
	32,858	205,251	66,508	744,455
LOSS BEFORE INCOME TAXES	930,559	1,286,109	2,923,271	4,520,827
Deferred income taxes (recovery)	(17,353)	(25,901)	19,330	(217,719)
NET LOSS FOR THE PERIOD	913,206	1,260,208	2,942,601	4,303,108
BASIC AND DILUTED LOSS PER SHARE	0.01	0.01	0.03	0.05
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING	95,325,755	92,956,755	95,325,755	92,956,755

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

ARIANNE PHOSPHATE INC.

CONSOLIDATED INTERIM STATEMENTS OF COMPREHENSIVE LOSS

(in Canadian dollars)

	Three month period ended September 30, 2015	Three month period ended September 30, 2014	Nine month period ended September 30, 2015	Nine month period ended September 30, 2014
NET LOSS FOR THE PERIOD	\$ 913,206	\$ 1,260,208	\$ 2,942,601	\$ 4,303,108
Other comprehensive loss that may be reclassified subsequently to net income:				
Changes in fair value of available-for-sale financial assets	-	(14,100)	-	(14,100)
Reclassification from accumulated other comprehensive loss related to marketable securities sold	-	14,100	-	14,100
COMPREHENSIVE LOSS FOR THE PERIOD	913,206	1,260,208	2,942,601	4,303,108

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

ARIANNE PHOSPHATE INC.
CONSOLIDATED INTERIM STATEMENTS OF CHANGES IN EQUITY
(in Canadian dollars)

	Capital stock	Capital stock	Warrants	Contributed surplus	Accumulated other comprehensive loss	Deficit	Total equity
	common shares	\$	\$	\$	\$	\$	\$
Balance as at January 1, 2015	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	-	-	-	-	-	(2,942,601)	(2,942,601)
Share-based compensation	-	-	-	535,301	-	-	535,301
Options granted to brokers expired	-	-	(65,810)	65,810	-	-	-
Modification of warrants(note 9)	-	-	141,752	-	-	(141,752)	-
Value assigned to warrants	-	-	14,765	-	-	-	14,765
Balance as at September 30, 2015	95,325,755	51,593,734	2,907,076	10,237,335	-	(38,357,552)	26,380,593
Balance as at January 1, 2014	85,185,255	40,721,138	3,794,144	8,512,398	-	(28,943,907)	24,083,773
Net loss for the period	-	-	-	-	-	(4,303,108)	(4,303,108)
Changes in fair value of available for-sale financial assets	-	-	-	-	(14,100)	-	(14,100)
Reclassification from accumulated other comprehensive loss related to marketable securities sold	-	-	-	-	14,100	-	14,100
Comprehensive loss for the period	-	-	-	-	-	(4,303,108)	(4,303,108)
Share-based compensation	-	-	-	733,482	-	-	733,482
Stock options exercised	580,000	257,750	-	(127,250)	-	-	130,500
Warrants exercised	1,472,500	2,755,778	(929,878)	-	-	-	1,825,900
Warrants expired	-	-	(311,237)	311,237	-	-	-
Options granted to brokers exercised	88,000	122,408	-	(41,448)	-	-	80,960
Options granted to brokers	-	-	-	72,334	-	-	72,334
Private placement	5,631,000	5,631,000	-	-	-	-	5,631,000
Share issuance expenses	-	-	-	-	-	(528,041)	(528,041)
Value assigned to warrants	-	(182,709)	182,709	-	-	-	-
Deferred income tax	-	-	-	(24,254)	-	-	(24,254)
Balance as at September 30, 2014	92,956,755	49,305,365	2,735,738	9,436,499	-	(33,775,056)	27,702,546

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

ARIANNE PHOSPHATE INC.
CONSOLIDATED INTERIM STATEMENTS OF CASH FLOWS
(In Canadian dollars)

	Nine-month period ended September 30, 2015	Nine-month period ended September 30, 2014
	\$	\$
CASH FLOW FROM (USED IN)		
OPERATING ACTIVITIES		
Net loss for the period	(2,942,601)	(4,303,108)
Adjustments for:		
Share-based payments	535,301	733,482
Depreciation – Investment property - Outfitters	27,768	34,885
Depreciation – Property, plant and equipment	43,050	30,543
Finance expenses	-	95,929
Gain on disposal of mining properties	-	(180,000)
Gain on disposal of marketable securities	-	(14,100)
Deferred income taxes (recovery)	19,567	(217,719)
	<u>(2,316,915)</u>	<u>(3,820,088)</u>
Net change in non-cash working capital items (note 10)	(457,479)	204,447
	<u>(2,774,394)</u>	<u>(3,615,641)</u>
INVESTING ACTIVITIES		
Tax credit related to resources and mining tax credit received	459,871	1,378,008
Acquisition of property, plant and equipment	-	(389,156)
Acquisition of property, plant and equipment – Outfitters	(6,319)	-
Acquisition of mining properties	(1,270)	(30,385)
Proceeds from disposal of marketable securities	-	194,100
Acquisition of exploration and evaluation assets	(1,260,049)	(6,085,762)
	<u>(807,767)</u>	<u>(4,933,195)</u>
FINANCING ACTIVITIES		
Reimbursement of loan	-	(1,500,000)
Proceeds from the issuance of shares	-	7,668,360
Share issuance expenses	-	(455,707)
	<u>-</u>	<u>5,712,653</u>
CHANGE IN CASH AND CASH EQUIVALENTS DURING THE PERIOD	<u>(3,582,161)</u>	<u>(2,836,183)</u>
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	<u>3,837,720</u>	<u>6,896,331</u>
CASH AND CASH EQUIVALENTS, END OF PERIOD	<u>255,559</u>	<u>4,060,148</u>
Supplementary cash flow information (note 10)		
Interest received	28,076	49,642
Interest paid	-	397,021

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

ARIANNE PHOSPHATE INC.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

September 30, 2015 AND 2014

(in Canadian dollars)

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

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 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 September 30, 2015, the Company recorded a net loss of \$2,942,601 (2014 – \$4,303,108) and has an accumulated deficit of \$38,357,552 as at September 30, 2015 (\$35,273,199 as at December 31, 2014). In addition to ongoing working capital requirements, the Company must secure sufficient funding to meet its obligations and pay general and administration costs.

As at September 30, 2015, the Company had a negative working capital of \$14,273,434 (negative working capital of \$9,442,302 as at December 31, 2014). Management estimates that the working capital will not be sufficient to meet the Company's obligations and budgeted expenditures through the end of 2016, refer to the note 15. 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.

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 extending the term of the credit line arrangement. 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

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, 2014, except as described below. These condensed consolidated interim financial statements should be read in conjunction with the Company annual financial statements for the year ended December 31, 2014 which have been prepared in accordance with IFRS as issued by the IASB.

Taxes on income in the interim periods are accrued using the tax rate that would be applicable to expected total annual profit or loss.

The Board of Directors approved these condensed consolidated interim financial statements on November 17, 2015.

ARIANNE PHOSPHATE INC.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

September 30, 2015 AND 2014

(in Canadian dollars)

3. CASH AND CASH EQUIVALENTS

	Nine-month period ended September 30, 2015	Twelve-month period ended December 31, 2014
	\$	\$
Cash and cash equivalents	<u>255,559</u>	<u>3,837,720</u>

As at September 30, 2015, cash and cash equivalents include cash on hand amounting to \$282,679 bearing interest at a fixed rate 0.70% and bank indebtedness amounting to \$(52,463) not bearing interest. Bank indebtedness consists solely of outstanding cheques.

4. INVESTMENT PROPERTY – OUTFITTERS

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

	Nine-month period ended September 30, 2015	Nine-month period ended September 30, 2014
	\$	\$
Outfitters income	<u>65,236</u>	<u>58,206</u>
Operating expenses:		
Salary and fringe benefits	43,044	-
Management fees	18,408	98,995
Repair and maintenance	18,507	7,500
Supplies	13,777	412
Advertising, promotion and travel	18,743	700
Taxes and licenses	9,128	5,783
Insurance	6,272	7,471
Interest and bank charges	117	225
Depreciation of property, plant and equipment	27,768	34,885
		1,396
Tax on investment property – outfitter	<u>237</u>	<u>-</u>
	<u>156,001</u>	<u>157,367</u>
Net loss of investment property – Outfitters	<u>90,765</u>	<u>99,161</u>

ARIANNE PHOSPHATE INC.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

September 30, 2015 AND 2014

(in Canadian dollars)

5. PROPERTY, PLANT AND EQUIPMENT

	Leasehold improvements \$	Tools and equipment \$	Rolling equipment \$	Computer equipment \$	Total \$
Cost					
Balance as at January 1, 2014	15,571	98,529	-	-	114,100
Acquisition	289,872	30,211	10,376	11,919	342,378
Balance as at December 31, 2014	305,443	128,740	10,376	11,919	456,478
Balance as at September 30, 2015	305 443	128 740	10 376	11 919	456 478
Accumulated depreciation					
Balance as at January 1, 2014	1,426	30,101	-	-	31,527
Depreciation	33,418	25,060	1,556	980	61,014
Balance as at December 31, 2014	34,844	55,161	1,556	980	92,541
Depreciation	40,590	16,555	1,984	2,461	61,590
Balance as at September 30, 2015	75,434	71,716	3,540	3,441	154,131
Net book value					
Balance as at January 1, 2014	14,145	68,428	-	-	82,573
Balance as at December 31, 2014	270,599	73,579	8,820	10,939	363,937
Balance as at September 30, 2015	230,009	57,024	6,836	8,478	302,347

6. INTANGIBLE ASSETS

	Intangible assets \$
Cost	
Balance as at January 1, 2014	-
Acquisition	167,168
Balance as at December 31, 2014	167,168
Balance as at September 30, 2015	167,168
Accumulated depreciation	
Balance as at January 1, 2014	-
Depreciation	16,717
Balance as at December 31, 2014	16,717
Depreciation	25,074
Balance as at September 30, 2015	41,791
Net book value	
Balance as at January 1, 2014	-
Balance as at December 31, 2014	150,451
Balance as at September 30, 2015	125,377

ARIANNE PHOSPHATE INC.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

September 30, 2015 AND 2014

(in Canadian dollars)

7. EXPLORATION AND EVALUATION ASSETS

	Balance as at December 31, 2014	Additions	Tax credits	Impairments	Disposals	Balance as at September 30, 2015
	\$	\$	\$	\$	\$	\$
Quebec						
Lac à Paul	36,623,579	2,714,637	(115,002)	-	-	39,223,214

For the nine-month periods ended September 30, 2015 and 2014, the following expenses, related to discovery of mineral resources, have been included in the cost of exploration and evaluation assets:

	Nine-month period ended September 30, 2015	Nine-month period ended September 30, 2014
	\$	\$
Drilling	-	600,227
Stripping and road repairs	-	276,146
Camp, travel and lodging and general expenses	141,023	561,277
Chemical analysis	4,796	204,989
Line cutting and geophysics	-	129,092
Planning and supervision	137,563	467,242
Professional fees and independent technical reports	1,066,767	4 398,870
Borrowing costs	1,320,874	760,523
Depreciation of property, plant and equipment	18,540	19,964
Depreciation of intangible asset	25,074	-
	2,714,637	7 418,330
Tax credits related to resources and mining tax credit	(115,002)	-
	2,599,635	7 418,330
Balance – Beginning of period	36,623,579	27 238,956
Balance – End of period	39,223,214	34 657,286

8. CREDIT LINE

In August 2012, the Company entered into an agreement to obtain a non-revolving credit line for an authorized amount of \$10 million to finance a feasibility study for the Lac à Paul property and to cover the general and administrative expenditures related to this property.

On July 29, 2013, the Company obtained a second non-revolving credit line amounting to \$2,500,000. Terms and conditions are essentially the same as those in the August 2012 credit line of \$10,000,000.

The credit lines and all unpaid interest will be repayable in full on the earlier of the following dates: (a) December 31, 2015; (b) the date 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.

In March 2015, the Company issued 400,000 warrants to Mercury Financing Corp. (the "Lender"). The Warrants were issued in relation to an agreement with the Lender to defer interest payments on the credit lines (the "Agreement"). The Agreement provides for the deferral of approximately \$600,000 in interest payable to the Lender until maturity of the credit lines in 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.

The credit line has a current portion of \$13,911,749 at the end of September 30, 2015 (\$12,605,641 as at December 31, 2014), refer to the note 15.

ARIANNE PHOSPHATE INC.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

September 30, 2015 AND 2014

(in Canadian dollars)

	Nine-month period ended September 30, 2015 \$	Nine-month period ended September 30, 2014 \$
Balance – Beginning of period	12,605,641	11,399,817
Capitalized interests	635,866	39,886
Amortization of transaction costs	670,242	720,637
Balance – End of period	<u>13,911,749</u>	<u>12,160,340</u>

9. 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 third quarter of 2015, 35,000 stock options were granted totalising 545,000 stock options during 2015 (595,000 in 2014). The fair value of stock options granted amounted to \$20,237 for the third quarter and a total for this year of \$311,703 (\$410,502 in 2014). The fair value was estimated using the Black-Scholes pricing model with the following weighted average assumptions:

	Nine-month period ended September 30, 2015	Nine-month period ended September 30, 2014
Weighted average price of share at time of grant	\$0.88	\$1.19
Weighted average risk-free interest rate	1.25%	1.60%
Weighted average expected volatility	81%	70%
Weighted average expected life	6.0 years	4.5 years
Weighted average expected dividend yield	0%	0%
Weighted average fair value of options granted	0.61	0.63

Company stock options were as follows:

	Nine-month period ended September 30, 2015		Nine-month period ended September 30, 2014	
	Number	Weighted average exercise price \$	Number	Weighted average exercise price \$
Balance – Beginning of period	6,019,167	1.02	6,165,000	1.10
Expired	(965,000)	1.36	(610,000)	1.31
Forfeited	(316,333)	1.04	(266,667)	1.11
Granted	545,000	0.85	595,000	1.30
Exercised	-	-	(580,000)	0.23
Balance – End of period	<u>5,282,834</u>	1.10	<u>5,303,333</u>	1.19
Exercisable at the end of the period	<u>3,050,834</u>	1.12	<u>3,558,333</u>	1.16

ARIANNE PHOSPHATE INC.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

September 30, 2015 AND 2014

(in Canadian dollars)

Warrants

In March 2015, 400,000 warrants were granted. The fair value of warrants granted amounted to \$14,765 and was estimated using the Black-Scholes pricing model with the following weighted average assumptions:

	Nine- month period ended September 30, 2015	Nine-month period ended September 30, 2014
Weighted average price of share at time of grant	\$0.74	\$0.932
Weighted average risk-free interest rate	0.54%	1.10%
Weighted average expected volatility	53%	43%
Weighted average expected life	1 year	2 years
Weighted average expected dividend yield	0%	0%
Weighted average fair value of warrants granted	\$0.04	\$0.068

Changes in Company warrants were as follows:

	Nine- month period ended September 30, 2015		Nine-month period ended September 30, 2014	
	Number	Weighted average exercise price \$	Number	Weighted average exercise price \$
Balance – Beginning of period	9,217,500	1.24	7,440,500	1.24
Granted	400,000	0.74	2,815,500	1.25
Exercised	-	-	(1,472,500)	1.24
Expired	-	-	(750,500)	1.21
Balance – End of period	9,617,500	1.22	8,033,000	1.24

Modification of warrants

In July 2015, the Company amended the terms and conditions of the 1,217,500 warrants granted during the year ended as at December 31, 2013. Initially each warrants entitled its holder to acquire one common share at a price of \$1.45 per share for a period of two years ending in July 2015. These warrants were amended in July 2015 to extended their expiration date to January 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 \$141,752 considering the fair value of the original warrants existing on the date of the amendment, according to the Black & Scholes model and the following assumptions: expected dividend per share of nil, expected volatility of 61%, a risk free interest rate of 0.43% and an expected maturity of 1.5 years.

Options granted to brokers

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

	Nine- month period ended September 30, 2015		Nine-month period ended September 30, 2014	
	Number	Weighted average exercise price \$	Number	Weighted average exercise price \$
Balance – Beginning of period	792,659	1.09	432,909	1.15
Granted	-	-	422,325	1.00
Exercised	-	-	(88,000)	0.92
Expired	(214,165)	1.10	-	-
Balance – End of period	578,494	1.09	767,234	1.15

ARIANNE PHOSPHATE INC.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

September 30, 2015 AND 2014

(in Canadian dollars)

10. SUPPLEMENTARY INFORMATIONS RELATED TO CASH FLOWS

	Nine- month period ended September 30, 2015 \$	Nine-month period ended September 30, 2014 \$
Net change in non-cash working capital items		
Receivable and other current assets	(8,870)	76,143
Sales taxes receivable	44,400	17,330
Grant receivable	(12,595)	-
Accounts payable and accrued liabilities	(430,414)	110,974
Provision	(50,000)	-
	<u>(457,479)</u>	<u>204,447</u>

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

	Nine- month period ended September 30, 2015 \$	Nine-month period ended September 30, 2014 \$
Addition to exploration and evaluation assets not yet paid	90,101	669,221
Addition to property, plant and equipment assets not yet paid	-	2,400
Share issue expense	-	72,334

11. RELATED PARTY TRANSACTIONS

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

	Nine- month period ended September 30, 2015 \$	Nine-month period ended September 30, 2014 \$
Key management compensation ⁽¹⁾		
Share-based compensation	427,644	70,086
Management fees	101,217	206,664
	<u>528,861</u>	<u>276,750</u>
Salaries and fringe benefits ⁽²⁾	454,439	587,043
	<u>983,300</u>	<u>863,793</u>

(1) The key management is composed of the Chief Operating Officer (COO), Chief Financial Officer (CFO), the president, and the vice-president exploration and First Nations Relations. The key management compensation includes amounts for the former CEO, CFO and vice-president who left respectively in December, August and February 2014 and July 2015.

(2) Salaries and fringe benefits capitalized to exploration and evaluation assets amount to \$82,598 (\$86,328 in 2014).

The Company has entered into employment and management contracts with its key executives whose estimated annual remuneration amounts to \$350,000. These contracts are renewable annually. The agreements with the Company's key executives contain provisions that apply in case of termination without cause or a change of control. If all executive team members had been dismissed without cause on September 30, 2015, the Company would have had to pay a total amount of \$350,500 as severance. If a change of control had occurred on September 30, 2015, the total amounts payable to the executive team in respect of severance would have totaled \$700,000 (assuming they left after a change of control and each named executive opted to receive such compensation).

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(in Canadian dollars)

12. COMMITMENTS

- a) 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. This royalty 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.
- b) The Company granted contracts in relation to the development of the Lac à Paul project for a total of \$240,115 and in relation to the maritime terminal project for a total of \$ 445,135. 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
September 30, 2015	\$41,423	\$301,651	-	343,074\$

13. 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.

14. FINANCIAL INSTRUMENTS AND FINANCIAL RISKS

Classification

The Company's financial instruments as at September 30, 2015 and December 31, 2014 consist of cash and cash equivalents, receivables and other current assets, accounts payable and accrued liabilities, provision 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 September 30 2015 \$	As at December 31, 2014 \$	
Financial assets			
Cash and cash equivalents	Loans and receivables	255,559	3,837,720
Financial liabilities			
Accounts payable and accrued liabilities	Financial liabilities at amortized cost	850,977	1,191,290
Provision	Financial liabilities at amortized cost	-	50,000
Credit line	Financial liabilities at amortized cost	13,911,749	12,605,641
		14,762,726	13,846,931

The Company defines the fair value hierarchy under which its financial instruments are valued as follows: level 1 includes unadjusted quoted prices in active markets for identical assets or liabilities; level 2 includes inputs other than quoted prices in level 1 that are observable for assets or liabilities, either directly or indirectly; and level 3 includes inputs for the asset or liability that are not based on observable market data. There was no transfer of hierarchy level as at September 30, 2015 and December 31, 2014.

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Financial risks

The Company has exposure to various financial risks, such as credit risk, liquidity risk, interest rate 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 interest receivable from Canadian chartered banks, and mining tax credits due from the Quebec government. Management believes that the credit risk concentration with respect to financial instruments included in amounts receivable is minimal.

Liquidity risk

Liquidity risk is the risk that the Company will not have sufficient cash resources to meet its financial obligations as they come due. The Company's liquidity and operating results may be adversely affected if the Company's access to the capital market is hindered, whether as a result of a downturn in stock market conditions generally or related to matters specific to the Company. The Company generates cash flows primarily from its financing activities. As at September 30, 2015, the Company had cash and cash equivalents of \$255,559 (\$3,837,720 as at December 31, 2014) to settle current liabilities of \$14,762,726 (\$13,846,931 as at December 31, 2014). The Company regularly evaluates its cash position to ensure preservation and security of capital as well as maintenance of liquidity (Refer to note 1 for the use of the going concern assumption).

The following are the contractual maturities of financial liabilities, including interest where applicable as at September 30, 2015:

	Carrying amount \$	Contractual cash flows \$	0 to 12 months \$	12 to 24 months \$	More than 24 months \$
Accounts payable and accrued liabilities	850,977	850,977	850,977	-	-
Credit line	13,911,749	14,365,309	14,365,309	-	-

Interest rate risk

Interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company has not entered into any derivative contracts to manage this risk. The Company's policy as it relates to its cash balances is to invest excess cash in financial instruments held with a Canadian chartered bank.

As at September 30, 2015, the Company's exposure to interest rate risk is summarized as follows:

Cash and cash equivalents	Fixed interest rate & Non-interest bearing
Accounts payable and accrued liabilities	Non-interest bearing
Credit line	Variable interest rate

The Company's interest rate risk arises from credit lines. Credit lines issued at variable rates expose the Company to cash flow risk. A variation of $\pm 1\%$ on the credit line would have an impact of \$13,911 on the exploration and evaluation assets for 2015 (\$12,605 as at December 31, 2014).

Currency risk

As at September 30, 2015, the Company has a bank account in US dollars for an amount of \$1,335 (\$2,465 as at December 31, 2014). The Company estimates that a variation of $\pm 10\%$ in exchange rates on that date would have resulted in a variation of approximately \$134 (\$246 as at December 31, 2014) in net loss.

15. SUBSEQUENT EVENT

On October 20, 2015, the Company has secured an expanded Credit Facility from existing lender now totaling \$18,750,000. The increased facility will be used to supplement its current facility of \$12,500,000 (plus any accrued interest) that is already in place. As well, the facility which was set to mature on December 31, 2015, has now been extended by two years to December 31, 2017. The additional amount can be drawn down as required by the Company. The entire secured Credit Facility will bear interest at an annual rate equal to 6.25% with all interest capitalized through the maturity date of the Credit Facility. Additionally, the Company will issue the lender 7,500,000 warrants, of which 5,000,000 warrants have an exercise price of \$0.86 per share and 2,500,000 warrants with an exercise price of \$1.08 per share. All warrants are exercisable through December 31, 2017. All securities issued of Credit Facility are subject to a regulatory hold period of four (4) months and one (1) day expiring on February 21, 2016. In connection with this transaction, the Company will pay on closing an arrangement fee of \$46,123 to the agent and a commitment fee of \$91,338 to the lender.