

**ARIANNE PHOSPHATE INC.
CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
(UNAUDITED)
NINE-MONTH PERIODS ENDED SEPTEMBER 30, 2018 AND SEPTEMBER 30, 2017
(in Canadian dollars)**



Condensed consolidated interim financial statements for the nine-month period ended September 30, 2018 haven't been reviewed by the auditors.

ARIANNE PHOSPHATE INC.

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

| | As at September 30, 2018 | As at December 31, 2017 |
|--|--------------------------------|-------------------------------|
| ASSETS | | |
| Current assets | | |
| Cash and cash equivalents (note 3) | 928,789 | 1,374,881 |
| Receivables and other current assets | 49,676 | 502,748 |
| Sales taxes receivable | 164,068 | 88,953 |
| Tax credit related to resources and mining tax credit receivable | 248,883 | 248,883 |
| | <u>1,391,416</u> | <u>2,215,465</u> |
| Non-current assets | | |
| Tax credit related to resources and mining tax credit receivable | 381,238 | 151,737 |
| Investment property – Outfitters (note 4) | 287,511 | 308,079 |
| Property, plant and equipment (note 5) | 1,605,218 | 1,630,516 |
| Mining properties (note 6) | 1,277,734 | 1,247,163 |
| Exploration and evaluation assets (note 7) | 53,565,879 | 49,773,697 |
| | <u>57,117,580</u> | <u>53,111,192</u> |
| | <u>58,508,996</u> | <u>55,326,657</u> |
| Total assets | | |
| LIABILITIES | | |
| Current liabilities | | |
| Accounts payable and accrued liabilities | 2,047,423 | 1,924,840 |
| Credit line (note 8) | 22,363,456 | - |
| | <u>24,410,879</u> | <u>1,924,840</u> |
| Non-current liabilities | | |
| Credit line (note 8) | - | 19,642,554 |
| Loan (note 9) | 3,876,396 | 3,728,306 |
| Deferred income taxes | 3,128,955 | 2,935,567 |
| | <u>31,416,230</u> | <u>28,231,267</u> |
| Total liabilities | | |
| Equity | | |
| Capital stock (note 10) | 60,194,364 | 58,828,558 |
| Warrants (note 11) | 1,174,841 | 1,547,839 |
| Contributed surplus | 13,827,683 | 13,315,903 |
| Deficit | (48,104,122) | (46,596,910) |
| | <u>27,092,766</u> | <u>27,095,390</u> |
| Total equity | | |
| Total liabilities and equity | <u>58,508,996</u> | <u>55,326,657</u> |
| GOING CONCERN (note 1) | | |
| COMMITMENTS (note 14) | | |
| EVENTS AFTER REPORTING PERIOD (note 17) | | |

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 THE THREE AND NINE-MONTH PERIODS ENDED SEPTEMBER 30, 2018 AND 2017

(In Canadian dollars, except for loss per share and weighted average number of shares outstanding)

| | Three-month period ended September 30, 2018 | Three-month period ended September 30, 2017 | Nine-month period ended September 30, 2018 | Nine-month period ended September 30, 2017 |
|---|--|--|---|---|
| | \$ | \$ | \$ | \$ |
| EXPENSES | | | | |
| Salaries and benefits | 192,497 | 329,309 | 616,107 | 858,544 |
| Share-based compensation | 21,363 | 81,276 | 97,399 | 236,868 |
| Professional and consultant fees | 64,670 | 41,772 | 157,748 | 327,246 |
| Management fees | 47,500 | 39,250 | 142,500 | 72,250 |
| Registration and listing fees | 7,820 | 10,530 | 75,845 | 54,306 |
| Annual general meeting | 5,731 | 10,501 | 15,331 | 19,140 |
| Communications | 78,673 | 106,844 | 270,773 | 322,153 |
| Promotion, representation and travel | 26,620 | 23,743 | 70,218 | 106,548 |
| Insurance | 8,706 | 9,080 | 28,933 | 26,548 |
| Rent and office expenses | 42,666 | 35,751 | 154,141 | 125,085 |
| Depreciation of property, plant and equipment | 7,159 | 8,782 | 22,648 | 29,471 |
| Loss (gain) on disposal property, plant and equipment | - | - | (30,000) | 89 |
| Bank charges | 1,486 | 1,430 | 3,646 | 7,025 |
| Governmental grant (note 7) | - | - | (428,170) | - |
| Operating loss | 504,891 | 698,268 | 1,197,119 | 2,185,273 |
| OTHER EXPENSES (INCOME) | | | | |
| Interest income | (3,217) | (2,421) | (11,973) | (13,390) |
| Foreign exchange loss (gain) | 503 | (5,236) | 3,583 | 5,494 |
| Net loss of investment property – Outfitters (Note 4) | 14,706 | 33,170 | 52,904 | 58,297 |
| | 11,992 | 25,513 | 44,514 | 50,401 |
| LOSS BEFORE INCOME TAXES | 516,883 | 723,781 | 1,241,633 | 2,235,674 |
| Deferred income taxes | 14,759 | 77,149 | 193,388 | 145,355 |
| NET LOSS AND COMPREHENSIVE LOSS FOR THE PERIOD | 531,642 | 800,930 | 1,435,021 | 2,381,029 |
| BASIC AND DILUTED LOSS PER SHARE | 0.01 | 0.01 | 0.02 | 0.02 |
| WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING | 99,923,023 | 97,648,080 | 99,923,023 | 97,648,080 |

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 THE NINE-MONTH PERIODS ENDED SEPTEMBER 30, 2018 AND 2017
(in Canadian dollars, except for the number of shares)

| | Capital stock | Capital stock | Warrants | Contributed surplus | Deficit | Total equity |
|--|---------------|---------------|-----------|---------------------|--------------|--------------|
| | Common shares | \$ | \$ | \$ | \$ | \$ |
| Balance as at January 1, 2018 | 103,570,610 | 58,828,558 | 1,547,839 | 13,315,903 | (46,596,910) | 27,095,390 |
| Net loss and comprehensive loss for the period | - | - | - | - | (1,435,021) | (1,435,021) |
| Share-based compensation (note 11) | - | - | - | 97,399 | - | 97,399 |
| Grant of warrants (note 11) | - | - | 41,194 | - | - | 41,194 |
| Private Placement (note 10) | 2,233,333 | 1,365,806 | - | - | - | 1,365,806 |
| Share issuance expenses | - | - | - | - | (72,002) | (72,002) |
| Modification of warrants (note 11) | - | - | 189 | - | (189) | - |
| Warrants expired (note 11) | - | - | (414,381) | 414,381 | - | - |
| Balance as at September 30, 2018 | 105,803,943 | 60,194,364 | 1,174,841 | 13,827,683 | (48,104,122) | 27,092,766 |
| Balance as at January 1, 2017 | 97,648,080 | 54,783,402 | 2,540,438 | 11,693,008 | (42,760,452) | 26,256,396 |
| Net loss and comprehensive loss for the period | - | - | - | - | (2,381,029) | (2,381,029) |
| Share-based compensation | - | - | - | 236,868 | - | 236,868 |
| Private Placement (note 10) | 2,882,500 | 2,198,356 | 107,644 | - | - | 2,306,000 |
| Share issuance expenses | - | - | - | - | (245,969) | (245,969) |
| Option granted to brokers (note 11) | - | - | - | 42,932 | - | 42,932 |
| Modification of warrants (note 11) | - | - | 89,629 | - | (89,629) | - |
| Balance as at September 30, 2017 | 97,648,080 | 56,981,758 | 2,737,711 | 11,972,808 | (45,477,079) | 26,215,198 |

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

ARIANNE PHOSPHATE INC.
CONSOLIDATED INTERIM STATEMENTS OF CASH FLOWS
FOR THE NINE-MONTH PERIODS ENDED SEPTEMBER 30, 2018 AND 2017
(in Canadian dollars)

| | Nine-month period ended September 30, 2018 | Nine-month period ended September 30, 2017 |
|---|---|---|
| | \$ | \$ |
| CASH FLOW FROM (USED IN) | | |
| OPERATING ACTIVITIES | | |
| Net loss for the period | (1,435,021) | (2,381,029) |
| Adjustments for: | | |
| Share-based payments | 97,399 | 236,868 |
| Gain on disposal - Property, plant and equipment | (30,000) | 89 |
| Loss on disposal - Property, plant and equipment – Outfitters | 5,255 | - |
| Depreciation – Investment property - Outfitters | 15,313 | 18,958 |
| Depreciation – Property, plant and equipment | 22,648 | 29,471 |
| Income taxes and deferred taxes | 193,388 | 145,355 |
| Net change in non-cash working capital items (note 12) | 500,539 | (1,271,576) |
| | <u>(630,479)</u> | <u>(3,221,864)</u> |
| INVESTING ACTIVITIES | | |
| Proceeds from tax credit | - | 666,739 |
| Disposal of property, plant and equipment | 30,000 | - |
| Acquisition of property, plant and equipment | (6,743) | (36,348) |
| Acquisition of mining properties | (30,571) | (1,523) |
| Acquisition of exploration and evaluation assets | (1,132,283) | (1,524,114) |
| | <u>(1,139,597)</u> | <u>(895,246)</u> |
| FINANCING ACTIVITIES | | |
| Transaction cost | (11,014) | (25,000) |
| Proceeds from the issuance of units | 1,407,000 | 2,306,000 |
| Proceeds from credit lines | - | 1,275,231 |
| Share issuance expenses | (72,005) | (203,038) |
| | <u>1,323,981</u> | <u>3,353,193</u> |
| CHANGE IN CASH AND CASH EQUIVALENTS DURING THE PERIOD | (446,090) | (763,917) |
| CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD | 1,374,881 | 2,229,044 |
| CASH AND CASH EQUIVALENTS, END OF PERIOD | <u>928,789</u> | <u>1,465,127</u> |
| Supplementary cash flow information (note 12) | | |
| Interest received | 11,973 | 13,390 |
| Interest paid | - | - |

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

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 based on 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, 2018, the Company recorded a net loss of \$1,435,021 (loss of \$2,381,029 in 2017) and has an accumulated deficit of \$48,104,122 as at September 30, 2018 (\$46,596,910 as at December 31, 2017). 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, 2018, the Company had a negative working capital of \$23,019,463 (positive working capital of \$290,625 as at December 31, 2017). Management estimates that the working capital will not be sufficient to meet the Company's obligations and budgeted expenditures through September 30, 2019. 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 additional financing in 2018.

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

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, 2017. These condensed consolidated interim financial statements should be read in conjunction with the Company annual financial statements for the year ended December 31, 2017, which have been prepared in accordance with IFRS as issued by the IASB.

The Board of Directors approved these condensed consolidated interim financial statements on November 14, 2018.

New accounting policies adopted in the current quarter

Financial Instruments

Financial assets and 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 liabilities are derecognized when the obligation specified in the contract is discharged, cancelled or expires.

ARIANNE PHOSPHATE INC.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(in Canadian dollars)

Financial Assets

Financial assets are initially measured at fair value. If the financial asset is not subsequently accounted for at fair value, then the initial measurement includes transaction costs that are directly attributable to the asset's acquisition or origination. On initial recognition, the Company classifies its financial assets in the following measurement categories:

- measured subsequently at amortized cost; and
- measured subsequently at fair value through net loss.

i) Financial assets measured at amortized cost

A financial asset is subsequently measured at amortized cost, using the effective interest method and net of any impairment loss, if:

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial Liabilities

Financial liabilities are initially recorded at fair value net of any directly attributable transaction costs. Subsequent to initial recognition these financial instruments are measured at amortized cost using the effective interest method. Accounts payable and accrued liabilities and credit line are classified as financial liabilities at amortized cost.

Impairment

The Company assesses on a forward-looking basis the expected credit loss associated with its debt instruments carried at amortized cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

For trade receivables, the Company applies the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognized from initial recognition of the receivables.

New Accounting Standards and Interpretations

New standards and interpretations adopted

IFRS 9 – Financial Instruments

On January 1, 2018, the Company adopted *IFRS 9, Financial Instruments* which replaced *IAS 39, Financial Instruments: Recognition and Measurement*, bringing together all three aspects of the accounting for financial instruments: classification and measurement; impairment. The Company applied IFRS 9 retrospectively with restatement of prior periods, but there were no impact on the opening balance sheet as of January 1, 2017 and the comparative information presented.

i) Assets and liabilities

IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments and the contractual cash flow characteristics of the financial assets. Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward in IFRS 9.

The following table summarizes the classification and measurement changes for the Company's financial assets and liabilities as of January 1, 2017 and 2018:

| | Category under IAS 39 | Category under IFRS 9 |
|----------------------------------|-----------------------|-----------------------|
| Financial assets : | | |
| Cash and cash equivalents | Loans and receivables | Amortized cost |
| Financial liabilities : | | |
| Payables and accrued liabilities | Amortized cost | Amortized cost |
| Loan | Amortized cost | Amortized cost |
| Credit Line | Amortized cost | Amortized cost |

ARIANNE PHOSPHATE INC.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(in Canadian dollars)

The accounting for these instruments and the line item in which they are included in the consolidated statements of financial position are unaffected by the adoption of IFRS 9, and no measurement adjustments are required to the Company's financial assets and liabilities.

ii) Impairment of financial assets

The adoption of IFRS 9 had no impact on the impairment of the Corporation's financial assets.

Amendments to IFRS 2, *Classification and Measurement of Share-based Payment Transactions* ("IFRS 2")

On June 2016, the IASB issued amendments to IFRS 2 Share-based Payment, clarifying how to account for certain types of share-based payment transactions.

The amendments, which were developed through the IFRS Interpretations Committee, provide requirements on the accounting for:

- the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments;
- share-based payment transactions with a net settlement feature for withholding tax obligations; and
- a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled.

The Company has determined that there is no impact upon the adoption of the amendments to IFRS 2 on January 1, 2018.

3. CASH AND CASH EQUIVALENTS

| | As at September 30, 2018 | As at December 31, 2017 |
|---------------------------|-----------------------------|----------------------------|
| | \$ | \$ |
| Cash and cash equivalents | 928,789 | 1,374,881 |

As at September 30, 2018, cash and cash equivalents comprises cash on hand amounting to \$728,000 bearing interest at a fixed rate 0.70% and an amount of \$200,789 not bearing interest. An amount of \$30,000 is restricted in connection with the Company's credit card agreement.

As at December 31, 2017, cash and cash equivalents comprise cash on hand amounting to \$1,162,728 bearing interest at a fixed rate 0.80% and an amount of \$212,152 not bearing interest.

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, 2018 | Nine-month period ended September 30, 2017 |
|---|---|---|
| | \$ | \$ |
| Outfitters income | 79,337 | 67,797 |
| Operating expenses: | | |
| Management fees | 45,138 | 48,763 |
| Repair and maintenance | 15,724 | 11,142 |
| Supplies | 15,553 | 8,946 |
| Advertising, promotion and travel | 15,109 | 20,557 |
| Taxes and licenses | 9,021 | 6,906 |
| Insurance | 10,482 | 10,297 |
| Bad debt expense | 286 | - |
| Interest and bank charges | 360 | 525 |
| Depreciation of property, plant and equipment | 15,313 | 18,958 |
| Loss on asset disposal | 5,255 | - |
| | 132,241 | 126,094 |
| Net loss of investment property – Outfitters | 52,904 | 58,297 |

ARIANNE PHOSPHATE INC.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(in Canadian dollars)

5. PROPERTY, PLANT AND EQUIPMENT

| | Leasehold improvements \$ | Tools and equipment \$ | Computer equipment \$ | Land \$ | Total \$ |
|----------------------------------|---------------------------------|------------------------------|-----------------------------|------------|-------------|
| Cost | | | | | |
| Balance as at January 1, 2017 | 294,032 | 106,240 | 16,184 | 812,031 | 1,228,487 |
| Acquisition | - | 20,775 | 954 | 614,441 | 636,170 |
| Balance as at December 31, 2017 | 294,032 | 127,015 | 17,138 | 1,426,472 | 1,864,657 |
| Acquisition | - | - | - | 6,743 | 6,743 |
| Balance as at September 30, 2018 | 294,032 | 127,015 | 17,138 | 1,433,215 | 1,871,400 |
| Accumulated depreciation | | | | | |
| Balance as at January 1, 2017 | 108,212 | 69,639 | 7,204 | - | 185,055 |
| Depreciation | 35,374 | 11,278 | 2,434 | - | 49,086 |
| Balance as at December 31, 2017 | 143,586 | 80,917 | 9,638 | - | 234,141 |
| Depreciation | 21,120 | 9,393 | 1,528 | - | 32,041 |
| Balance as at September 30, 2018 | 164,706 | 90,310 | 11,166 | - | 266,182 |
| Net book value | | | | | |
| Balance as at January 1, 2017 | 185,820 | 36,601 | 8,980 | 812,031 | 1,043,432 |
| Balance as at December 31, 2017 | 150,446 | 46,098 | 7,500 | 1,426,472 | 1,630,516 |
| Balance as at September 30, 2018 | 129,326 | 36,705 | 5,972 | 1,433,215 | 1,605,218 |

6. MINING PROPERTIES

| | Royalties (NSR) % | Balance as at December 31, 2017 \$ | Additions \$ | Impairments \$ | Disposal \$ | Balance as at September 30, 2018 \$ |
|-----------------------------|-------------------------|---|-----------------|-------------------|----------------|--|
| Properties in Quebec | | | | | | |
| Lac à Paul (100%) | 2.25 | 1,247,163 | 30,571 | - | - | 1,277,734 |

7. EXPLORATION AND EVALUATION ASSETS

| | Balance as at December 31, 2017 \$ | Additions \$ | Tax credits \$ | Impairments \$ | Disposals \$ | Balance as at September 30, 2018 \$ |
|---------------|---|-----------------|-------------------|-------------------|-----------------|--|
| Quebec | | | | | | |
| Lac à Paul | 49,773,697 | 4,021,683 | (229,501) | - | - | 53,565,879 |

ARIANNE PHOSPHATE INC.
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
(in Canadian dollars)

For the nine-month periods ended September 30, 2018 and 2017, 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, 2018 \$ | Nine-month period ended September 30, 2017 \$ |
|--|--|--|
| Camp, travel and lodging and general expenses | 111,588 | 125,194 |
| Chemical analysis | 17,515 | 17,060 |
| Planning and supervision | 331,512 | 425,596 |
| Professional fees and independent technical reports | 1,524,339 | 954,346 |
| Borrowing costs | 3,127,336 | 1,832,409 |
| Depreciation of property, plant and equipment | 9,393 | 8,500 |
| Governmental grant | (1,100,000) | - |
| | <u>4,021,683</u> | <u>3,363,105</u> |
| Tax credits related to resources and mining tax credit | (229,501) | (565,635) |
| Write-off of tax credits ⁽¹⁾ | - | 940,692 |
| Disposals | - | (41,441) |
| | <u>3,792,182</u> | <u>3,696,721</u> |
| Balance – Beginning of period | 49,773,697 | 44,741,815 |
| Balance – End of period | <u>53,565,879</u> | <u>48,438,536</u> |

In April 2018, the Company announced that it has received a grant of \$ 1.5 million from the Ministry of Energy and Natural Resources of Quebec. This funding has been provided as part of the Government's plan to help advance the Quebec phosphate (apatite) sector. The company will be using this funding in support of its previously announced program to produce additional high-purity phosphate concentrate to fulfil demand from potential customers and, to conduct further pilot-scale tests. \$ 1.1 million from the grant are for exploration and evaluation assets and \$ 0.4 million are for marketing expenses

8. CREDIT LINES

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.

In December 2017, the Company has extended its credit line until January 15, 2019. The credit line now bears interest at an annual rate equal to 15%, with all interests capitalized to the principal amount until the credit line matures. In connection with this transaction, the Company will pay to the lender a commitment fee of 3% of the total amount of the credit facility, due on January 15, 2019. At the closing, the parties have also agreed to terminate 3,717,000 non-transferable warrants, which were issued to the lender in October 2015.

In connection with the extension of the credit line, the Company granted 17,181,739 warrants at an exercise price of \$0.68 per warrant. Each warrant entitles the Lender to purchase one common share of the Company and shall be exercisable until January 15, 2019. The warrants are subject to a hold period of four months and one day from the date of the issuance. An amount of \$nil was allocated to the fair value of the warrants.

ARIANNE PHOSPHATE INC.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(in Canadian dollars)

| | Nine-month period ended September 30, 2018 \$ | As at December 31, 2017 \$ |
|-----------------------------------|---|----------------------------------|
| Balance – Beginning of period | 19,642,554 | 17,396,288 |
| Proceeds from credit line | - | 291,887 |
| Transaction costs | (11,014) | (57,790) |
| Capitalized interests | 2,731,916 | 1,332,510 |
| Amortization of transaction costs | - | 679,659 |
| Balance – End of period | <u>22,363,456</u> | <u>19,642,554</u> |

On April 21, 2017, the Company closed on a \$1.4 Million credit line with Ocean Partners. The credit line bears interest at 12.5% on any funds drawn, paid monthly commencing on the date of first advance. The maturity date of this credit line was December 27, 2017 but was repayable as tax credits were received. Any amounts received as tax credits reduced the amount available to draw on the credit line.

In late December 2017, the credit line to Ocean Partners ("Ocean") matured and the Company made the necessary arrangements to repay the full amount owing. As Ocean voluntarily intended to subscribe to the Company's financing which was set to close later that month and, for logistical ease, Ocean asked that its outstanding amount payable on the credit line of \$1,004,512 be applied as part of its larger contribution for such units. Ultimately the financing closed on December 29, 2017 for 1,600,000 units. The transaction has been accounted for as a non-monetary transaction in the statement of cash flows

| | Nine-month period ended September 30, 2018 \$ | As at December 31, 2017 \$ |
|-------------------------------|---|----------------------------------|
| Balance – Beginning of period | - | - |
| Proceeds from credit line | - | 983,344 |
| Accrued interests | - | 21,168 |
| Amount repaid | - | (1,004,512) |
| Balance – End of period | <u>-</u> | <u>-</u> |

9. LOAN

In September 2016, the Company closed on a \$3 million loan agreement with various third-party lenders (the "Loan"). The loan bears interest at 8%, paid semi-annually, and has a maturity of 3 years. The Company had the ability to repay the loan after one year at its option. As part of the loan, the Company issued 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, 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, 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 bears interest at 8%, paid semi-annually and has a maturity of 3 years. The Company had the ability to repay the loan after one year at its option. As part of the loan, the Company issued 880,000 non-transferable warrants (refer to note 14), with each warrant entitling the holder to purchase one common share of the Company at a price of \$1.25 per share for a term of 3 years expiring on October 27, 2019. The fair value of those warrants represents \$84,961, calculated with the Black- Scholes model. Additionally, following the expiry of the regulatory hold period, should the closing price of Arianne's common shares on the TSX Venture Exchange be equal to or higher than \$2 for 10 consecutive days, the Company shall have the right to force the exercise of the warrants by providing the warrant holders with a 30-day notice period, following which the warrants will automatically expire. 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.

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| | As at September 30, 2018 | As at December 31, 2017 |
|-----------------------------------|-----------------------------|----------------------------|
| | \$ | \$ |
| Balance – Beginning of period | 3,728,306 | 3,551,692 |
| Amortization of transaction costs | 148,090 | 176,614 |
| Balance – End of period | <u>3,876,396</u> | <u>3,728,306</u> |

10. CAPITAL STOCK

Authorized

Unlimited number of common shares without par value

Unlimited number of preferred shares, without par value, issuable in series: Serie 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:

| | Nine-month period ended September 30, 2018 | | Nine-month period ended September 30, 2017 | |
|------------------------------------|---|-------------------|---|-------------------|
| | Number | Amount \$ | Number | Amount \$ |
| Balance – Beginning of year | 103,570,610 | 58,828,558 | 97,648,080 | 54,783,402 |
| Private placement ⁽¹⁾ | <u>2,233,333</u> | <u>1,365,806</u> | <u>2,882,500</u> | <u>2,198,356</u> |
| Balance – End of period | <u>105,803,943</u> | <u>60,194,364</u> | <u>100,530,580</u> | <u>56,981,758</u> |

As at September 30, 2018, 105,803,943 shares are issued and fully paid (2017 – 100,530,580).

(1) Value of capital stock paid in cash (private placement) is presented net of fair value of warrants units amounting to \$41,194 (2017 – \$107,644) – refer to description below.

On March 15, 2018 the Company has closed on a \$1,407,000 financing. Under the terms of the offering, the Government of Quebec subscribed to 2,233,333 Units of the Company (the "Units") at a price of \$0.63 per Unit. The units consist of one common share (the "Common Share") and one half common share purchase warrant (the "Warrant"). Each full Warrant entitles its holder to purchase one common share at a price equal to \$0.85 for a period of thirty-six (36) months following the closing date, expiring on March 14, 2021. If at any time after four (4) months and one (1) day following the closing date, the trading price of the Common Shares on the TSX Venture Exchange is equal to or exceeds \$1.25 for ten (10) consecutive trading days, as evidenced by the price at the close of market, the Company shall be entitled to notify the holders of Warrants of its intention to force the exercise of the Warrants. Upon receipt of such notice, the holders of the Warrants shall have 30 days to exercise the Warrants, failing which the Warrants will automatically expire.

On August 22nd, 2017, Arianne has as closed on a \$2,306,000 financing. Under the terms of the financing, Arianne has issued 2,882,500 units at a price of \$0.80 per unit. Each unit is comprised of one common share and a half warrant. Each full warrant entitles the holder to purchase one common share at a price of \$1.25 until August 22, 2020. The fair value of the warrants was calculated using the Black-Scholes pricing model and amounted to \$107,644. If at any time after four (4) months and one (1) day following the closing date, the trading price of the Company's common shares on the TSX Venture Exchange is equal to or exceeds \$1.60 for a period of ten (10) consecutive trading days, as evidenced by the price at the close of market, the Company shall be entitled to notify each warrant holder of its intention to force the exercise of the warrants. Upon receipt of such notice, the warrant holders shall have 30 days to exercise the warrants, failing which they will automatically expire. In conjunction with this financing, Arianne has paid finder fees of \$184,480 and issued 230,600 non-transferable warrants exercisable at a price of \$0.80 per share until August 22, 2020. The securities issued in connection with the financing are subject to a regulatory hold period of four (4) months and one (1) day expiring on December 23, 2017.

11. STOCK OPTIONS, WARRANTS AND OPTIONS GRANTED TO BROKERS

Stock options

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

During the first nine months of 2018, 200 000 stock options were granted to directors and consultant and 200 000 stock options previously granted to director and consultants, were extended. The fair value of stock options extended amounted to \$4,716 and was estimated using the Black-Scholes pricing model with the following weighted average assumptions:

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| | Nine-month period ended September 30, 2018 | Nine-month period ended September 30, 2017 |
|--|---|---|
| Weighted average price of share at time of grant | \$0.50 | \$0.78 |
| Weighted average risk-free interest rate | 1.95% | 1.33% |
| Weighted average expected volatility | 35% | 45% |
| Weighted average expected life | 2.3 year | 4.0 years |
| Weighted average expected dividend yield | 0% | 0% |
| Weighted average fair value of options granted | \$0.01 | 0.28 |

Company stock options were as follows:

| | Nine-month period ended September 30, 2018 | | Nine-month period ended September 30, 2017 | |
|--------------------------------------|---|--|---|--|
| | Number | Weighted average exercise price \$ | Number | Weighted average exercise price \$ |
| Balance – Beginning of period | 5,842,834 | 1.03 | 5,449,500 | 1.08 |
| Expired | (106,667) | 0.94 | - | - |
| Granted | 200,000 | 0.02 | 825,000 | 0.78 |
| Forfeited | - | - | (338,333) | 1.07 |
| Balance – End of period | 5,936,167 | 1.00 | 5,936,167 | 1.03 |
| Exercisable at the end of the period | 5,241,167 | 1.05 | 4,634,917 | 1.08 |

Warrants

Changes in Company warrants were as follows:

| | Nine-month period ended September 30, 2018 | | Nine-month period ended September 30, 2017 | |
|--------------------------------------|---|--|---|--|
| | Number | Weighted average exercise price \$ | Number | Weighted average exercise price \$ |
| Balance – Beginning of period | 28,640,504 | 0.90 | 15,997,500 | 1.12 |
| Expired | (1,217,500) | 0.34 | - | - |
| Granted | 1,116,667 | 0.85 | 1,441,250 | 1.25 |
| Balance – End of period | 28,539,671 | 0.87 | 17,438,750 | 1.13 |

In January 2018, the Company amended the terms and conditions of the 1,217,500 warrants granted on July 29, 2013. Initially, each warrant entitled its holder to acquire one common share at a price of \$1.45 per share until July 31, 2018. These warrants were amended in January 2018 to extend their expiration date to July 2018. 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 \$5 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 nine-month period ended September 30, 2018.

In July 2018, the Company amended the terms and conditions of the 2,815,500 warrants granted on July 31, 2014. Initially, each warrant entitled its holder to acquire one common share at a price of \$1.25 per share until January 27, 2018. These warrants were amended in July 2018 to extend their expiration date to July 2019. 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 \$184 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 nine-month period ended September 30, 2018.

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Options granted to brokers

Changes in Company options granted to brokers were as follows:

| | Nine-month period ended September 30, 2018 | | Nine-month period ended September 30, 2017 | |
|--------------------------------------|---|--|---|--|
| | Number | Weighted average exercise price \$ | Number | Weighted average exercise price \$ |
| Balance – Beginning of period | 428,600 | 0.81 | 131,200 | 0.91 |
| Granted | - | - | 230,600 | 0.80 |
| Balance – End of period | <u>428,600</u> | <u>0.81</u> | <u>131,200</u> | <u>0.84</u> |

12. SUPPLEMENTARY INFORMATION RELATED TO CASH FLOWS

| | Nine-month period ended September 30, 2018 \$ | Nine-month period ended September 30, 2017 \$ |
|--|---|---|
| Net change in non-cash working capital items | | |
| Receivable and other current assets | 453,071 | (263,800) |
| Sales taxes receivable | (75,115) | (5,598) |
| Accounts payable and accrued liabilities | 122,583 | (1,002,178) |
| | <u>500,539</u> | <u>(1,271,576)</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, 2018 \$ | Nine-month period ended September 30, 2017 \$ |
|---|---|---|
| Additions to exploration and evaluation assets not yet paid | 157,317 | 303,847 |

13. 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, 2018 \$ | Nine-month period ended September 30, 2017 \$ |
|--|---|---|
| Key management compensation ⁽¹⁾ | | |
| Share-based compensation | 42,721 | 79,439 |
| Management fees | 142,500 | 72,250 |
| | <u>185,221</u> | <u>151,689</u> |
| Salaries and benefits ⁽²⁾ | 295,503 | 317,677 |
| | <u>480,724</u> | <u>469,366</u> |
| Balance included in accounts payable and accrued liabilities | - | - |

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

(2) Salaries and benefits capitalized to exploration and evaluation assets amount to \$168,697 (\$175,363 in 2017).

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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 September 30, 2018, the Company would have had to pay a total amount of \$600,000 as severance. If a change of control had occurred on September 30, 2018, the total amounts payable to the executive team in respect of severance would have totaled \$1,000,000 (assuming they left after a change of control and each named executive opted to receive such compensation). If the assets of the company had been sold to an "arm's length entity" on September 30, 2018, the total amounts payable to the executive team in respect of severance would have totaled \$1,250,000 (assuming they left after a change of control and each named executive opted to receive such compensation)

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

14. COMMITMENTS

- a) In August 2012, the Company granted the Lender of the credit line a royalty of \$1 per ton of phosphate concentrate sales from the Lac à Paul project. This royalty may be redeemed at any time through a lump-sum payment of \$6 million. In July 2013, the Company also granted the Lender of the credit line a royalty of \$0.25 per ton of phosphate concentrate sales from the Lac à Paul project. This royalty may be redeemed at any time through a lump-sum payment of \$1.5 million. These royalties will have to be redeemed by the Company for the same amount in the event of a change of control where at least 90% of the issued and outstanding shares of the Company are acquired, purchased or held by a third party, either through a tender offer or other transaction with the same result. The Company also has granted to other parties a 2.25% royalty on the net smelter return. 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 \$239,698. 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 and Lac à Paul camp are as follows:

| | Within 1 year | 1 to 5 years | After 5 years | Total |
|--------------------|---------------|--------------|---------------|--------|
| September 30, 2018 | 98,309 | - | - | 98,309 |

15. 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.

16. FINANCIAL INSTRUMENTS AND FINANCIAL RISKS

Classification

The Company's financial instruments as at September 30, 2018 consist of cash and cash equivalents, receivable and other current assets, accounts payable and accrued liabilities, loan and credit lines. 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 | <u>Carrying value</u> As at September 30, 2018 | <u>Carrying value</u> As at December 31, 2017 |
|---------------------------|--|---|
| | \$ | \$ |
| Financial assets | | |
| Cash and cash equivalents | 928,789 | 1,374,881 |
| Loans and receivables | 928,789 | 1,374,881 |

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Financial liabilities

| | | | |
|--|---|-------------------|-------------------|
| Accounts payable and accrued liabilities | Financial liabilities at amortized cost | 2,047,423 | 1,924,840 |
| Loan | Financial liabilities at amortized cost | 3,876,396 | 3,728,306 |
| Credit lines | Financial liabilities at amortized cost | 22,363,456 | 19,642,554 |
| | | <u>28,287,275</u> | <u>25,295,700</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 September 30, 2018 and December 31, 2017.

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 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 September 30, 2018, the Company had cash and cash equivalents of \$928,789 (\$1,374,881 as at December 31, 2017) to settle current liabilities of \$24,410,879 (\$1,924,840 as at December 31, 2017). 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, 2018:

| | Carrying amount \$ | Contractual cash flows \$ | 0 to 12 months \$ | 12 to 24 months \$ | More than 24 months \$ |
|--|-----------------------|------------------------------|----------------------|-----------------------|---------------------------|
| Accounts payable and accrued liabilities | 2,047,423 | 2,047,423 | 2,047,423 | - | - |
| Loan | 4,432,625 | 4,432,625 | 326,356 | 4,106,268 | - |
| Credit line | 22,363,456 | 23,548,402 | 23,548,402 | - | - |

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, 2017 and September 30, 2018. 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 September 30, 2018, the Company has a bank account in US dollars for an amount of \$1,016 (\$1,348 as at December 31, 2017). The Company estimates that a variation of $\pm 10\%$ in exchange rates on that date would have resulted in a variation of approximately \$102 in 2018 (\$135 as at December 31, 2017).

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17. SUBSEQUENT EVENT

On October 04, 2018, the Company announced a 430,000 stock options grant to members of the Board of Directors. Each Option entitles the holder to purchase one common share of the Company until October 03, 2028 at a price of \$0.58 per share, this being the closing price of the Company's shares on the trading day preceding the date of grant. The Options are subject to a three-year vesting period under the Plan and the Policy.

On October 04, 2018, the Company extended the term of 1,184,500 common share purchase warrants issued as part of a private placement which closed on October 16, 2014 for gross proceeds of \$2,369,000. Each of the warrants, which were part of the units being issued, entitles its holder to purchase one common share of Arianne at an exercise price of \$1.25 per Common Share until October 15, 2018. Arianne has elected to extend the expiry date of the Warrants to October 15, 2019. No other warrant terms are amended.

On October 23, 2018 the Company announced that the Port of Saguenay received a favorable decision with regards to the construction of a maritime terminal facility on the north shore of the Saguenay River.