

ARIANNE PHOSPHATE INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Year ended December 31, 2017

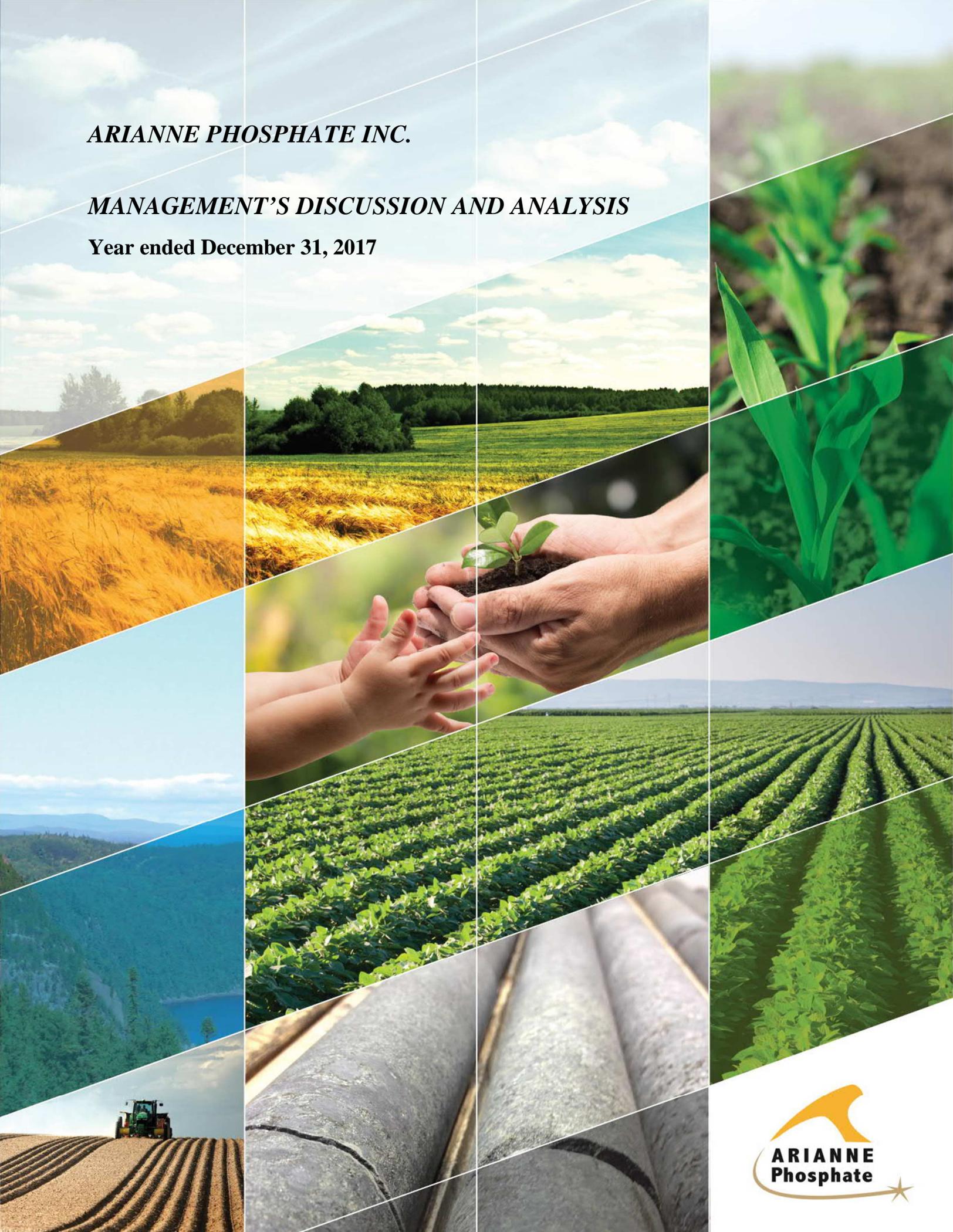


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This Management's Discussion and Analysis ("MD&A") presents an analysis of the financial situation and operations of Arianne Phosphate Inc. ("Arianne" or the "Company") for the year ended December 31, 2017. This report was prepared in compliance with the provisions of Form 51-102F1, approved by the Board of Directors and dated February 27, 2018. It should be read in conjunction with the audited consolidated financial statements for the year ended December 31, 2017 (the "financial statements").

The financial statements for the year ended December 31, 2017, were prepared in accordance with International Financial Reporting Standards ("IFRS").

All amounts presented in the MD&A are in Canadian dollars (CAD) unless otherwise noted.

FORWARD-LOOKING INFORMATION

Certain statements in this MD&A about our current and future plans, expectations and intentions, results, levels of activity, performance, goals or achievements, or any other future events or developments constitute forward-looking statements. The words "may", "will", "would", "should", "could", "expects", "plans", "intends", "trends", "indications", "anticipates", "believes", "likely", "predicts", "estimates" or "potential" or the negative or other variations of these words or other comparable words or phrases, are intended to identify forward-looking statements. Specific forward-looking statements in this MD&A include, but are not limited to, statements with respect to the general development of the business and the eventual start of commercial production and to the liquidity position of the Company. Forward-looking statements are based on information currently available to us and on estimates and assumptions made by us regarding, among other things, general economic conditions and the mining industry in general, in light of our experience and perception of historical trends, current conditions and expected future developments, as well as other factors that we believe are appropriate and reasonable in the circumstances. Although reasonable, the statements can entail known and unknown risks and uncertainties and, accordingly, actual results and future events could differ materially from those anticipated in such statements.

Arianne ensures to comply with all relevant environmental and social laws, regulations and permits in all material respects.

DESCRIPTION OF THE BUSINESS

Arianne is a company focused on the development of the Lac à Paul phosphate rock project (Lac à Paul) located in the Saguenay-Lac-St-Jean area, in the province of Quebec. 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 East, Suite 200, Chicoutimi, Québec, Canada G7H 1T2.

HIGHLIGHTS

2017

- In December 2017, Arianne closed on a private placement financing for gross proceeds of \$1,915,219. The majority of the financing was subscribed for by current shareholders of Arianne, and included the participation of all of the Company's Board of Directors and several members of the management team. Under the terms of the offering, the Company issued 3,040,030 units at a price of \$0.63 per unit. Each unit is comprised of one common share and one half of one common share purchase warrant. Each warrant entitles its holder to purchase one common share at a price of \$0.85 per share until December 29, 2020.
- In December 2017, the Company amended and extended its credit facility. The credit facility amounts to \$19,642,554 as of December 31, 2017. Maturity of the facility was extended to January 15, 2019 and amends the present facility that was set to mature December 31, 2017.
- In December 2017, Arianne appointed Mr. Dominique Bouchard as Executive Chairman of its Board of Directors. Mr. Bouchard has been a member of Arianne's Board since 2013 and his new position follows his previous role as Arianne's Executive Vice Chairman.
- In November 2017, the Company has initiated the work required to produce additional phosphate concentrate. Arianne has taken this step to meet the growing interest it has been receiving from parties looking to secure Arianne's high-purity concentrate for testing. The increased demand in many cases has come from parties that had originally received samples and are now looking to follow up with considerably larger quantities. As well, the Company is seeing increased interest from organizations in Europe that may be affected by stricter environmental legislation and, are looking to diversify their supply towards a "cleaner" high-purity phosphate.
- In November 2017, the Company has received the confirmation, by Environment and Climate Change Canada, that it will be considered as a metal mine. The Company will therefore be subject to the Metal Mining Effluent Regulations (MMER). This will facilitate the mine's operational management.
- In October 2017, the Company completed a due diligence with independent parties that evaluated and confirmed the project from the lenders perspective. The role of the independent parties was to submit the Lac à Paul project to a full due diligence process. Every aspect of the project, including extraction, processing, infrastructure and environmental, was subject to review. From that, projected capital expenses (Capex) and operational expenses (Opex) were built into a broad financial model that will allow the respective finance partners to assess their interest in moving forward and participating in the project finance. The Company received a positive report from the independent parties. Lastly, as part of the review process, an independent analysis of the global phosphate market was undertaken. The report supports the need for additional projects as added supply will be required to meet the persistent growing demand projected over the next few years.
- In October 2017, the Company announced that it has completed its information memorandum. This document is being provided to financial institutions who've expressed an interest in the project and want to assess the possibility of being included in the project finance syndicate.

- In October 2017, the Company announced the expanded roles of two directors.

Mr. Dominique Bouchard, already director of Arianne, will become Executive Vice Chairman and work closely with Arianne's COO and Chicoutimi based team, taking an active role in many of the day to day activities and assisting with the regional, provincial and national efforts underway. Mr. Siva Pillay will also be taking a more active role, working closely with Arianne's CEO, CFO and advisors in securing project financing. Mr. Pillay is a board member and currently chairs Arianne's audit/finance committee.

- In August 2017, the Company announced that it has 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. 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 (the "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.

- In June 2017, the Company signed a Memorandum of Understanding ("MoU") with a major global producer of sulfuric acid, to explore the possibility of setting up a downstream operation that would produce phosphoric acid. The MoU will allow for both companies to combine their respective market knowledge and address how best to move the potential venture forward. Costs, logistics and end markets will all continue to be reviewed to determine the full extent of the opportunity. Matters such as capacity, end products and location will be further studied to better assess feasibility and decisions regarding a possible business venture made from that review.
- In April 2017, the Company signed a MoU agreement, with Groupe Alfred Boivin ("GAB") for the trucking of the Company's high purity phosphate concentrate between the Lac à Paul mine site and the marine terminal on the north shore of the Saguenay River. The services offered by GAB are perfectly aligned with Arianne's transportation strategy and will allow for the final design specifications of our trucks and trailers, as well as logistics and road and fleet maintenance. This MoU provides for a research and development program for the final selection of the truck, and the creation of the trailer.
- In April 2017, Arianne signed a MoU agreement with FLSmidth to provide all production equipment and engineering for the future plant, in collaboration with the various key suppliers involved in the Lac à Paul project development. FLSmidth is a leader in phosphate processing technologies covering the full flowsheet. FLSmidth comes with both strong technical ability as well as the ability to assist Arianne in sourcing the necessary financing solutions and, had already introduced the project into EKF, the Danish Export Credit Agency.

- In April 2017, the Company signed a MoU agreement with a joint venture between SNC-Lavalin (“SNC”) and Cegertec to act as project manager consultants and provide project management support, coordination and consulting for the Lac à Paul project. The joint venture will integrate all pieces into a fully functioning plan that should help us achieve engineering, cost and scheduling certainty.
- In March 2017, Arianne signed a MOU agreement with ABB Inc. to provide engineering, procurement and support services for integrated electrification and automated mining solutions. As part of this MOU, ABB has also committed to work with Arianne in helping to secure financing for this portion of the project and, to that end, has already introduced the project to SERV, the Swiss Export Credit Agency.
- In February 2017, the Company secured a favorable power agreement with the Ministry of Energy and Natural Resources. This agreement confirms that an additional power bloc of 14-MW from Hydro-Quebec will be made available for the Lac à Paul project’s ore processing facilities. This power bloc now totals 129-MW. With this additional power bloc, Arianne will be able to supply all its processing facilities with hydroelectric power, making it the apatite concentrate producer with the lowest greenhouse gas (GHG) emissions on the market. A significant portion of the whole power bloc of 129-MW, i.e. 42-MW, will be used for the electric dryer to dry the apatite concentrate. The innovative technology integrated into the dryer will prevent the equivalent of 86,000 metric tonnes per year of CO2 emissions. It will also have a positive economic impact on the Lac à Paul project.
- In February 2017, Arianne signed an MOU with Construction Proco Inc. The agreement covers structural and architectural engineering, steel fabrication and construction of the mill process and utilities buildings and, on-site stock pile storage.
- In January 2017, the Company signed a project agreement with Rio Tinto Alcan (“Rio Tinto”) to review potential sharing of maritime services. This project agreement provides for discussions focused on Arianne’s use of ships serving Rio Tinto to deliver phosphate concentrate to international markets and should provide both environmental and economic benefits.

OBJECTIVES

The strategic objectives that guide management and the Company's directors can be summarized as follows:

- Reduce cash operating production costs and capital expenses;
- Sign an “Impact and Benefit Agreement” (IBA) with the First Nations;
- Assist the Port of Saguenay in securing their environmental permitting from “Canadian Environmental Assessment Agency” (CEEA); and
- Secure financing for construction and development of the Lac à Paul project (the “Project”).

Over the medium term, the Company's goal remains to build a profitable phosphate mine that will generate economic returns and benefits for our shareholders as well as stakeholders in the Saguenay-Lac-St-Jean region and Québec.

Targeted Future Milestones

- Complete partnership and financing arrangements;
- Continue to enhance the value of the project through project optimization;
- Assist the Port of Saguenay in receiving their approval from CEAA to start the construction of the loading facilities; and
- Continue discussions with the First Nations and continue to maintain excellent relations with them.

FEASIBILITY STUDY (“FS”)

In October 2013, Arianne released the FS of its Lac à Paul phosphate mine project. The FS outlines an open pit mine, a mill producing a high-quality phosphate concentrate and a transport system to deliver the product to a year-round, deep-water port on the Saguenay River.

Study highlights

- Net present value (“NPV”) of US\$1,910.1 million before taxes at an 8% discount rate.
- Gross revenue, in real terms, of US\$16.1 billion, and operating cash flows of US\$7.4 billion.
- Internal rate of return (“IRR”) of 20.7% with a capital payback of 4.4 years before taxes and mining duties.
- A 26-year mine life (excluding pre-production) with an average annual phosphate concentrate production of 3 million tons with a grade of 38.6% P₂O₅ and with average mill recovery of 90.0%.
- Initial capital cost of US\$1,215 million, comprised of US\$983 million for the mine and US\$232 million for the concentrate transport system that delivers product to the deep-water Port of Saguenay, open 365 days a year.
- Life of Mine (LOM) operating cash cost on board the ship in the deep-water Port of Saguenay of US\$93.7/ton yielding an operating margin of 56% on an average selling price of US\$213/tonne.
- Measured and indicated mineral resources in the Paul Zone of 590 million tonnes grading an average of 7.13% P₂O₅ at a 4.0% cut-off grade (used to estimate the mineral reserves).

- Production of 76 million tons of saleable concentrate at 38.6% P₂O₅ from proven and probable mineral reserves of 472.1 million tonnes at an average grade of 6.9% P₂O₅ (based on a 3.5% cut-off grade) for the Paul Zone mineral resource.
- Hydro-Québec confirmed power availability of 115 MW at the Chute des Passes power plant located 40 km from the mine.

OPERATIONAL REVIEW

Downstream production of Phosphoric Acid

In June 2017, the Company signed a Memorandum of Understanding (“MoU”) with a major global producer of sulfuric acid, to explore the possibility of setting up a downstream operation that would produce phosphoric acid. The MoU will allow for both companies to combine their respective market knowledge and address how best to move the potential venture forward. Costs, logistics and end markets have been reviewed to determine the full extent of the opportunity. Matters such as capacity, end products and location have been studied to better assess feasibility and decisions regarding a possible business venture made from that review. As a result of these studies, the Company provided an economic model to the potential partner.

Paul area growth potential

Through further exploration activities completed in 2014, Arianne estimated in 2015, measured and indicated resources¹ on the Paul Eastern Extension of 12.5 million tonnes at 6.31% P₂O₅ with a 4.0% P₂O₅ cut-off grade. Additionally, an updated resource estimate, from the geological remodeling of the Paul Zone and its Western Extension, now amount to 690 million tonnes at 7.18% P₂O₅ with a 4.0% P₂O₅ cut-off grade in the measured & indicated category⁽¹⁾. In total, Arianne’s resource estimate on the Paul area in 2015 shows measured and indicated resources⁽¹⁾ of 703 Mt at 7.16% P₂O₅ with a 4.0% P₂O₅ cut-off grade. The Paul Zone and both its Extensions are still open on the east and west sides as well as in depth.

Other apatite mineralized area on Arianne’s claims

Arianne’s claims also include five deposits with resources identified. The Manouane zone has an amount of 164 million tonnes of measured and indicated resources⁽¹⁾ at 5.88% P₂O₅ with a 2.43% cut-off grade. Zone 2 has an amount of 64 million tonnes of inferred resources⁽¹⁾ at 4.55% P₂O₅ with a 2.43% cut-off grade. The Nicole zone has an amount of 78 million tonnes of inferred resources⁽¹⁾ at 5.34% P₂O₅ with a 3.5% cut-off grade. The Traverse zone has an amount of 17 million tonnes of inferred resources⁽¹⁾ at 5.98% P₂O₅ with a 3.5% cut-off grade. And the South TraMan zone has an amount of 146 million tonnes of inferred resources⁽¹⁾ at 5.30% P₂O₅ with a 3.5% cut-off grade.

Moreover, many other apatite mineralized zones are reported within the Arianne’s Lac à Paul Project (MiniPaul, Lucie, Lise, Naja, North TraMan and Turc). Some of these zones (i.e., Lucie, Lise, and Naja) have been drilled and show a good potential.

¹ Cautionary Statements: Mineral Resources that are not Mineral Reserves do not have demonstrated economic viability. Additional studies are required to convert these mineral resources to mineral reserves.

Infrastructure

The project is located 240 km north of the Saguenay-Lac-St-Jean region in Québec, Canada. This region is economically well-diversified with existing infrastructure, a strong industrial base and a high-quality labour pool. The region is also known for numerous hydropower generating dams. It has a well-developed road network and access to deep-sea ports.

The Lac à Paul project will get its 129 MW of electricity from Hydro-Québec through Rio Tinto Alcan's Chute-des-Passes Power dam, which is located 40 km from the project. A 345-kV/161-kV substation at Chute-des-Passes and a 161-kV power line will be built to supply the electricity to the Lac à Paul mine site.

Of interest to Arianne, in the Québec Economic Plan 2016-2017, the government announced the introduction of a measure to foster investment in businesses billed at the large-power industrial rate (Rate L). This measure provides financial assistance in the form of a reduction of electricity costs and will enable the reimbursement of up to 50% of the cost of a business's eligible investments, i.e.:

- 40% of eligible investments made; and
- an additional 10% for a 20% reduction of greenhouse gas (GHG) intensity.

This assistance will correspond to a maximum reduction of 20% of a business's electricity bill for a maximum of four years per project.

Arianne is in discussion with the provincial government to obtain a reduction on the power cost for the first 4 years of operation.

Phosphate concentrate transport

The phosphate concentrate will be transported by truck from the mine on an existing logging road to a deep-water port located on the north shore of the Saguenay River. Studies completed in June 2014 led to the selection and presentation of a scenario using forest roads R-253 and R-200 on the "Monts-Valin" and the maritime terminal on the north shore of the Saguenay River at Sainte-Rose-du-Nord.

In accordance with the decree from the government of Quebec received December 22, 2015, Arianne is working on finalizing the road layout with different stakeholders to optimize and reduce the social impact.

Arianne recently signed a MoU agreement with Groupe Alfred Boivin (GAB) regarding the transport of the Company's high purity phosphate and research and development for the selection of the truck and the creation of the trailer.

Metallurgy

The tests conducted in 2013 for the feasibility study demonstrated the possibility of producing an apatite concentrate containing 38.6% P₂O₅ with a recovery of 90%. Additional tests carried out at the request of potential clients have significantly improved the quality of the concentrate by lowering the content of certain contaminants, thus reducing the minor elements ratio (MER) from 0.089 to 0.030. These tests allowed us to produce more than one tonne of concentrate with a 40% P₂O₅ content, which will be identified as "Arianne 40®".

MoU Agreements to Benefit the Lac à Paul Project

During the past few months, Arianne's team has been working hard on securing various aspects of the project. In order to do so, a total of seven MoU agreements were signed between Arianne and key suppliers for developing the Lac à Paul project.

1. The first MoU agreement provides for discussions focused on Arianne's use of ships currently serving Rio Tinto to also deliver phosphate concentrate to international markets. This partnership will enhance the project's economics and reduce Arianne's environmental impact;
2. The second MoU agreement with Construction Proco Inc. is for the structural and architectural engineering, the steel fabrication and construction of the mill and utilities buildings, and the on-site stock pile storage, making the project shovel-ready with cost scheduling certainty;
3. The third MoU agreement is for the engineering, procurement and support services for integrated electrification and automated mining solutions. With ABB Inc. (ABB), Arianne has found a partner with the technical capabilities and financial network to assist in the project's development. As part of this agreement, ABB has also committed to assisting Arianne in sourcing potential financing for this work and to that end, introductions have been made into Swiss ECA SERV.
4. The fourth MoU agreement was signed with a joint venture between SNC-Lavalin (SNC) and Cegertec to act as project manager consultants and provide project management support, coordination and consulting;
5. The fifth MoU agreement was signed with FLSmidth to provide all production equipment and engineering for the future plant, in collaboration with the various key suppliers involved in the Lac à Paul project development. As part of this agreement, FLSmidth has also committed to assisting Arianne in sourcing potential financing for this work and to that end, introductions have been made into Danish ECA EKF.
6. The sixth MoU agreement was signed with GAB for the trucking of the Company's high purity phosphate concentrate between the Lac à Paul mine site and the marine terminal on the north shore of the Saguenay River.
7. The last MoU agreement was signed with a major global producer of sulfuric acid, to explore the possibility of setting up a downstream operation that would produce phosphoric acid.

These partnerships tie in with Arianne's strategy to have full control over the course and cost of development.

First Nations

Thanks to negotiations with the three Innu First Nations groups; Pessamit, Mastheuiatsh and Essipit, a Cooperation Agreement for the exploration and pre-construction phase, was signed in 2015 for the Lac à Paul project. The agreement has been used as a framework to govern the relationship between Arianne and the three communities, reflecting mutual intentions to further build a relationship characterized by cooperation and mutual respect in connection with the development of the Lac à Paul project. The shared agreement lays out the areas in which Arianne and the three communities have agreed to work together and maintain communication in order to support their mutual goals to conclude an IBA.

During 2017, numerous meetings were held with the representatives of these three communities. Both parties agreed to move forward with the negotiation for the IBA.

Saguenay–Lac-St-Jean Community relations

As the project develops, the Company maintains an open dialogue with the stakeholders in the region, as well as with groups and individuals impacted by the project. Community relations have always been a priority for Arianne. The Company is committed to maintaining full and open communication with all communities affected by the Lac à Paul project. During 2015, Arianne created an independent Monitoring Committee in compliance with the Quebec Government's Mining Law.

Since the beginning of 2017, numerous meetings were held with key political, economic and community stakeholders involved in the project.

Economic impact of the project

In the most recent study conducted in February 2014, the firm Raymond Chabot Grant Thornton (RCGT) submitted the results of its study on the economic impact of the development of the Lac à Paul project. The RCGT analysis confirms that the significant economic benefits of the mine will increase collective wealth in the region by increasing the average income of workers and fostering the emergence of a new cluster of mining contractors, in addition to diversifying the region's traditional economy based on the forest and aluminium industries.

The project will also attract new residents with expertise in the mining sector, in addition to generating opportunities for educational institutions in the region. Arianne is working with all stakeholders, including the First Nations, to enable the region to grow and become more competitive due to the project.

Port of Saguenay

The Port of Saguenay and Arianne will cooperate in building a maritime terminal on the north shore of the Saguenay River on the limits of Sainte-Rose-du-Nord.

During the second quarter of 2016, Port of Saguenay submitted the Environmental Impact Statement ("EIS") to the Agency which was reviewed by the Panel for the rest of 2016. In 2017 and beginning of 2018, Arianne answered three series of questions from the CEEA.

This project was initiated as a complement to Arianne's phosphate concentrate mining project. The aim of the Port of Saguenay's project is to facilitate shipment of Arianne's phosphate concentrate to world markets.

Social acceptance

In 2015, the Company signed an agreement with the residents of the Zec Martin-Valin and Lake Neil, to offset the impact of the concentrate's transportation.

PHOSPHATE INDUSTRY TRENDS

Phosphate rock mining is declining in North America, with an estimated deficit in Canada and the United States of 4 million tons per year expected to increase to 8 million tons per year by 2020. Global demand for phosphate is increasing at approximately 3% per year due to global population growth and a shift in dietary habits towards more protein-rich foods.

Within this context, the Lac à Paul project can satisfy a portion of this growing demand and provide a reliable and secure supply of high-quality phosphate rock.

Phosphate has no substitute and is a key component essential to life. It helps root development and drought resistance in plants.

Phosphate purchasers (potential customers) are concerned with the security of supplies and are aware of the beneficial geopolitical situation regarding the region where the mine is located. The Lac à Paul project is located in a politically stable mining-friendly jurisdiction. As well, as a result of pending European legislation and recent environmental issues in North America, there has been a growing awareness surrounding the nature of the phosphate concentrate that is used in the production of fertilizer and other applications. Due to these growing concerns, the interest in higher purity phosphate rock, such as Arianne's, is projected to increase.

SUSTAINABLE DEVELOPMENT

Measuring and offsetting greenhouse gas emissions

As part of its Sustainable Development Policy, Arianne offsets its greenhouse gas (“GHG”) emissions by investing in sustainable development and innovation projects.

Arianne Phosphate was responsible for the emission of 45.2 tonnes of CO₂ equivalent for the year 2017 (Table 1).

Table 1: Greenhouse gas emissions associated with each of the Company's activities during the year 2017 (in tonnes)

	Total	Administration and field transportation	Other
<i>Work and representation</i>	45.2	45	0.2
Percentage (%)	100%	99%	1%

Table 2: Summary of offset measures implemented by Arianne as of December 31, 2017

Emissions	Tonnes
1999-2010	867
2011	222
2012	963
2013	100
2014	2,070
2015	37
2016 ⁽¹⁾	207
2017 ⁽¹⁾	45
Financial equivalents	4,259
Price/tonne CO ₂ (\$/tonne)	19.10
Amount to offset (\$)	81,347
Amounts already invested	\$
Global TraPs 2011	5,181
UQAC Eco-Advising Chair	4,240
Global TraPs 2012	3,490
Research grant 2012-2014	27,000
Carbone Boréal 2012	37
Biopierre	1,000
Total invested	40,948
Additional investment	40,399

- (1) Arianne Phosphate was committed to having a carbon-neutral exploration phase. This exploration phase was completed after obtaining the ministerial decree issued by the Government of Quebec in December 2015. The Company will continue to quantify and publish its greenhouse gas emissions without committing itself to offset future emissions.

SELECTED ANNUAL INFORMATION

Highlights of the last three fiscal years

	DECEMBER 31, 2017	DECEMBER 31, 2016	DECEMBER 31, 2015
	\$	\$	\$
Total assets	55,326,657	51,422,831	44,259,699
Non-current financial liabilities	23,370,860	3,551,692	12,561,084
Net loss	3,418,575	3,175,168	3,977,746
Net loss per share	0.03	0.03	0.04

The financial statements were prepared in accordance with IFRS, as issued by the International Accounting Standards Board (“IASB”). The accounting policies applied in the financial statements are based on IFRS effective for the year ended December 31, 2017, as issued and outstanding as of February 27, 2018, the date when the Board of Directors approved the financial statements

Operational Results for the year ended December 31, 2017

The net loss for the year ended December 31, 2017 was \$3,418,575 compared to a net loss of \$3,175,168 for the year ended December 31, 2016 and \$3,977,746 for the year ended December 31, 2015.

The augmentation in losses during the past two years is mainly due to the deferred income tax recovery of \$667,461 compared to a deferred income tax recovery of \$125,790 in 2016. This is mainly due to the adjustment from Revenu Quebec for the tax credit related to resources and the mining right related to the year 2012 received during the year 2017. Accordingly, the Company recorded a deferred income tax liability of \$2,935,567 as of 2017.

The operating loss in 2017 of \$2,664,077 was lower than in 2016 and 2015 (\$2,968,491 and \$3,926,222, respectively). This is mainly due to the lower amount of professional and consultant fees, combined with the salary capitalized in exploration and evaluation assets, since those salaries are qualified as development of the mining project admissible to the mining tax credit receivable between years 2017 and 2016. For the years 2016 and 2015, the decrease is due to reductions in the size of the staff between 2015 and 2016 (decrease in related expenses of \$477,304 between 2016 and 2015), as the exploration activities are nearing completion and the Company's focus is turned towards the development of the Lac à Paul project.

The share-based compensation expense was lower during 2017 compared to 2016 (decrease of \$99,022 between 2017 and 2016 and decrease of \$250,050 between 2016 and 2015). This is mostly due to the depreciation of the fair value of the options granted, which is lower as the options from 2014 and prior to 2014 were completely vested in 2017.

The professional and consultant fees decreased by \$124,019 between 2017 and 2016 (decrease of \$189,268 between 2016 and 2015) due to the lower level of activities.

Most other operating expenses in 2017 decreased because of the decreased level of activity of the Company and more work done internally.

The management fees increased by \$67,249 between 2017 and 2016 due to the fact that some directors were more involved in the project development (decrease of \$61,216 between 2016 and 2015). The promotion, representation and travel expenses remains stable between 2017 and 2016 (decrease of \$86,408 between 2016 and 2015). Communications costs increased by \$47,700 between 2017 and 2016 (increase of \$112,606 between 2016 and 2015) due to an increase in investor's relations.

FINANCIAL POSITION ANALYSIS

As at December 31, 2017, total assets are higher compared to December 31, 2016. This is mainly due to an increase in exploration and evaluation assets to \$49,773,697 in 2017 compared to \$44,741,815 in 2016 and to the exercise of the options for the land for \$600,000.

Accounts payable and accrued liabilities as at December 31, 2017 remain approximately the same, from \$1,976,203 in 2016 to \$1,924,840 in 2017.

Non-current liabilities as at December 31, 2017 of \$26,306,427 are higher than at December 31, 2016, of \$5,793,944, as a result of the classification of the credit line as a non-current liability in relation to the extension of the credit line maturity until January 2019 (see section financing).

During the year 2017, the Company drew an additional \$1,275,231 from the credit lines. As at the end of December 31, 2017, the Company had no amount available.

CASHFLOWS, LIQUIDITY AND CAPITAL MANAGEMENT

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 cash balance as at December 31, 2017 was \$1,374,881, and it had a current tax credit related to resources and mining tax credit receivables of \$400,620.

Based on current spending estimates for the project's development in 2018, the Company will need additional financing during 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 the securing of 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.

Cash flows provided by (used in)	December 31, 2017 \$	December 31, 2016 \$
Operating activities before the net change in non-cash working capital items	(2,371,477)	(2,522,808)
Net change in non-cash working capital items	(1,283,215)	(608,254)
Operating activities	(3,654,692)	(3,131,062)
Investment activities	(1,399,449)	(2,323,767)
Financing activities	4,199,978	7,591,953
Increase (decrease) in cash and cash equivalents	(854,163)	2,137,124

Operating activities

For the year ended December 31, 2017, cash outflows from operating activities totalled \$3.6 million, while there was \$3.1 million of cash outflows for the same period in 2016. The Company spent more in 2017 than in 2016 to support its activities. The change in non-cash working capital is higher in 2017 than in 2016, this is mostly due to the exercise of the options for the land, which is payable at the beginning of the year 2018.

Investment activities

For the year ended December 31, 2017, cash used in investing activities was \$1.4 million, which reflects expenses for exploration and evaluation assets of \$2.3 million off set by the proceeds from tax credit of \$0.9M. During 2016, exploration and evaluation expenses increased to \$2.3 million.

Financing activities

For the year ended December 31, 2017, \$3.2 million was provided by the issuance of shares from a private placement and \$1.3 million from proceeds from credit lines. In 2016, \$3.2 million was provided by drawing on the non-revolving credit line, \$4.1 million from a new loan and \$0.4 million from the exercise of broker warrants.

FINANCING

Working capital

The working capital was \$290,625 on December 31, 2017 compared to a negative working capital of \$15,439,763 as at December 31, 2016.

Management estimates that the cash available at the end of December 31, 2017 will not be sufficient to meet the Company's obligations and budgeted expenditures through December 31, 2018. These circumstances lend some 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 are an ongoing concern. The Company will need to secure financing in 2018. If management is unable to obtain new funding, the Company may be unable to continue its operations, and the amounts realized for assets might be less than the amounts reflected in the financial statements.

On August 22, 2017, Arianne closed a \$2,306,000 financing. Under the terms of the financing, Arianne 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 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.

On December 29, 2017, Arianne closed a \$1,915,219 financing. Under the terms of the financing, Arianne issued 3,040,030 units at a price of \$0.63 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 \$0.85 until December 29, 2020. The fair value of the warrants was calculated using the Black-Scholes pricing model and amounted to \$68,419. 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 \$1.25 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 paid finder fees of \$43,029 and issued 66,800 non-transferable warrants exercisable at a price of \$0.63 per share until December 29, 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 April 30, 2018.

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. Net of tax credits received, the Company had access to \$983,344 during 2017.

"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 (note 12). The transaction has been accounted for as a non-monetary transaction in the statement of cash flows."

As well, the Board of Directors of the Company adopted a resolution and obtained the approval from the TSX Venture Exchange to extend the expiry date for the following:

- In January 2017, 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 purchase one common share at a price of \$1.45 per share until January 27, 2017. These warrants were amended in January 2017 to extend their expiration date to January 2018. All other terms and conditions remained similar. The fair value of the extended warrants was estimated at \$15,994 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 year ended December 31, 2017.
- In July 2017, the Company amended the terms and conditions of 2,815,500 warrants granted on July 31, 2014. Initially, each warrant entitled its holder to purchase one common share at a price of \$1.25 per share until July 31, 2017. These warrants were amended in July 2017, to extend the expiry date to July 31, 2018. All other terms and conditions remained similar. The fair value of the extended warrants was estimated at \$73,635 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 year ended December 31, 2017.
- In October 2017, the Company amended the terms and conditions of 1,184,500 warrants granted on October 16, 2014. Initially, each warrant entitled its holder to purchase one common share at a price of \$1.25 per share until October 15, 2017. These warrants were amended in October 2017, to extend the expiry date to October 15, 2018. All other terms and conditions remained similar. The fair value of the extended warrants was estimated at \$22,609 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 year ended December 31, 2017.

SUMMARY OF QUARTERLY RESULTS

	March 31, 2016 \$	June 30, 2016 \$	September 30, 2016 \$	December 31, 2016 \$	March 31, 2017 \$	June 30, 2017 \$	September 30, 2017 \$	December 31, 2017 \$
Net loss	(849,935)	(766,015)	(826,516)	(732,702)	(799,705)	(780,394)	(800,930)	(1,037,546)
Basic and diluted loss per share	(0.01)	(0.01)	(0.01)	(0.01)	(0.01)	(0.01)	(0.01)	(0.01)

For each quarter in fiscal 2016 and fiscal 2017, the information contained in the summary of quarterly results is presented in accordance with IFRS. Amounts in this table are presented in Canadian dollars which is also the functional currency.

In 2016, the net loss in almost every quarter was higher than in 2017. For the first three quarters of 2017, the activities have remained stable, but last quarter of 2017 was higher due to the deferred income taxes recorded off set by the higher salary capitalized in exploration and evaluation assets, since those salaries are qualified as development of the mining project admissible to the mining tax credit receivable.

The year-over-year decline in net loss was due to a series of measures that the Company undertook in order to reduce its expenses, as well as to primarily focus on permitting activities and financing alternatives, which required less working capital.

SUMMARY OF FINANCIAL ACTIVITIES FOR THE THREE-MONTH PERIOD ENDED DECEMBER 31, 2017

The net loss in Q4 2017 decreased to \$581,984 versus \$732,702 in Q4 2016. The net loss for the last quarter also included \$129,448 (\$64,192 in 2016) of salaries and benefits. This is due to the classification of salaries in the exploration and evaluation assets admissible to the mining right.

RELATED PARTY TRANSACTIONS

The following operations occurred during the year ended December 31, 2017 and 2016:

	2017 \$	2016 \$
Key management compensation (1)		
Share-based compensation	101,870	115,422
Management fees	<u>119,749</u>	<u>52,500</u>
	221,619	167,922
Salaries and benefits (2)	<u>388,665</u>	<u>377,280</u>
	<u>610,284</u>	<u>545,202</u>
Balance included in accounts payable and accrued liabilities	9,580	-

(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 \$247,302 (\$204,015 in 2016).

The Company has entered into employment and management contracts with its key executives whose estimated annual remuneration amounts to \$600,000. These contracts are renewable annually. The agreements with the Company's key executives contain provisions that apply in case of termination without cause or a change of control. If all executive team members had been dismissed without cause on December 31, 2017, the Company would have had to pay a total amount of \$600,000 as severance. If a change of control had occurred on December 31, 2017, 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 December 31, 2017, 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.

OFF BALANCE SHEET ARRANGEMENTS

As of the date of this MD&A, the Company does not have any off-balance sheet arrangements that have, or are reasonably likely to have, a current or future effect on the results of operations or financial condition of the Company, including, and without limitation, such considerations as liquidity and capital resources.

OBLIGATIONS AND 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 \$127,345. 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 of the Chicoutimi office, truck rentals and Lac à Paul camp are as follows:

	Within 1 year	1 to 5 years	After 5 years	Total
December 31, 2017	120,388	5,379	-	125,767

The following are the contractual maturities of financial liabilities, including interest where applicable as at December 31, 2017:

	Carrying amount \$	Contractual cash flows \$	0 to 12 months \$	12 to 24 Months \$	More than 24 months \$
Accounts payable and accrued liabilities	1,924,840	1,924,840	1,924,840	-	-
Loan	3,728,306	3,728,306	328,000	4,432,625	-
Credit line	19,642,554	23,548,402	-	23,548,402	-

SIGNIFICANT ACCOUNTING POLICIES, APPLICATION OF NEW ACCOUNTING STANDARDS AND CRITICAL ACCOUNTING ESTIMATES

The preparation of consolidated financial statements in conformity with IFRS requires management to make estimates and assumptions that affect amounts reported in the financial statements and accompanying notes. There is a summary of significant accounting policies in note 2, a summary of new accounting standards in note 3 and a summary of the critical accounting estimates and judgements in the note 4 of the financial statements for the year ended December 31, 2017.

FINANCIAL INSTRUMENTS, FINANCIAL RISKS AND CAPITAL MANAGEMENT

The Company's financial instruments, financial risk and capital management are presented and described in the audited consolidated financial statements for the year ended December 31, 2017.

EVENT AFTER THE REPORTING PERIOD

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 purchase one common share at a price of \$1.45 per share until January 27, 2017. These warrants were amended in January 2017 to extend their expiration date to January 2018. These warrants also were amended in January 2018 to extend their expiration date to July 2018. All other terms and conditions remained similar. The fair value of the extended warrants was estimated to nil considering the fair value of the original warrants existing on the date of the amendment, according to the Black-Scholes model.

INFORMATION ON SHARES OUTSTANDING

As at February 27, 2018, 103,570,610 common shares are issued and outstanding. There are 5,842,834 shares stock options, 28,640,504 warrants and 428,600 options granted to brokers outstanding.

(s) Jean-Sébastien David
Jean-Sébastien David
Chief Operating Officer

(s) Jim Cowley
Jim Cowley
Director and Interim CFO

Board of Directors and Officers

Dominique Bouchard, Executive Chairman of the Board of Directors

Brian Ostroff, Director and Chief Executive Officer

Jim Cowley, Director and Interim Chief Financial Officer

Steven L. Pinney, Director

Dave DeBiasio, Director

Siva J. Pillay, Director

Marco Gagnon, Director

Jean-Sébastien David, Chief Operating Officer

Daniel Boulianne, Vice-president exploration and First Nations Relations

Ticker symbols

DAN: TSX-V (Canada)

JE9N: FSE (Germany)

DRRSF: OTC (USA)

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