

ARIANNE PHOSPHATE INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Second Quarter 2016

Period ended June 30, 2016

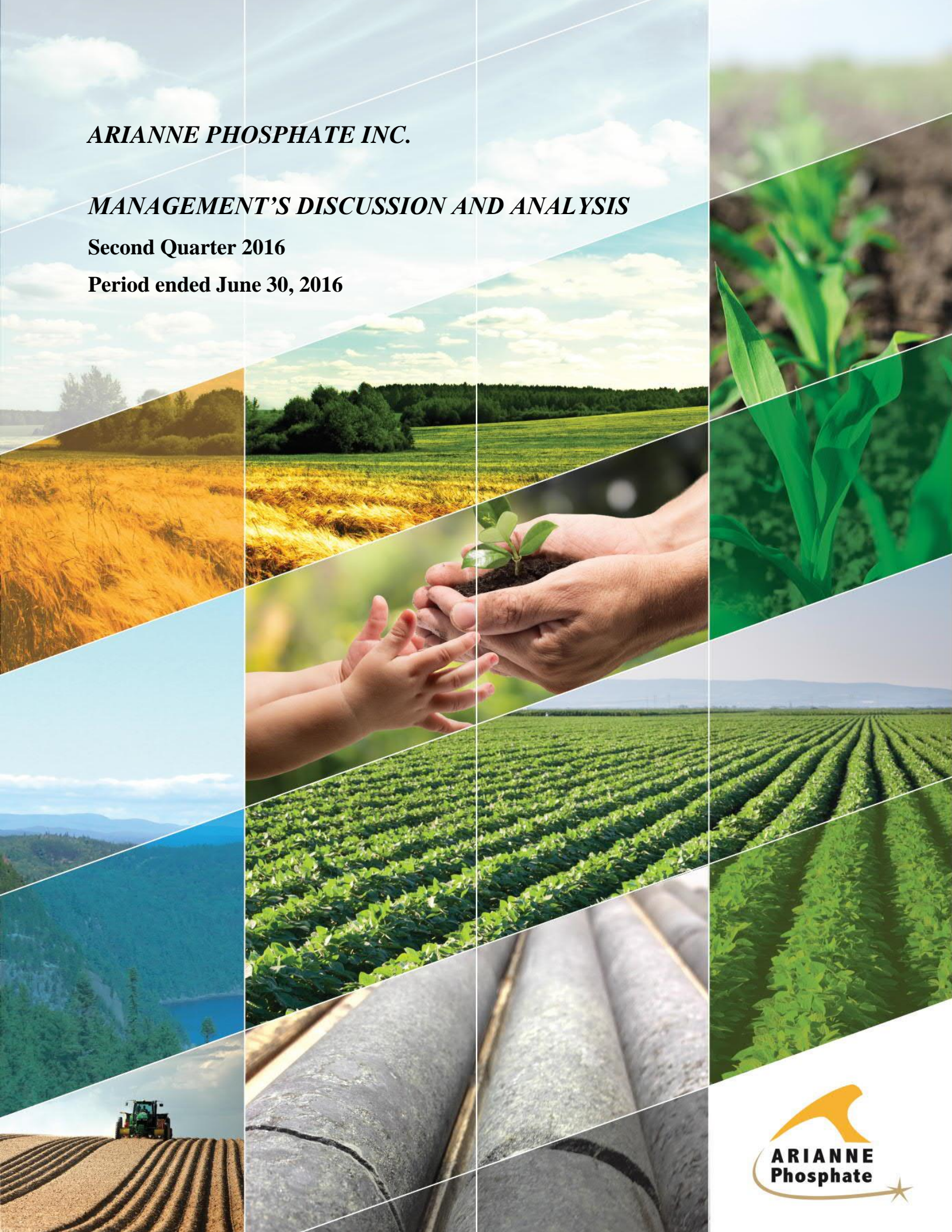


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This Management's Discussion and Analysis ("MD&A") presents an analysis of the financial situation and operations of Arianne Phosphate Inc. ("Arianne" or the "Company") for the period ended June 30, 2016. This report was prepared in compliance with the provisions of Form 51-102F1, approved by the Board of Directors and dated August 25, 2016. It should be read in conjunction with the unaudited condensed consolidated interim financial statements for the period ended June 30, 2016 (the "financial statements").

The accounting policies followed in the financial statements are consistent with those applied in the Company's annual financial statements for the year ended December 31, 2015. The financial statements should be read in conjunction with the Company's consolidated and audited annual financial statements for the year ended December 31, 2015 which have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the Interim Financial Reporting, as issued by the International Accounting Standards Board ("IASB").

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.

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

- On June 28, 2016, the Company has announced that they have engaged **Endeavour Financial to act as their project finance advisor**. Endeavour's role is to work with management in reviewing various financing strategies and assist in discussions with potential lenders and partners.

Endeavour Financial is a private independent merchant banking company focused on providing expert and unbiased financial advisory services to the global natural resources sector. Endeavour Financial has a history of achieving success for clients based on resource industry focus, innovative transaction skills and the diverse professional backgrounds of its award-winning team. Offering advice in project, corporate and debt capital markets; equity-linked financings; mergers and acquisitions; and strategic business development over more than two decades, Endeavour Financial has established itself as a leading financial advisor in the natural resources sector. Specific to the mining sector, in the last ten years the firm has closed in excess of US\$ 4 billion of development financings for single-asset emerging producers.

- On June 28, 2016 the Company announced that Arianne shareholders reelected Messrs. Jean Lamarre, Dominique Bouchard, Brian Ostroff, James Cowley, David DeBiasio, Marco Gagnon, Siva Pillay and Steven Pinney as directors of the Company during the Annual General and Special Meeting of Shareholders of the Company held on June 28 in Montreal.
- On March 14, 2016, Pierre Fitzgibbon, stepped down as Chairman and concurrently the Board has appointed **Jean Lamarre as the new Chairman of the Board**. He is fully skilled in international business development, finance and corporate strategy and will be a great addition to Arianne.

Jean Lamarre is also SEMAFO's (Canadian-based mining company with gold production and exploration activities in West Africa) Chairman of the Board of Directors and served as Executive Chair of the Board from June 2008 to December 31, 2014. He has 40 years of business experience in Africa. From 1977 through 1992, Mr. Lamarre held various positions of significant responsibility with Groupe Lavalin Inc., including Vice President, Finance. From 1992 to 1995, he was the Vice President, Special and International Projects for Groupe Canam Manac. In 1995, he became President of Lamarre Consultants, a company representing national and international companies in their efforts to establish or expand their business in Quebec.

Furthermore, the Company announced the appointment of a new **CEO, Brian Ostroff**. His experience will help to consolidate partnerships and financing arrangements.

Brian Ostroff is currently a Director and Executive Vice-President of Windermere Capital. Mr. Ostroff is a graduate of the University of Toronto (1986) having joined RBC Dominion Securities in 1987. In 1999 Mr. Ostroff joined M&A advisory firm Goodrich Capital where he was the Canadian managing partner overseeing mandates across a spectrum of industries with a focus on display technologies and mining. In 2004, Mr. Ostroff moved over to the trading side of the business as a proprietary trader with a large Canadian bank and then subsequently on his own for four years. Mr. Ostroff joined Windermere Capital in 2009, his area of focus is the junior and mid-tier mining sector.

- The Company met deadlines for the port facilities project currently being carried out by the Port of Saguenay. The environmental studies are underway for the Canadian Environmental Assessment Agency (“CEAA”). This significant stage in the project’s development will allow Port of Saguenay to obtain the necessary government approvals in order to begin the construction of the loading facilities and then obtain the permits requested.

OBJECTIVES

Over the short term, the strategic objectives that guide management and the Company’s directors can be summarized as follows:

- Sign the “Cooperation Agreements” with the First Nations; **Achieved during 2015**
- Obtain the Ministerial Decree to develop the Lac à Paul mine; **Achieved during 2015**
- Reduce cash operating production costs and capital expenses; **Ongoing process with significant progress reported during 2015**
- Secure financing for construction and development of the Lac à Paul project; **On going**

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

- Completion of partnership and financing arrangements
- Estimated construction schedule
- Project commissioning
- Continue to enhance the value of the project through project optimization
- To assist the Port of Saguenay in receiving their approval from CEAA to start the construction of the loading facilities (Spring 2017)

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 product 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 tonnes 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 (does not include 164 million tonnes of Manouane Zone mineral resources).
- 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% cutoff 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

Paul Zone growth potential

Through further exploration activities completed last year, Arianne has identified new measured and indicated resources 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 remodeling on 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. In total, Arianne's updated resource estimate now shows a 5% increase in measured and indicated resources (703 Mt vs 669 Mt) over its previously announced resources released.

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 115 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;
- 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.

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 as at December 22, 2015, Arianne is working on finalizing the road layout with different stakeholders to optimize and to reduce the social impact. In order to secure the transport of concentrate, since the beginning of the year, Arianne is in discussion with different specialized carriers for the development of equipment to produce the best performance for Arianne's operations.

Metallurgy

The Company completed a customer trial program that produced a phosphate concentrate with a higher grade and lower contaminants than previously ever achieved by the Company. The customer trial produced 1.2 tonnes of phosphate concentrate with a grade called Arianne 40 of 40.0% of P₂O₅ and a minor element ratio (“MER”) of lower than 0.03%. These tests were completed by adding an additional step beyond Arianne’s already optimized metallurgical process. The results surpass previous metallurgical test work that had produced a P₂O₅ concentrate of 38.8% with 0.089% of contaminants.

Cost savings

The Company has identified additional operating cost savings of US\$12.26 per ton (US\$4.26 per ton of concentrate announced in the first quarter and US\$8 per ton of concentrate announced in the second quarter of 2015) related to its planned production of phosphate concentrate, which now reduces the cash operating costs to US\$79 per ton. The reduction represents a cost savings of 13% below that estimated in the Company’s FS. Arianne generated these cost savings by optimizing its original mine plan and sequencing commencement of mining operations on the western part of the deposit, thereby improving the stripping ratio and allowing the Company to adopt an improved schedule for material waste handling. This calculation was performed using an exchange rate of \$0.95, consistent with that used in the Company’s FS. Furthermore, the Company has secured 115 MW of its energy requirements from the Government of Quebec at the industrial rate (L rate).

Arianne is in discussion with the provincial government to obtain reduction on the power cost (for the first 4 years of operation and on the civil work to upgrade the logging road).

Arianne also met several engineering and construction firms in preparation for commissioning. The Company is confident that the region will have the ability to provide most of its requirements. Arianne also met professionals involved in the construction of similar Quebec-based mining project, and believe that they will be able to benefit from their valuable work experience.

First Nations

Negotiations with the three First Nation communities regarding the Lac à Paul project: Pessamit, Mashteuiatsh and Essipit, led to the signing of a Cooperation Agreement for the Lac à Paul Mining project. The Cooperation Agreement will be 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 common agreement in principle has set out the areas in which Arianne and the three communities have agreed to work together and maintain effective avenues of communication to support our mutual goals.

During the first and second quarter of 2016, numerous meetings were held with the representatives of these three communities.

Community relations Saguenay–Lac-St-Jean

As the Project develops, the Company is maintaining 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 2016, numerous meetings were held with key political, economic and community stakeholders involved in the project.

Economic impact of the project

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 First Nations, so that the project will enable the region to grow and become more competitive.

Port of Saguenay

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

The Port Authority of Saguenay ("Port of Saguenay") has filed a description of the maritime terminal and its adjacent facilities construction project on the north shore of the Saguenay River with the CEEA in April 2015, followed by a 20-day public comment period on this project description. Additional information regarding the functionalities of this process can be viewed on the following web site: <http://www.ceaa-acee.gc.ca>. During the second quarter of 2016, Port of Saguenay has submitted the Environmental Impact Statement ("EIS") to the Agency and this EIS will be review by the Panel during the rest of 2016.

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, in order to minimize the transport impact for the residents of the Zec Martin-Valin and Lake Neil, the Company signed an agreement with those parties to offset the impact of the transport of the concentrate.

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 demand growth 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 of plants.

Phosphate purchasers (potential customers) are concerned with security of supply 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.

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 activities were responsible for the emission of 15.9 tonnes of CO₂ equivalent for the second quarter of 2016 (Table 1). Clearing activities took place at the future mine site in preparation for the geotechnical works was the main source of emissions for the second quarter.

Table 1: Greenhouse gas emissions associated with each of the Company’s activities during the second quarter of 2016 (in tonnes)

| | Total | Administration and field transportation | Representation |
|--------------------------------|--------------|--|-----------------------|
| <i>Work and representation</i> | 15.9 | 3.1 | 12.8 |
| Percentage (%) | 100% | 19% | 81% |

The Company's GHG emissions of CO₂ equivalent is a total of 4,259 tonnes. In order to establish financial equivalents, Arianne uses the annual minimum price in 2016 of \$12.82/tonne GHG, set by the Ministry of Sustainable Development, Environment and the Fight against Climate Change (MDDELCC) at the auction of greenhouse gas emission units. This represents an amount of \$54,600 to be invested in offset measures.

To date, Arianne has invested a total of \$40,948 in research projects. Arianne still has \$13,652 to invest.

SUMMARY OF FINANCIAL ACTIVITIES FOR THE THREE-MONTH PERIOD ENDED JUNE 30, 2016

The net loss for the three-month period ended June 30, 2016 is \$766,015 compared to a net loss of \$1,138,195 for the same period ended June 30, 2015.

The operating loss in 2016 of \$747,000 is lower compared to 2015 (\$1,088,872). This is mainly due to the reduction of the size of the team, because exploration activities were completed and the Company's activities are now focused on the development of the Lac à Paul project. The share-based compensation and salaries and fringe benefits expenses decreased respectively by \$95,478 and \$18,784. The promotion, representation and travel expenses and the management fees expenses decreased respectively by \$31,470 and \$59,200.

The professional and consultant fees are lower by \$76,888, due to the lower level of activities.

SUMMARY OF FINANCIAL ACTIVITIES FOR THE SIX-MONTH PERIOD ENDED JUNE 30, 2016

The net loss for the six-month period ended June 30, 2016 is \$1,615,951 compared to a net loss of \$2,029,395 for the six-month period ended June 30, 2015.

The operating loss in 2016 of \$1,581,560 was lower than in 2015 (\$1,959,061). The decrease between 2016 and 2015 is explained by the lower level of activity thus, reducing respectively the management fees (decrease of 75,875) and salaries and fringe benefits expenses (decrease of \$70,139). There was also less promotion, representation and travel also due to the lower level of activities (decrease of \$53,503).

The decrease in the net loss and the operating loss between the second quarter 2015 and 2016 is explained by the fact that the Company is actually focused on the project financing which will lead to the construction and operation of the Lac a Paul mine.

FINANCIAL POSITION ANALYSIS

As at June 30, 2016, total assets are higher compared to December 31, 2015. This is mainly due to an increase in exploration and evaluation assets to \$43,000,861 in 2016 compared to \$40,502,866 in 2015.

Accounts payable and accrued liabilities as at June 30, 2016 increased from \$1,672,540 in 2015 to \$2,045,325 in 2016. This is due to the higher expenses incurred at the end of this quarter and term of payment.

Non-current liabilities as at June 30, 2016 of \$18,041,150 are higher than at December, 31 2015, of \$14,645,806, as a result of the Company drew an additional \$2,775,000 from its credit lines and repaid \$296,000 by granting of 400,000 shares to the Lender in connection with the warrants exercised and capitalized borrowing cost of \$906,023. As at June 30, 2016, the Company has an amount of \$791,887 available regarding its non-revolving credit line.

CASHFLOWS, LIQUIDITY AND CAPITAL MANAGEMENT

Liquidity risk is the risk that the Company encounters difficulty in meeting obligations associated with its financial liabilities. The Company's cash balance as at June 30, 2016 was \$212,611, and it has a current tax credit related to resources and mining tax credit receivable of \$1,351,926.

Based on current spending estimates for project development in 2016, the Company will need additional financing during 2016. Any funding shortfall may be met in the future in a number of ways including, but not limited to, the issuance of new equity, debt financing or securing capital from potential partners. While management has been successful in securing financing in the past, there can be no assurance that it will be able to do so in the future or that these sources of funding or initiatives will be available to the Company or that they will be available on terms which are acceptable to the Company.

| Cash flows provided by (used in) | Six-month period ended June 30, 2016 \$ | Six-month period ended, June 30, 2015 \$ |
|--|--|---|
| Operating activities before the net change in non-cash working capital items | (1,319,372) | (1,539,996) |
| Net change in non-cash working capital items | (588,384) | (303,361) |
| Operating activities | (1,907,755) | (1,843,357) |
| Investment activities | (704,861) | (627,191) |
| Financing activities | 2,733,307 | - |
| Decrease in cash and cash equivalents | 120,691 | (2,470,548) |

Operating activities

For the six months period ended June 30, 2016, cash outflows from operating activities, in relation to the development to the Lac a Paul project, totalled \$1.3 million, compared to \$1.5 million for the same period in 2015.

Investment activities

For the first six months of 2016, exploration and evaluation expenses were \$2.6 million, however this amount included \$0.9 million of non-cash expenses related to capitalised borrowing costs and \$1.0 million recorded in accounts payables and accrued liabilities. For the six months period ended June 30, 2015, there was \$0.6 million of cash used in investing activities which included expenses for exploration and evaluation assets of \$1.1 million. This was partially reduced by the receipt of the mining tax credit from the Government of Quebec of \$0.5 million.

Financing activities

For the six months period ended June 30, 2016, \$2.7 million was provided by drawing on the non-revolving credit line.

FINANCING

Working capital

The negative working capital is \$242,330 as at June 30, 2016 compared to a negative working capital of \$288,027 as at December 31, 2015. The Company assumes it will receive a significant portion of its tax credit related to resources and mining tax credit during the year 2016.

Management estimates that the cash available at the end of June 30, 2016 will not be sufficient to meet the Company's obligations and budgeted expenditures through December 31, 2016. 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 applicable to a going concern. The Company will need to secure financing in 2016.

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 financial statements.

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

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 of the 2,815,500 transferable shares purchase warrants issued to shareholders on July 31st, 2014. Effective as of July 31st, 2016, the Warrants have been extended for a 12 month period and will expire at 5:00 PM (Eastern Time) on July 31st, 2017.

SUMMARY OF QUARTERLY RESULTS

| | September 30, 2014 | December 31, 2014 | March 31, 2015 | June 30, 2015 | September 30, 2015 | December 31, 2015 | March 31, 2016 | June 30, 2016 |
|----------------------------------|-----------------------|----------------------|-------------------|------------------|-----------------------|----------------------|-------------------|------------------|
| | \$ | \$ | \$ | \$ | \$ | \$ | | |
| Net loss | (1,260,208) | (1,359,032) | (891,200) | (1,138,195) | (913,206) | (1,035,145) | (849,935) | (766,015) |
| 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 2014, 2015 and 2016, 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.

For the two last quarters of 2014, the net loss is higher than from 2015. This is due to the lower level of activities.

For the first quarter of 2015, the net loss decreased by \$467,832 as compared to the last quarter of 2014. This decrease was primarily due to the decrease in size of the team and to the decrease of some activities.

With the project now in the financing stage, expenditures in 2016 are lower than those incurred during the exploration phase, completed at the end of 2014.

RELATED PARTY TRANSACTIONS

The following operations occurred during the period ended June 30, 2016 and 2015:

| | 2016 | 2015 |
|--|---------|---------|
| | \$ | \$ |
| Key management compensation (1) | | |
| Share-based compensation | 67,493 | 311,663 |
| Management fees | - | 88,375 |
| | 67,493 | 400,038 |
| Salaries and fringe benefits (2) | 279,158 | 388,358 |
| | 346,651 | 788,396 |
| Balance included in accounts payable and accrued liabilities | - | 25,750 |

- (1) The key management is composed of the Chief executive officer (CEO), Chief Operating Officer (COO) and the vice-president exploration and First Nations Relations.
(2) Salaries and fringe benefits capitalized to exploration and evaluation assets amount to \$54,261 (\$51,534 in 2015).

The Company has entered into employment and management contracts with its key executives whose estimated annual remuneration amounts to \$600,000. These contracts are renewable annually. The agreements with the Company's key executives contain provisions that apply in case of termination without cause or a change of control. If all executive team members had been dismissed without cause on June 30, 2016, the Company would have had to pay a total amount of \$600,000 as severance. If a change of control had occurred on June 30, 2016, the total amounts payable to the executive team in respect of severance would have totaled \$1,200,000 (assuming they left after a change of control and each named executive opted to receive such compensation).

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

- b) The Company granted contracts in relation to the development of the Lac à Paul project for a total of \$235,999. These contracts do not have termination dates and disbursements will be made in accordance with the project's milestones.
- c) The Company's future minimum operating lease payments for the rent in Chicoutimi office, trucks rental and Lac à Paul camp are as follows:

| | Within 1 year | 1 to 5 years | After 5 years | Total |
|---------------|----------------------|---------------------|----------------------|--------------|
| June 30, 2016 | \$97,647 | \$127,535 | - | \$225,182 |

The following are the contractual maturities of financial liabilities, including interest where applicable as at June 30, 2016:

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

APPLICATION OF NEW AND REVISED IFRS 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 of the financial statements for the year ended December 31, 2015.

FINANCIAL INSTRUMENTS, FINANCIAL RISKS AND CAPITAL MANAGEMENT

The Company's financial instruments, financial risk and capital management are presented and described in the unaudited condensed consolidated interim financial statements for the period ended June 30, 2016.

INFORMATION ON SHARES OUTSTANDING

As at August 24, 2016, 97,648,080 common shares are issued and outstanding. There are 5,327,833 shares stock options, 12,717,500 warrants and 25,425 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

Jean Lamarre, Chairman of the Board of Directors
Dominique Bouchard, Vice-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)

Head Office

393 Racine St. East, Suite 200
Chicoutimi, Québec G7H 1T2
Tel.: 418-549-7316
Fax: 418-549-5750
Email: info@arianne-inc.com