

ARIANNE PHOSPHATE INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Third Quarter 2019

Period ended September 30, 2019

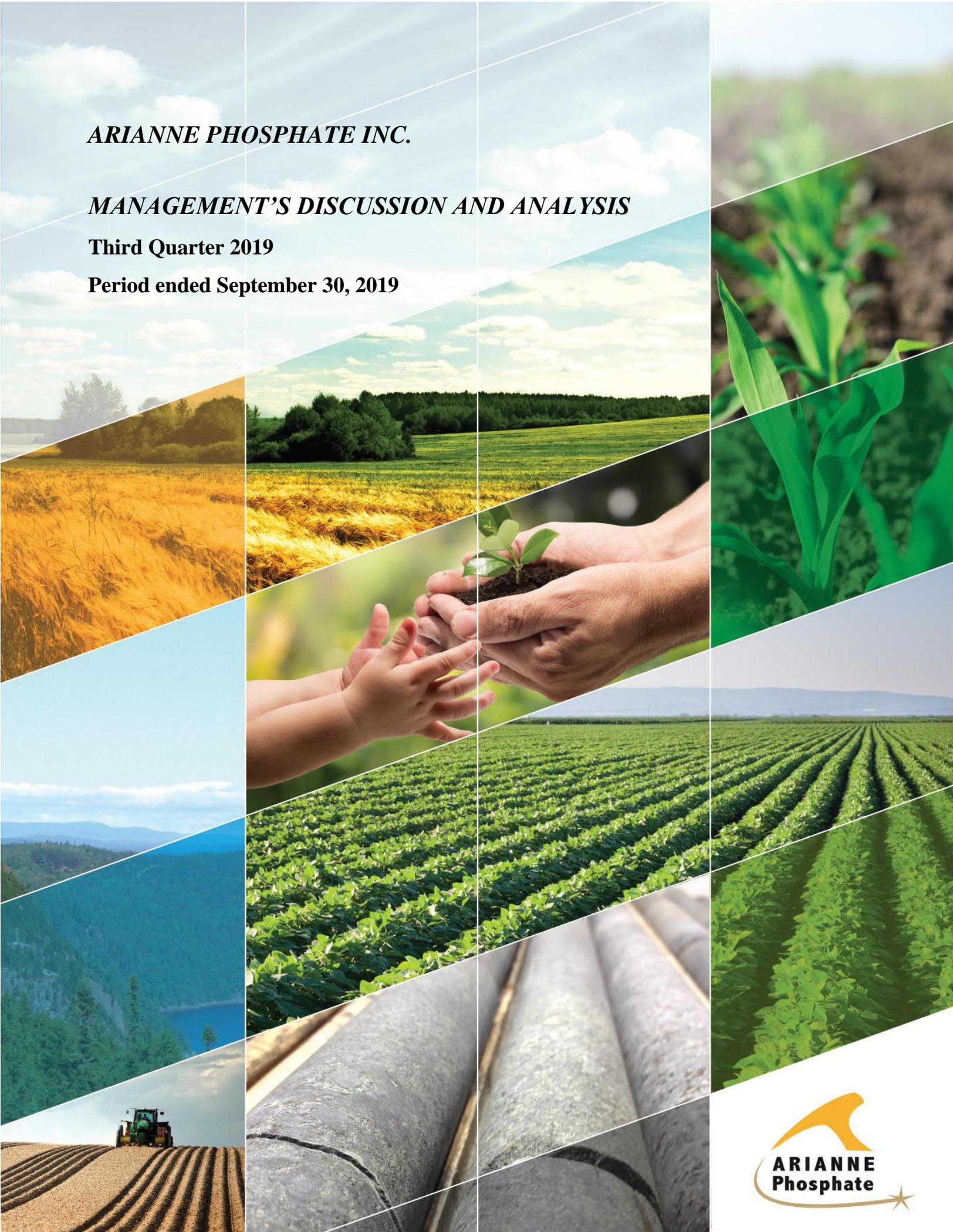


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This Management's Discussion and Analysis ("MD&A") presents an analysis of the financial situation and operations of Arianne Phosphate Inc. ("Arianne" or the "Company") for the period ended September 30, 2019. This report was prepared in compliance with the provisions of Form 51-102F1, approved by the Board of Directors and dated November 26, 2019. It should be read in conjunction with the unaudited condensed consolidated interim financial statements for the period ended September 30, 2019 (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, 2018 and, where required, in Note 2 of the unaudited condensed interim consolidated financial statements for the Nine months period ended September 30, 2019. The financial statements should be read in conjunction with the Company's consolidated and audited annual financial statements for the year ended December 31, 2018, which have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the 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.

Arianne ensures to comply with all relevant host country 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 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

- In October 2019, Arianne has announced that it has received its initial findings back from a study regarding a downstream phosphoric acid facility. The Company's phosphate concentrate responded extremely well to the beneficiation process and resulted in the production of up to a 60% P₂O₅ Merchant Grade Acid ("MGA") compared to the market typical 52% MGA grade. Furthermore, due to the high-quality nature of the phosphate concentrate input, the gypsum by-product produced during the process appears to have commercial value, whereas traditional phosphate concentrates will produce contaminated waste.
- In October 2019, the Company has announced that it has extended on a \$4.1 Million loan with various third-party lenders (the "Loan"). The extended loan is in the aggregate amount of \$4,100,000 and will have a maturity of September 28, 2021. The loan bears interest at 8%, paid semi-annually. As part of the loan extension, the Company issued 7,453,800 non-transferable warrants with each warrant entitling the holder to purchase one common share of the Company at a price of \$0.55 per share for a term of 2 years expiring on September 28, 2021.
- In August 2019, Arianne has closed a \$691,050 equity financing. Under the terms of the financing, Arianne has issued 1,256,455 units at a price of \$0.55 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 \$0.75 until August 21, 2021.
- In July 2019, the Company announced efforts surrounding transportation logistics have significantly progressed. Arianne partnered with several parties to look at greater integration of aluminum into the truck trailer design. Through this initiative over the past year, Arianne and its partners have advanced a design that will be able to reduce the weight of the transport trucks and allow for a greater payload per run. Once integrated, this will result in fewer trucks on the road, increasing safety and reducing the overall environmental impact. As well, this design will bring about greater economies of scale, resulting in a reduction in the cost of transporting Arianne's phosphate concentrate to port and thus, the overall operating cost for its project.
- In July 2019, Arianne announced the addition of Raphael Gaudreault to its team. Raphael will be assuming the position of Director of the mining sector and comes to Arianne after most recently serving as Manager Planning and Mining Performance at Arcelor.

OBJECTIVES

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

- Secure financing for construction and development of the Lac à Paul project (the "Project") (on going);
- Sign an "Impact and Benefit Agreement" (IBA) with the First Nations (on going);
- Continue to optimize its Lac à Paul project by reducing cash operating production costs and capital expenses (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.

OPERATIONAL REVIEW

Off-take agreements

In September and December 2018, the Company announced the formal execution of two off-take agreements. Under the terms of those agreements, the buyers have entered into long-term contracts to purchase Arianne's high-purity phosphate concentrate which will be shipped to the buyers' processing plant for further processing into downstream phosphate products. The off-take agreements also have a mechanism whereby it can be extended beyond the initial contract period and applies pricing that accounts for the high quality of Arianne's concentrate. The Company is conducting ongoing discussion and negotiations with addition potential customers and off-takers.

Fertilizer Agreement Trader

In March 2019, Arianne entered into an agency agreement with Compagnie Indo Française de Commerce ("CIFC") to market and sell Arianne's high-purity, low-contaminant phosphate concentrate into the Indian market. Based in New Delhi, India, Compagnie Indo Francaise de Commerce Pvt. Ltd. is a private company. CIFC's business includes the trading, sale, marketing and supply of critical raw materials to India, including fertilizers, agricultural chemicals and animal feeds.

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, a preliminary economic model has been built and further review with the potential partner is ongoing.

In August 2018, the Company is continuing its initial in-house review regarding the construction of a downstream phosphoric acid facility and, in conjunction with this review, the Company has entered into a MoU for the supply of sulphuric acid.

Aside from phosphate rock, a phosphoric acid plant would also require a supply of sulphuric acid that could be consistently delivered in timely fashion. It is on this basis, that Arianne has entered into an MoU with a large marketer of sulphuric acid. This agreement will allow the Company to work with a strong industry player that can provide the venture ongoing guidance on sulfuric acid pricing, logistics and industry supply/demand trends; all necessary aspects in determining the project's viability.

In August 2018, the company announced that it has partnered with the Province of New Brunswick to further its review of constructing a phosphoric acid plant in Belledune, New Brunswick. As part of this agreement, the Government, through Opportunities New Brunswick ("ONB"), will provide a financial contribution toward the cost of a prefeasibility study, the next step in Arianne's assessment of its downstream opportunity.

In Q1 2019, the Company has delivered samples of its Lac à Paul phosphate rock to commence the metallurgical test work which forms the basis of the prefeasibility study. Consultants have further been engaged and are awaiting the test work results to finalize the initial flow sheet for the plant.

In Q2 2019 a kick off meeting was held in Belledune New-Brunswick (NB), with local stake holders and consultants. We received positive indications regarding the quality of the acid produced. Furthermore, initial discussions were held with key stakeholders, including local First Nation groups.

In October 2019, Arianne has received the final report regarding a downstream phosphoric acid facility. Arianne phosphate concentrate responded extremely well during the process and was capable of producing a 60% P₂O₅ Merchant Grade Acid (“MGA”) and opposed to usual 52% MGA and, therefore, should be able to be sold at higher margin. Further, because of the high-quality nature of the Arianne phosphate concentrate input, the gypsum by-product produced during the process appears to have commercial value, as opposed to the typical contaminated waste generated by using traditional phosphate rock sources. These tests should now allow us to continue discussions with several groups that have indicated an interest in the possibilities of a phosphoric acid facility. With the right partner, the facility can have numerous advantages; control of its own rock source will provide an economic benefit as well as allow for greater security of supply. In addition, it will also provide a buyer for roughly 40% of Arianne future mine production.

Paul area growth potential

Through further exploration activities completed in 2014, Arianne estimated, in 2015, 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 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 areas on Arianne’s claims

Arianne’s claims also include five deposits with resources identified. 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. Nicole zone has an amount of 78 million tonnes of inferred resources (1) at 5.34% P₂O₅ with a 3.5% cut-off grade. 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 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.

In May 2019, the Company received the certificate of authorization permitting the construction of a 161-kV power line of 46 km and the extension of the substation at Chute-des-passes power dam.

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 Phosphate is currently working with Alcoa Innovation and the National Research Council of Canada (NRC) to integrate aluminum in the design of the trailer that will transport the phosphate concentrate from the Lac à Paul mine to the deep-water port that will be located in Sainte-Rose-du-Nord. The purpose of this research is to reduce the weight of the transport trucks and allow for a greater payload per run. The research project is divided into two objectives:

1. For the design of the trailer, gain a better understanding of the properties of phosphate concentrate that will be transported.
 - a. Heat density;

- b. Thermal conductivity;
 - c. The rate of moisture absorption of the concentrate during transport;
 - d. Quantify the wear of the bed's coating by friction (abrasiveness).
2. Obtain three truck bed concepts to calculate the feasibility and potential gains of using aluminum in trailers.
- a. Substitution of steel by aluminum on a trailer initially made of steel;
 - b. Design of an aluminum dump box with a rounded section;
 - c. Design of an aluminum dump box with a section with straight lines.

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.

In 2018, additional testing, conducted at COREM (Research Consortium for the Treatment and Processing of Mineral Substances) on 145 tonnes of ore, produced 23 tonnes of concentrate with an average of 38.8% P₂O₅ confirming the ability to produce high purity concentrate on a larger scale.

MoU agreements to benefit the Lac à Paul project

The Arianne team has been working hard on securing various aspects for the project with key suppliers for developing the Lac à Paul project. In 2019, Arianne signed a MOU with SINOCONST, a large Chinese state-owned enterprise to work towards a final binding agreement relating to the development of Arianne's Lac à Paul project which, would include full project financing. Discussions are ongoing.

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. Negotiation on the Impacts and Benefits Agreement (IBA) is on going. Several meetings were held.

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 2018, numerous meetings have been 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.

In October 2018, the Company announced its association with the Saguenay Lac St-Jean Regional Economic Benefits Maximization Committee (CMAX) (referring to 02 Economic Development (02 ED)). CMAX is a tool that was put in place to maximize the benefits of large projects. Arianne will benefit from the regional expertise of this group and have access to the expertise of some 2000 Saguenay Lac St-Jean companies.

In June 2019, the Regional Manufacturers Corporation and the Haut-Saguenay Community Development Corporation published an independent study on the potential significant socio-economic impacts of the Arianne Phosphate, BlackRock Metals and Energy Saguenay, which concludes that their construction will multiply by 5 the number of workers in the regional construction industry (3.68 years), and with a remuneration of 30.6% above the level currently observed, 7,076 inhabitants will add 2.6% to the regional population, including 1,962 children under 15 years of age. In the same direction, the remuneration of new permanent jobs generated will be 35.3% higher than the average currently observed in the region.²

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.

In 2016, Port of Saguenay submitted the Environmental Impact Statement ("EIS") to the Agency which was reviewed by the Panel. Later 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.

² Groupe Performance Stratégique Inc. 2019. Impacts des grands projets sur l'économie du Saguenay-Lac-St-Jean. Étude prepared by Société des Fabricants Régionaux du Saguenay-Lac-St-Jean, SADC from Haut Saguenay and Promotion Saguenay. June 2019. PDF. 24 p. <https://informeaffaires.com/file/4203/download?token=PcRd6DC1>

In October 2018, the Company announced that the Port of Saguenay has received a favorable decision with regards to the construction of a maritime terminal facility on the north shore of the Saguenay River. Granted by the Minister for the Environment and Climate Change, the Honorable Catherine McKenna, this decision now paves the way forward for the construction of a terminal that will allow for the shipping of Arianne's phosphate concentrate to customers around the world.

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. The last phosphate mine in Canada closed in 2013. Global demand for phosphate is expected to increase over the medium and long term 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 16.5 tonnes of CO₂ equivalent for the second quarter of 2019 (Table 1).

Table 1: Greenhouse gas emissions associated with each of the Company's activities during the second quarter of 2019 (in tonnes)

	Total	Administration and field transportation
<i>Work and representation (tonnes)</i>	25.2	25.2
Percentage (%)	100%	100%

Table 2: Summary of offset measures implemented by Arianne as of September 30, 2019.

Emissions	Tonnes
1999-2010	867
2011	222
2012	963
2013	100
2014	2,070
2015	37
2016 ⁽¹⁾	207
2017 ⁽¹⁾	45
2018 ⁽¹⁾	29
2019 ⁽¹⁾	25.2
Financial equivalents	4,259
Price/tonne CO ₂ (\$/tonne)	20.82
Amount to offset (\$)	88,672
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	43,252

- (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.

FINANCIAL POSITION ANALYSIS

As at September 30, 2019, total assets were \$63,383,280 compared to \$56,887,529 as at December 31, 2018. The primary reason for the increase is the capitalization of development costs and right-of-use assets which are partially offset by a decrease in cash and cash equivalents. As the Company reclassified its' Lac a Paul project from exploration stage to development stage at the end of 2018, added costs are capitalized. During 2019, cost which have been capitalized relate to a prefeasibility study for a downstream phosphoric acid plant, work with the port of Saguenay toward the construction of a maritime terminal and work to comply with the request from the permits from the Canadian Environmental Assessment Agency, design of the trailer truck to look at greater integration of aluminium and the capitalization of carrying costs.

Accounts payable and accrued liabilities decreased from \$2,461,280 as at December 31, 2018 to \$1,304,570 as at September 30, 2019 as a result of the Company servicing the underlying obligations as evidenced by a decreased in cash and cash equivalents and addition capital raised via the issuance of capital stock.

Current liabilities of \$28,299,008 as at September 30, 2019 have increased from \$7,786,230 as at December 31, 2018. Which is the result of the credit line facility being re-classified as a current liability with its maturity date of June 30, 2020.

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 September 30, 2019 was \$1,063,193 and it had a current mining tax credit receivable of \$79,078.

Based on current spending estimates for the project's development, the Company will need additional financing in the next 12 months. Any funding shortfall may be met in the future in several 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)	Three-month period ended September 30, 2019 \$	Three-month period ended September 30, 2018 \$	Nine-month period ended September 30, 2019 \$	Nine-month period ended September 30, 2018 \$
Operating activities	(318,833)	453,648	(1,687,841)	(630,479)
Investment activities	(490,333)	(1,113,992)	(1,699,865)	(1,139,597)
Financing activities	627,184	-	2,374,168	1,323,981
Increase (decrease) in cash and cash equivalents	(181,982)	(660,344)	(1,013,538)	(446,090)

Operating activities

For the nine-month period ended September 30, 2019, cash outflows from operating activities totalled \$1.7 M (million), while there was outflows of \$0.6 M of cash for the same period in 2018. The reason for the change in operating activities from the nine-month period ended September 30, 2018 is due to a grant received of \$0.4 M in 2018 and a larger balance of accounts payable and accrued liabilities outstanding at period end. For the three-month periods ended September 30, the difference is due to the timing in accounts payable and accrued liabilities.

Investment activities

For the nine-month period ended September 30, 2019, cash used in investing activities was \$1.7 M, whereas \$1.1 M was paid in the comparative period, both reflecting costs capitalized for property, plant and equipment. The increase is an investment in the development asset: work with the port of Saguenay, phosphoric acid plant prefeasibility study, design of the trailers with integration of aluminium and environmental compliance with the decree. Furthermore, the Company received \$0.3M in tax credit proceed in the nine-month period ended September 30, 2019, nil for the nine-month period ended September 30, 2018. For the three-month period ended September 30, 2019 the cash used in investing activities was \$0.5 M, this amount is net from a grant received for the phosphoric acid plan prefeasibility study and the R&D for the trailers both amounting of \$0.07 M. The variance for the three-month periods is largely due to timing of the development activities.

Financing activities

For the nine-month period ended September 30, 2019, \$2.2 M of cash inflow was provided by the issuance of shares from a private placement and through the exercise of warrants. For the period of three-month ending September 30, 2019, the inflow provided by issuance of shares represent \$0.7M. Whereas, for the nine-month period ended September 30, 2018, \$1.4M was provided by the issuance of shares from a private placement offset by \$0.1M of financing fees.

FINANCING

Financing

In August 2019, Arianne has closed on a \$691,050 financing. Under the terms of the financing, Arianne has issued 1,256,455 units at a price of \$0.55 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 \$0.75 until August 21, 2021.

In May 2019, the Company had closed a \$1.5 million investment from the Government of Quebec by way of private placement into the common shares of Arianne. Under the terms of the offering, the Government of Quebec is subscribing for 3,671,970 common shares of the Company at a price of \$0.4085 per share. The securities issued in connection with the financing are subject to a regulatory hold period of four months and one day expiring on September 6, 2019.

Working capital

The negative working capital was \$26,985,849 on September 30, 2019, compared to a negative working capital of \$5,248,360 as at December 31, 2018. The working capital decreased due to the classification in the current liabilities of the credit line for the quarter ending September 30, 2019.

Management estimates that the cash available at the end of September 30, 2019 will not be sufficient to meet the Company's obligations and budgeted expenditures through September 30, 2020. 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 2019. 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.

SUMMARY OF QUARTERLY RESULTS

	December 31, 2017 \$	March 31, 2018 \$	June 30, 2018 \$	September 30, 2018 \$	December 31, 2018 \$	March 31, 2019 \$	June 30, 2019 \$	September 30, 2019 \$
Net income (loss)	(1,037,546)	(696,480)	(206,900)	(531,642)	(495,064)	(631,282)	(641,842)	(429,177)
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 2017, 2018 and 2019 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.

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 SEPTEMBER 30, 2019

The net loss for the three-month period ended September 30, 2019 was \$429,177 compared to a net loss of \$531,642 for the three-month period ended September 30, 2018. This is the result in a decrease in salaries and benefit, professional fees, and consultant and communication due to reduced manpower count and operating activities.

The operating loss in 2019 of \$398,626 was lower compared to \$504,891 in 2018, due mainly to the aforementioned reduction in expenses above.

SUMMARY OF FINANCIAL ACTIVITIES FOR THE NINE-MONTH PERIOD ENDED SEPTEMBER 30, 2019

The net loss for the nine-month period ended September 30, 2019 was \$1,683,288 compared to a net loss of \$1,435,021 for the nine-month period ended September 30, 2018. While the operating loss in 2019 of \$1,633,157 was higher compared to \$1,197,119 in 2018. The difference between periods is primarily due to a government granted \$428,170 received in the comparative periods which reduced the net and operating loss. This is partially offset by lower manpower count and reduced operating activities.

RELATED PARTY TRANSACTIONS

The following operations occurred during the period ended September 30, 2019 and 2018:

	2019 \$	2018 \$
Key management compensation (1)		
Share-based compensation	57,135	42,721
Management fees	<u>213,333</u>	<u>142,500</u>
	270,468	185,221
Salaries and benefits (2)	217,835	295,503
	488,303	480,724
Balance included in accounts payable and accrued liabilities	29,166	-

(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 \$151,422 (\$168,697 for the period ended September 30, 2018).

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, 2019, 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, 2019, the total amounts payable to the executive team in respect of severance would have totaled \$1,050,000 (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, 2019, the total amounts payable to the executive team in respect of severance would have totaled \$1,300,000 (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 \$116,412. 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, 2019	120,239	257,755	-	377,994

The following are the contractual maturities of financial liabilities, including interest where applicable as at September 30, 2019:

	Carrying amount	Contractual cash flows	0 to 12 months	12 to 24 months	More than 24 months
	\$	\$	\$	\$	\$
Accounts payable and accrued liabilities	1,304,570	1,304,570	1,304,570	-	-
Loan	5,299,725	5,299,725	1,611,610	3,688,115	-
Credit lines	25,382,828	28,942,258	28,942,258	-	-

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 condensed consolidated interim financial statements for the nine-month period ended September 30, 2019, and a summary of the critical accounting estimates and judgements in the note 4 of the audited financial statements for the year ended December 31, 2018.

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 September 30, 2019.

INFORMATION ON SHARES OUTSTANDING

As at November 26, 2019, 111,458,250 common shares are issued and outstanding. There are 6,859,500 shares stock options, 35,989,181 warrants and 353,140 options granted to brokers outstanding.

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

(s) Andrew Malashewsky
Andrew Malashewsky
Chief Financial Officer

Board of Directors and Officers

Dominique Bouchard, Executive Chairman of the Board of Directors

Brian Ostroff, Director and Chief Executive Officer

Jim Cowley, Director

Steven L. Pinney, Director

Siva J. Pillay, Director

Marco Gagnon, Director

Claude Lafleur, Director

Jean Fontaine, Director

Jean-Sébastien David, Chief Operating Officer

Andrew Malashewsky, Chief Financial Officer

Ticker symbols

DAN: TSX-V (Canada)

JE9N: FSE (Germany)

DRRSF: OTC (USA)

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