ARIANNE PHOSPHATE INC.
CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (UNAUDITED)
SIX-MONTH PERIODS ENDED JUNE 30, 2019 AND JUNE 30, 2018
(in Canadian dollars)

Condensed consolidated interim financial statements for the three and six-month period ended June 30, 2019 haven't been reviewed by the auditors.

ARIANNE PHOSPHATE INC.

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ARIANNE PHOSPHATE INC.

CONSOLIDATED INTERIM STATEMENTS OF FINANCIAL POSITION
(In Canadian dollars)

	As at June 30, 2019	As at December 31, 2018
ASSETS		
Current assets		
Cash and cash equivalents (note 3)	1,245,175	2,076,731
Receivables and other current assets	186,402	145,149
Sales taxes receivable	34,543	43,672
Mining tax credit receivable	79,078	272,318
	1,545,198	2,537,870
Non-current assets		
Mining tax credit receivable	43,331	79,079
Investment property – Outfitters (note 4)	311,045	282,669
Property, plant and equipment (note 5)	59,675,345	56,887,529
	60,029,721	57,249,277
Total assets	61,574,919	59,787,147
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities (note 6)	1,434,608	2,461,280
Loans and working capital facility (note 7)	5,585,677	5,324,950
	7,020,285	7,786,230
Non-current liabilities		
Credit line (note 8)	24,159,553	22,271,587
Deferred income taxes	3,053,312	3,008,228
Total liabilities	34,233,150	33,066,045
Equity		
Capital stock (note 9)	62,029,159	60,194,364
Warrants (note 10)	1,225,618	1,260,413
Contributed surplus	13,964,777	13,865,552
Deficit	(49,877,785)	(48,599,227)
Total equity	27,341,769	26,721,102
Total liabilities and equity	61,574,919	59,787,147

GOING CONCERN (note 1)
COMMITMENTS (note 13)
EVENTS AFTER REPORTING PERIOD (note 16)

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

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

(s) Andrew Malashewsky, CFO

ARIANNE PHOSPHATE INC.

CONSOLIDATED INTERIM STATEMENTS OF LOSS AND COMPREHENSIVE LOSS
FOR THE THREE AND SIX-MONTH PERIODS ENDED JUNE 30, 2019 AND 2018

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

	Three-month period ended June 30, 2019	Three-month period ended June 30, 2018	Six-month period ended June 30, 2019	Six-month period ended June 30, 2018
	$	$		$
EXPENSES				
Salaries and benefits	124,625	193,609	294,223	423,610
Share-based compensation	47,123	25,211	99,225	76,037
Professional and consultant fees	237,767	21,549	298,226	93,078
Management fees	73,333	47,500	155,833	95,000
Registration and listing fees	11,862	9,666	52,084	68,025
Annual general meeting	14,304	9,599	14,304	9,599
Communications	51,424	97,065	149,413	192,100
Promotion, representation and travel	28,669	30,998	54,401	43,598
Insurance	9,488	11,481	18,194	20,227
Rent and office expenses	35,800	43,721	83,265	111,474
Depreciation of property, plant and equipment	6,125	7,542	12,576	15,489
Gain on disposal property, plant and equipment	-	(30,000)	-	(30,000)
Bank charges	1,322	1,701	2,785	2,160
Governmental grant	-	(428,170)	-	(428,170)
Operating loss	641,842	41,472	1,234,529	692,227
OTHER EXPENSES (INCOME)				
Interest income	(4,978)	(6,895)	(10,309)	(8,756)
Foreign exchange loss	1,509	1,250	9,849	3,080
Net (income) loss of investment property – Outfitters (Note 4)	(37,552)	18,390	(25,042)	38,198
	(41,021)	12,745	(25,502)	32,522
LOSS BEFORE INCOME TAXES	**600,821**	**54,217**	**1,209,027**	**724,749**
Deferred income taxes	22,008	152,683	45,083	178,630
NET LOSS AND COMPREHENSIVE LOSS FOR THE PERIOD	**622,829**	**206,900**	**1,254,110**	**903,379**
BASIC AND DILUTED LOSS PER SHARE	**0.01**	**0.01**	**0.01**	**0.01**
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING	**106,390,130**	**99,360,101**	**106,581,973**	**99,360,101**

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

ARIANNE PHOSPHATE INC.

CONSOLIDATED INTERIM STATEMENTS OF CHANGES IN EQUITY
FOR THE SIX-MONTH PERIOD ENDED JUNE 30, 2019 AND DECEMBER 31, 2018
(in Canadian dollars, except for the number of shares)

	Capital stock	Capital stock	Warrants	Contributed surplus	Deficit	Total equity
	Common shares	$	$	$	$	$
Balance as at January 1, 2019	105,803,943	60,194,364	1,260,413	13,865,552	(48,599,227)	26,721,102
Net loss and comprehensive loss for the period	-	-	-	-	(1,254,110)	(1,254,110)
Share-based compensation (note 10)	-	-	-	99,225	-	99,225
Private Placement (note 9)	3,671,970	1,500,000				1,500,000
Share issuance expenses		-			(24,448)	(24,448)
Exercise of warrants (note 10)	705,882	334,795	(34,795)			300,000
Balance as at June 30, 2019	110,181,795	62,029,159	1,225,618	13,964,777	(49,877,785)	27,341,769
Balance as at January 1, 2018	103,570,610	58,828,558	1,547,839	13,515,903	(46,596,910)	27,095,390
Net loss and comprehensive loss for the period	-	-	-	-	(1,930,086)	(1,930,086)
Share-based compensation (note 10)	-	-	-	113,298	-	113,298
Grant of warrants (note 10)	-	-	145,579	-	-	145,579
Warrants expired			(436,351)	436,351	-	-
Private Placement (note 9)	2,233,333	1,365,806	-	-	-	1,365,806
Share issuance expenses	-	-	-	-	(68,885)	(68,885)
Modification of warrants (note 10)	-	-	3,346	-	(3,346)	-
Balance as at December 31, 2018	105,803,943	60,194,364	1,260,413	13,865,552	(48,599,227)	27,721,102

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

ARIANNE PHOSPHATE INC.

CONSOLIDATED INTERIM STATEMENTS OF CASH FLOWS
FOR THE THREE AND SIX-MONTH PERIODS ENDED JUNE 30, 2019 AND 2018
(in Canadian dollars)

	Three-month period ended June 30, 2019	Three-month period ended June 30, 2018	Six-month period ended June 30, 2019	Six-month period ended June 30, 2018
	$	$		$
CASH FLOW FROM (USED IN) OPERATING ACTIVITIES				
Net loss for the period	(622,829)	(206,900)	(1,254,110)	(903,379)
Adjustments for:				
Share-based payments	47,123	25,211	99,225	76,037
Gain on disposal - Property, plant and equipment	-	(30,000)	-	(30,000)
Gain on disposal - Investment property - Outfitters	(5,000)	-	-	-
Depreciation – Investment property - Outfitters	5,591	5,236	10,721	10,472
Depreciation – Property, plant and equipment	6,124	7,545	12,576	15,491
Income taxes and deferred taxes	22,009	152,684	45,084	178,630
Net change in non-cash working capital items (note 11)	259	40,695	(282,503)	(431,378)
	(546,723)	(5,529)	(1,369,007)	(1,084,127)
INVESTING ACTIVITIES				
Proceeds of tax credit	-	-	258,264	-
Disposal of property, plant and equipment	-	30,000	-	30,000
Acquisition of property, plant and equipment	(813,839)	-	(1,428,700)	(6,743)
Acquisition of property, plant and equipment – Outfitter	7,230	-	(39,096)	-
Acquisition of mining properties	-	-	-	(30,571)
Acquisition of exploration and evaluation assets	-	398,139	-	(18,291)
	(806,609)	428,139	(1,209,532)	(25,605)
FINANCING ACTIVITIES				
Transaction cost	-	(870)	(28,568)	(11,014)
Proceeds from the issuance of units	1,500,000	-	1,500,000	1,407,000
Share issuance expenses	(24,448)	(4,219)	(24,448)	(72,005)
Warrants exercised	300,000	-	300,000	-
	1,775,552	(5,089)	1,746,984	1,323,981
CHANGE IN CASH AND CASH EQUIVALENTS DURING THE PERIOD	422,220	417,521	(831,555)	214,249
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	822,955	1,171,609	2,076,730	1,374,881
CASH AND CASH EQUIVALENTS, END OF PERIOD	1,245,175	1,589,130	1,245,175	1,589,130
Supplementary cash flow information (note 11)				
Interest received	4,978	6,895	10,309	8,756

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

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

Arianne Phosphate Inc. (“the Company”), was incorporated under Part IA of the *Companies Act* (Quebec) and was continued under the *Business Corporations Act* (Quebec) (QBCA). The Company is engaged in the development of its Lac à Paul phosphate property located in Quebec, Canada. The Company has a National Instrument 43-101 compliant technical report for its mineral reserve and resource estimate and for a feasibility study on the Lac à Paul property. In October 2018, management determined that the technical feasibility and commercial viability of the Lac à Paul property had been established and accordingly, the development phase for the Lac à Paul property has commenced.

The Company’s shares are listed on the TSX Venture Exchange (symbol DAN), on the Frankfurt exchange (symbol JE9N) and on the US Stock Exchange Over-the-Counter (OTC) (symbol DRRSF). The registered office of the Company is located at 393 Racine Street, Suite 200, Chicoutimi, Quebec, Canada G7H 1T2.

Although management has taken steps to verify titles of mining properties in which the Company has an interest, in accordance with industry standards for the current stage of exploration of such properties, these procedures do not guarantee the Company’s title. Property title may be subject to unregistered prior agreements and non-compliant with regulatory requirements.

These condensed consolidated interim financial statements have been prepared based on accounting principles applicable to a going concern, which contemplates the realization of assets and settlement of liabilities in the normal course of business as they come due. In assessing whether the going concern assumption is appropriate, management takes into account all available information about the future, which is at least, but not limited to, 12 months from the end of the reporting period. For the period ended June 30, 2019, the Company recorded a net loss of $1,254,110 and has an accumulated deficit of $49,877,785 as at June 30, 2019. In addition to ongoing working capital requirements, the Company must secure sufficient funding to meet its obligations and pay general and administration costs.

As at June 30, 2019, the Company had a negative working capital of $5,475,087. Management estimates that the working capital will not be sufficient to meet the Company’s obligations and budgeted expenditures through June 30, 2020. These circumstances lend significant doubt as to the ability of the Company to meet its obligations as they come due and, accordingly, the appropriateness of the use of accounting principles applicable to a going concern. The Company will need to secure additional financing in 2019.

Any funding shortfall may be met in the future in a number of ways including, but not limited to, the issuance of new equity, debt financing or securing capital from potential partners. While management has been successful in securing financing in the past, there can be no assurance that it will be able to do so in the future or that these sources of funding or initiatives will be available to the Company or that they will be available on terms which are acceptable to the Company. If management is unable to obtain new funding, the Company may be unable to continue its operations, and amounts realized for assets might be less than amounts reflected in the condensed consolidated interim financial statements.

These condensed consolidated interim financial statements do not reflect the adjustments to the carrying values of assets and liabilities, expenses and financial position classifications that would be necessary if the going concern assumption was not appropriate. These adjustments could be material.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These condensed consolidated interim financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) applicable to the preparation of interim financial statements, including IAS 34, Interim Financial Reporting, as issued by the International Accounting Standards Board (“IASB”).

The accounting policies followed in these condensed consolidated interim financial statements are consistent with those applied in the Company’s annual consolidated financial statements for the year ended December 31, 2018. These condensed consolidated interim financial statements should be read in conjunction with the Company annual consolidated financial statements for the year ended December 31, 2018, which have been prepared in accordance with IFRS as issued by the IASB.

The Board of Directors approved these condensed consolidated interim financial statements on August 29, 2019.

New accounting policies adopted in 2019

IFRS 16, Leases
In January 2016, the IASB issued IFRS 16. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, which is the customer (“lessee”) and the supplier (“lessor”). IFRS 16 replaces IAS 17, Leases, and related interpretations. All leases result in the lessee obtaining the right to use an asset at the start of the lease and, if lease payments are made over time, also obtaining financing. Accordingly, IFRS 16 will eliminate the classification of leases as either operating leases or finance leases as is required by IAS 17 and, instead, introduces a single lessee accounting model. Applying that model, a lessee is required to recognize: i) assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value; and ii) depreciation of lease assets separately from interest on lease liabilities in the statements of income. The new standard is effective for annual periods beginning on or after January 1, 2019 with early adoption permitted if IFRS 15 is also applied. The standard has been adopted for the period beginning on January 1, 2019. The Company has not a significant impact based on actual lease contracts of the Company.

(in Canadian dollars)

New accounting standard issued but not yet in effect

IFRIC 23 Uncertainty over Income Tax Treatments
On June 7, 2017, the IASB issued IFRIC Interpretation 23 Uncertainty over Income Tax Treatments. The interpretation provides guidance on the accounting for current and deferred tax liabilities and assets in circumstances in which there is uncertainty over income tax treatments.
The interpretation is applicable for the annual period beginning on or after July 1, 2019. Earlier application is permitted. The Interpretation requires an entity to:

- contemplate whether uncertain tax treatments should be considered separately, or together as a group, based on which approach provides better predictions of the resolution;
- reflect an uncertainty in the amount of income tax payable (recoverable) if it is probable that it will pay (or recover) an amount for the uncertainty; and
- measure a tax uncertainty based on the most likely amount or expected value depending on whichever method better predicts the amount payable (recoverable).

The Corporation intends to adopt the Interpretation in its financial statements for the period beginning on July 1, 2019.The extent of the impact of adoption of the Interpretation has not yet been determined.

3. CASH AND CASH EQUIVALENTS

	As at June 30, 2019 $	As at December 31, 2018 $
Cash and cash equivalents	1,245,175	2,076,731

As at June 30, 2019, cash and cash equivalents comprises cash on hand amounting to $1,024,002 bearing interest at a fixed rate 1.75% and an amount of $221,173 not bearing interest. An amount of $30,000 is restricted in connection with the Company's credit card agreement.

As at December 31, 2018, cash and cash equivalents comprise cash on hand amounting to $1,857,521 bearing interest at a fixed rate 1.75% and an amount of $219,210 not bearing interest. An amount of $30,000 is restricted in connection with the Company's credit card agreement.

4. INVESTMENT PROPERTY – OUTFITTERS

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

	Six-month period ended June 30, 2019 $	Six-month period ended June 30, 2018 $
Outfitters income	43,098	31,927
Operating expenses:		
Management fees	21,881	17,503
Repair and maintenance	3,957	5,786
Supplies	6,803	10,295
Advertising, promotion and travel	11,367	11,025
Taxes and licenses	3,813	7,794
Insurance	7,236	6,988
Interest and bank charges	91	263
Loss (Gain) on disposal	(47,813)	-
Depreciation of property, plant and equipment	10,720	10,471
	18,055	70,125
Net income (loss) of investment property – Outfitters	25,043	(38,198)

The carrying value, net of amortization, for the outfitter operating assets is $311,045 as at June 30, 2019 ($282,669 as at December 31, 2018).

(in Canadian dollars)

5. PROPERTY, PLANT AND EQUIPMENT

	Leasehold improvements $	Tools and equipment $	Computer equipment $	Land $	Mineral property under development(I)	Total $
Cost						
Balance as at January 1, 2018	294,032	127,015	17,138	1,426,472	-	1,864,657
Acquisition	-	-	-	6,743	183,543	190,286
Gain on modification of credit line	-	-	-	-	(1,000,403)	(1,000,403)
Transfer from mining properties	-	-	-	-	1,277,734	1,277,734
Transfer from exploration and evaluation assets	-	-	-	-	54,270,120	54,270,120
Borrowing costs	-	-	-	-	560,798	560,798
Balance as at December 31, 2018	294,032	127,015	17,138	1,433,215	55,291,792	57,163,192
Acquisition	-	-	-	-	2,805,187	2,805,187
Balance as at June 30, 2019	294,032	127,015	17,138	1,433,215	58,096,979	58,968,379
Accumulated depreciation						
Balance as at January 1, 2018	143,586	80,917	9,638	-	-	234,141
Depreciation	27,479	12,078	1,965	-	-	41,522
Balance as at December 31, 2018	171,065	92,995	11,603	-	-	275,663
Depreciation	11,796	4,795	780	-	-	17,371
Balance as at June 30, 2019	182,861	97,790	12,383	-	-	293,034
Net book value						
Balance as at January 1, 2018	150,446	46,098	7,500	1,426,472	-	1,630,516
Balance as at December 31, 2018	122,967	34,020	5,535	1,433,215	55,291,792	56,887,529
Balance as at June 30, 2019	111,171	29,225	4,755	1,433,215	58,096,979	59,675,345

6. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	As at June 30, 2019 $	**As at December 31, 2018 $**
Accounts payable	633,514	1,645,333
Accrued liabilities	310,017	503,970
Interest accrued	81,774	82,674
Income tax accrual	409,303	409,303
Balance – End of period	1,434,608	2,641,280

7. LOANS AND WORKING CAPITAL FACILITY

In September 2016, the Company closed on a $3 million loan agreement with various third-party lenders (the "Loan"). The loan bears interest at 8%, paid semi-annually, and has a maturity of 3 years. The Company had the ability to repay the loan after one year at its option. As part of the loan, the Company issued 2,400,000 non-transferable warrants, with each warrant entitling the holder to purchase one common share of the Company at a price of $1.25 per share for a term of 3 years expiring on September 28, 2019. The fair value of those warrants represents $266,708, calculated with the Black- Scholes model. Additionally, following the expiry of the regulatory hold period, should the closing price of the Company's common shares on the TSX Venture Exchange be equal to or higher than $2 for 10 consecutive days, the Company shall have the right to force the exercise of the warrants by providing the warrant holders with a 30-day notice period, following which the warrants will automatically expire. The Company also issued 96,000 broker warrants related to this loan at a price of $0.92 per share for a term of 3 years expiring on September 28, 2019. The fair value of the broker warrants is $23,026, calculated using the Black- Scholes model.

In October 2016, the Company closed on a $1.1 million loan agreement with various third-party lenders. The loan bears interest at 8%, paid semi-annually and has a maturity of 3 years. The Company had the ability to repay the loan after one year at its option. As part of the loan, the Company issued 880,000 non-transferable warrants, with each warrant entitling the holder to purchase one common share of the Company at a price of $1.25 per share for a term of 3 years expiring on October 27, 2019. The fair value of those warrants represents $84,961, calculated with the Black-Scholes model. Additionally, following the expiry of the regulatory hold period, should the closing price of Arianne's common shares on the TSX Venture Exchange be equal to or higher than $2 for 10 consecutive days, the Company shall have the right to force the exercise of the warrants by providing the warrant holders with a 30-day notice period, following which the warrants will automatically expire. The Company also issued

(in Canadian dollars)

35,200 non-transferable warrants. Each warrant is exercisable at $0.89 for a period of 3 years expiring on October 27, 2019. The fair value of the broker warrants is $7,456 and is calculated using the Black- Scholes model.

	As at June 30, 2019 $	As at December 31, 2018 $
Balance – Beginning of period	3,930,395	3,728,306
Amortization of transaction costs	110,895	202,089
Balance – End of period	4,041,290	3,930,395

In December 2018, the Company closed on a $1.5 million loan agreement with various third-party lenders (the “working capital facility”). The working capital facility bears interest at 12%, payable at maturity, and has a maturity of 1 year. As part of the Working Capital Facility, the Company issued 2,117,646 non-transferable warrants, with each warrant entitling the holder to purchase one common share of the Company at a price of $0.425 per share for a term of 1 year expiring on December 2019. The fair value of those warrants represents $104,385, calculated with the Black- Scholes model.

	As at June 30, 2019 $	As at December 31, 2018 $
Balance – Beginning of period	1,394,555	-
Proceeds from the loan	-	1,500,000
Capitalized interests	91,864	5,918
Transaction costs	1,162	(115,143)
Amortization of transactions costs	56,806	3,780
Balance – End of period	1,544,387	1,394,555
Total loans and working capital facility – current portion	5,585,677	5,324,950

8. CREDIT LINES

The Company has non-revolving credit lines with Mercury Financing Corp. (“the Lender”) which were obtained to finance the development of the Lac a Paul project. As of May 12, 2016, the lines were fully drawn, and any repayment of capital cannot subsequently borrowed and reduces the authorized amounts. The Lender holds a first ranking security over the Company’s Lac a Paul property claims, up to an aggregate amount of $27 million. The wholly owned subsidiary, 9252-5880 Québec Inc., has guaranteed jointly and severally the credit lines. Furthermore, the Company is subject to restrictions related to the disposal of assets and equity issuance through financing.

In December 2017, the Company has extended its credit line until January 15, 2019. The credit line bears interest at an annual rate equal to 15%, with all interests capitalized to the principal amount until the credit line matures. In connection with this transaction, the Company paid to the lender a commitment fee of 3% of the total amount of the credit facility, due on January 15, 2019. At the closing, the parties also agreed to terminate 3,717,000 non-transferable warrants which were issued to the lender in October 2015. In connection with the extension of the credit line, the Company granted 17,181,739 warrants at an exercise price of $0.68 per warrant. Each warrant entitles the Lender to purchase one common share of the Company and shall be exercisable until January 15, 2019. The warrants are subject to a hold period of four months and one day from the date of the issuance. An amount of $nil was allocated to the fair value of the warrants.

In December 2018, the Company has extended its credit line until June 30, 2020. The credit line bears interest at an annual rate equal to 15%, with all interests capitalized to the principal amount until the credit line matures. At the closing, the parties have also agreed to terminate 17,338,739 non-transferable warrants which were issued to the lender in December 2017 (17,181,739 warrants) and in October 2014 (157,000 warrants). In connection with this extension, the Company also paid $20,348 of transaction fees. After the extension of the credit line, a gain of $1,000,403 was recorded off set by an accretion of transaction cost of $535,938. This was calculated according to IFRS 9 where the present value of the debt with the new term at the effective rate of the old debt was compared to the present value of the old debt. In connection with the extension of the credit line, the Company granted 22,417,458 warrants at an exercise price of $0.425 per warrant. Each warrant entitles the Lender to purchase one common share of the Company and shall be exercisable until June 30, 2020. The warrants are subject to a hold period of four months and one day from the date of the issuance. An amount of $nil was allocated to the fair value of the warrants.

(in Canadian dollars)

	As at June 30, 2019	As at December 31, 2018
	$	$
Balance – Beginning of period	22,271,587	19,642,554
Proceeds from credit line	-	-
Transaction costs	(2,500)	(20,348)
Capitalized interests	1,890,466	3,113,846
Gain on modification on credit line	-	(1,000,403)
Amortization of transaction costs and discount	-	535,938
Balance – End of period	24,159,553	22,271,587

9. CAPITAL STOCK

Authorized

Unlimited number of common shares without par value

Unlimited number of preferred shares, without par value, issuable in series: Serie A includes 500,000 preferred shares, non-voting, non-cumulative dividend of 8% redeemable by the Company at the amount paid-in.

Changes in the Company's common shares were as follows:

	Six-month period ended June 30, 2019		Year ended December 31, 2018	
	Number	Amount	Number	Amount
		$		$
Balance – Beginning of year	105,803,943	60,194,364	103,570,610	58,828,558
Private placement (1)	3,671,970	1,500,000	2,233,333	1,365,806
Exercise of warrants	705,882	334,795	-	-
Balance – End of period	110,181,795	62,029,159	105,803,943	60,194,364

As at June 30, 2019, 110,181,795 shares are issued and fully paid (2018 – 105,803,943).

(1) Value of capital stock paid in cash (private placement) is presented net of fair value of warrants units amounting to $nil (six months ended June 30, 2018 – $41,194) – refer to description below.

For the period ended June 30, 2019:
On May 7, 2019 the Company has closed on a $1,500,000 private placement. Under the terms of the offering, the Government of Quebec subscribed to 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 (4) months and one (1) day expiring on September 6, 2019.

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

10. STOCK OPTIONS, WARRANTS AND OPTIONS GRANTED TO BROKERS

Stock options

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

(in Canadian dollars)

During the first six months of 2019, 575 000 stock options were granted to directors and consultant and 200 000 stock options previously granted to director and consultants, were extended. The fair value of stock options extended amounted to $1,923 and was estimated using the Black-Scholes pricing model with the following weighted average assumptions:

	Six-month period ended June 30, 2019	Year ended December 31, 2018
Weighted average price of share at time of grant	$0.41	$0.53
Weighted average risk-free interest rate	1.82%	2.44%
Weighted average expected volatility	42%	41%
Weighted average expected life	3.85 years	6 years
Weighted average expected dividend yield	0%	0%
Weighted average fair value of options granted	$0.13	$0.22

Company stock options were as follows:

	Six-month period ended June 30, 2019		Year ended December 31, 2018	
	Number	Weighted average exercise price $	Number	Weighted average exercise price $
Balance – Beginning of period	5,999,500	0.98	5,842,834	1.03
Expired	(525,000)	0.82	(200,000)	0.91
Granted	575,000	0.41	630,000	0.53
Forfeited	-	-	(273,334)	-
Balance – End of period	6,049,500	0.94	5,999,500	0.98
Exercisable at the end of the period	4,809,500	1.06	4,751,166	1.06

The following table summarize the information relating to the stock options granted under the plan.

Exer-cise price $	Options outstanding as at December 31, 2018	Weighted average remaining contractual life	Granted	Expired	Exercised	Forfeited	Options outstanding as at June 30, 2019	Weighted average remaining contractual life as at June 30, 2019
0.15	60,000	1.3 years	-	-	-	-	60,000	0.8 year
0.15	85,000	1.5 years	-	-	-	-	85,000	1.0 year
0.37	200,000	2.1 years	-	-	-	-	200,000	1.6 years
0.58	150,000	2.1 years	-	-	-	-	150,000	1.6 years
1.25	125,000	2.4 years	-	-	-	-	125,000	1.9 years
1.37	1,050,000	2.6 years	-	-	-	-	1,050,000	2.1 years
1.16	300,000	3.3 years	-	-	-	-	300,000	2.8 years
1.15	184,000	3.7 years	-	-	-	-	184,000	3.2 years
1.07	115,000	3.9 years	-	-	-	-	115,000	3.4 years
1.12	50,000	4.0 years	-	-	-	-	50,000	3.5 years
1.25	200,000	4.4 years	-	-	-	-	200,000	3.9 years
1.22	200,000	4.4 years	-	-	-	-	200,000	3.9 years
1.19	200,000	4.5 years	-	-	-	-	200,000	4.0 years
1.24	25,000	4.8 years	-	-	-	-	25,000	4.3 years
1.32	175,500	5.0 years	-	-	-	-	175,500	4.5 years
1.30	300,000	5.3 years	-	-	-	-	300,000	4.8 years
1.00	350,000	5.8 years	-	-	-	-	350,000	5.3 years

(in Canadian dollars)

0.85	385,000	6.4 years	-	-	-	-	385,000	5.9 years
0.86	40,000	6.5 years	-	-	-	-	40,000	6.0 years
0.86	35,000	6.7 years	-	-	-	-	35,000	6.2 years
0.81	175,000	6.2 years	-	-	-	-	175,000	5.7 years
0.98	200,000	0.5 year	-	(200,000)	-	-	-	-
0.90	125,000	0.2 year	-	(125,000)	-	-	-	-
0.76	400,000	8.3 years	-	-	-	-	400,000	7.8 years
0.77	200,000	-	-	(200,000)	-	-	-	-
0.62	40,000	9.0 years	-	-	-	-	40,000	8.5 years
0.41	200,000	9.7 years	-	-	-	-	200,000	9.2 years
0.58	430,000	9.8 years	-	-	-	-	430,000	9.3 years
0.43	-	-	100,000	-	-	-	100,000	9.6 years
0.40	-	-	200,000	-	-	-	200,000	9.6 years
0.40	-	-	275,000	-	-	-	275,000	1.1 year
	5,999,500		575,000	(525,000)	-	-	6,049,500	

Warrants

Changes in Company warrants were as follows:

	Six-month period ended June 30, 2019		Year ended December 31, 2018	
	Number	Weighted average exercise price $	Number	Weighted average exercise price $
Balance – Beginning of period	35,736,036	0.65	28,640,504	0.90
Granted	-	-	25,651,771	0.44
Exercised	(705,882)	0.425	(18,556,239)	0.74
Balance – End of period	35,030,154	0.66	35,736,036	0.36

The following table summarizes the information relating to the warrants granted:

Exercise price $	Expiry date	Warrants outstanding as at December 31, 2018	Granted	Expired	Exercised	Warrants outstanding as at June 30, 2019	Weighted average remaining contractual life as at June 30, 2019
1.25	July 2019	2,815,500	-	-	-	2,815,500	0.1 year
1.25	October 2019	1,027,500	-	-	-	1,027,500	0.3 year
1.25	September 2019	2,400,000	-	-	-	2,400,000	0.3 year
1.25	October 2019	880,000	-	-	-	880,000	0.3 year
1.25	August 2020	1,441,250	-	-	-	1,441,250	1.2 year
0.85	December 2020	1,520,015	-	-	-	1,520,015	1.5 year
0.85	March 2021	1,116,667	-	-	-	1,116,667	1.7 year
0.43	June 2020	22,417,458	-	-	-	22,417,458	1.0 year
0.43	December 2019	2,117,646	-	-	(705,882)	1,411,764	0.5 year
		35,736,036	-	-	(705,882)	35,030,154	

(in Canadian dollars)

Options granted to brokers

Changes in Company options granted to brokers were as follows:

	Six-month period ended June 30, 2019		Year ended December 31, 2018	
	Number	Weighted average exercise price $	Number	Weighted average exercise price $
Balance – Beginning of period	428,600	0.81	428,600	0.81
Granted	-	-	-	-
Balance – End of period	428,600	0.81	428,600	0.81

The following table summarizes the information relating to the brokers options granted:

Exercise price $	Expiry date	Broker options outstanding as at December 31, 2018	Granted	Exercised	Expired	Broker options outstanding as at June 30, 2019
0.92	September 2019	96,000	-	-	-	96,000
0.89	October 2019	35,200	-	-	-	35,200
0.80	August 2020	230,600	-	-	-	230,600
0.63	December 2020	66,800	-	-	-	66,800
		428,600	-	-	-	428,600

11. SUPPLEMENTARY INFORMATION RELATED TO CASH FLOWS

Net change in non-cash working capital items	Six-month period ended June 30, 2019 $	Six-month period ended June 30, 2018 $
Receivable and other current assets	(41,253)	431,367
Sales taxes receivable	9,129	6,440
Accounts payable and accrued liabilities	(250,379)	(869,185)
	(282,503)	(431,378)

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

	Six-month period ended June 30, 2019 $	Six-month period ended June 30, 2018 $
Additions to property, plant and equipment not yet paid	334,443	-
Additions to exploration and evaluation assets not yet paid	-	157,317

(in Canadian dollars)

12. RELATED PARTY TRANSACTIONS

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

	Six-month period ended June 30, 2019	Six-month period ended June 30, 2018
	$	$
Key management compensation [(1)]		
Share-based compensation	28,979	34,077
Management fees	155,833	95,000
	184,812	129,077
Salaries and benefits [(2)]	157,143	205,262
	341,995	334,339
Balance included in accounts payable and accrued liabilities	6,667	-

(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. The CFO's compensation is paid to a related party mentioned below, Ocean Partners.

(2) Salaries and benefits capitalized to plant, property and equipment or exploration and evaluation assets amount to $108,221 ($118,350 for the period ended June 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 March 31, 2019, the Company would have had to pay a total amount of $600,000 as severance. If a change of control had occurred on March 31, 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 March 31, 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. A rent is paid to Windermere amounting of $2,044 on monthly basis.

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.

13. 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 $220,576. 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 and Montreal office and Lac à Paul camp are as follows:

	Within 1 year	1 to 5 years	After 5 years	Total
June 30, 2019	45,173	-	-	45,173

(in Canadian dollars)

14. CONTINGENCIES

In the normal course of operations, the Company is exposed to events that could give rise to contingent liabilities. As at the date of issue of the condensed consolidated interim financial statements, the Company was not aware of any significant events that would have a material effect on its condensed consolidated interim financial statements.

15. FINANCIAL INSTRUMENTS AND FINANCIAL RISKS

Classification

The Company's financial instruments as at June 30, 2019 and 2018 consist of cash and cash equivalents, receivable and other current assets, accounts payable and accrued liabilities, loans and working capital facility and credit line.

The classification of financial instruments is summarized as follows:

	Carrying value As at June 30, 2019 $	Carrying value at December 31, 2018 $
Financial assets at amortized costs		
Cash and cash equivalents	1,245,175	2,076,731
Receivables and other assets	186,402	145,149
	1,431,577	2,221,880
Financial liabilities at amortized costs		
Accounts payable and accrued liabilities	1,434,608	2,461,280
Loans and working capital facility	5,585,677	5,324,950
Credit line	24,159,553	22,271,587
	31,179,838	30,057,817

The Company defines the fair value hierarchy under which its financial instruments are valued as follows: level 1 includes unadjusted quoted prices in active markets for identical assets or liabilities; level 2 includes inputs other than quoted prices in level 1 that are observable for assets or liabilities, either directly or indirectly; and level 3 includes inputs for the asset or liability that are not based on observable market data. There was no transfer of hierarchy level as at June 30, 2019 and December 31, 2018.

Financial risks

The Company has exposure to various financial risks, such as credit risk, liquidity risk, interest rate risk, equity risk and currency risk from its use of financial instruments.

Credit risk

The Company's credit risk is primarily attributable to cash and cash equivalents and receivable and other current assets. Cash and cash equivalents are deposited in Canadian chartered bank accounts or invested in a diversified manner in securities having an investment-grade rating (AA-), from which management believes the risk of loss to be minimal. Receivable and other current assets mainly consist of sales taxes receivable and mining tax credits due from the Quebec government. Management believes that the credit risk concentration with respect to financial instruments included in amounts receivable is minimal.

Liquidity risk

Liquidity risk is the risk that the Company will not have sufficient cash resources to meet its financial obligations as they come due. The Company's liquidity and operating results may be adversely affected if the Company's access to the capital market is hindered, whether as a result of a downturn in stock market conditions generally or related to matters specific to the Company. The Company generates cash flows primarily from its financing activities. As at June 30, 2019, the Company had cash and cash equivalents of $1,245,175 ($2,076,731 as at December 31, 2018) to settle current liabilities of $7,020,285 ($7,786,230 as at December 31, 2018). The Company regularly evaluates its cash position to ensure preservation and security of capital as well as maintenance of liquidity (Refer to note 1 for the use of the going concern assumption).

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

	Carrying amount $	Contractual cash flows $	0 to 12 months $	12 to 24 months $	More than 24 months $
Accounts payable and accrued liabilities	1,434,608	1,434,608	1,434,608	-	-
Loan and working capital facility	5,585,677	5,585,677	5,585,677	-	-
Credit line	24,159,553	28,942,258	28,942,258		-

Interest rate risk

Company debt facilities bear interest at fixed rates and therefore has no interest rate risk. The Company's policy as it relates to its cash balances is to invest excess cash in financial instruments held with a Canadian chartered bank.

As at June 30, 2019, the Company's exposure to interest rate risk is summarized as follows:

Cash and cash equivalents	Fixed interest rate and non-interest bearing
Accounts payable and accrued liabilities	Non-interest bearing
Credit line	Fixed interest rate
Loans and working capital facility	Fixed interest rate

Currency risk

As at June 30, 2019, the Company has a bank account in US dollars for an amount of $1,153 ($1,324 as at December 31, 2018). The Company estimates that a variation of ±10% in exchange rates on that date would have resulted in a variation of approximately $115 as at June 30, 2019 ($132 as at December 31, 2018).

Fair Value risk

Current financial assets and financial liabilities are valued at their carrying amounts, which are reasonable estimates of their fair value due to their near-term maturities; this includes cash and cash equivalents, receivables and other assets and accounts payable and accrued liabilities. Loans and working capital facility were accounted at amortized cost, and its fair value approximates its carrying value. The credit line was accounted at amortized cost, and its fair value is $25,049,584.

16. SUBSEQUENT EVENT

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.