

**ARIANNE PHOSPHATE INC.
CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
(UNAUDITED)
NINE-MONTH PERIOD ENDED SEPTEMBER 30, 2016 AND SEPTEMBER 30, 2015
(in Canadian dollars)**



Condensed consolidated interim financial statements for the nine-month period ended September 30, 2016 haven't been reviewed by the auditors.

ARIANNE PHOSPHATE INC.

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

	As at September 30, 2016	As at December 31, 2015
	\$	\$
ASSETS		
Current assets		
Cash and cash equivalents (note 3)	2,799,829	91,920
Receivables and other current assets	43,666	76,760
Sales taxes receivable	90,334	109,528
Tax credit related to resources and mining tax credit receivable	1,351,927	1,106,305
	<u>4,285,756</u>	<u>1,384,513</u>
Non-current assets		
Tax credit related to resources and mining tax credit receivable	234,090	392,589
Investment property – Outfitters	340,806	363,719
Property, plant and equipment (note 5)	968,338	281,817
Intangible assets (note 6)	91,942	117,018
Mining properties (note 7)	1,245,640	1,217,177
Exploration and evaluation assets (note 8)	43,738,465	40,502,866
	<u>46,619,281</u>	<u>42,875,186</u>
Total assets	<u>50,905,037</u>	<u>44,259,699</u>
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities	2,488,683	1,672,540
	<u>2,488,683</u>	<u>1,672,540</u>
Non-current liabilities		
Credit line (note 9)	16,923,260	12,561,084
Loan (note 10)	2,564,001	-
Deferred income taxes	2,093,275	2,084,722
Total liabilities	<u>24,069,219</u>	<u>16,318,346</u>
Equity		
Capital stock	54,783,402	53,977,978
Warrants	2,393,234	1,957,387
Contributed surplus	11,624,423	11,344,855
Deficit	(41,965,241)	(39,338,867)
Total equity	<u>26,835,818</u>	<u>27,941,353</u>
Total liabilities and equity	<u>50,905,037</u>	<u>44,259,699</u>
GOING CONCERN (note 1)		
COMMITMENTS (note 14)		
SUBSEQUENT EVENT (note 17)		

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

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

(s) James Cowley, CFO

ARIANNE PHOSPHATE INC.

CONSOLIDATED INTERIM STATEMENTS OF LOSS AND COMPREHENSIVE LOSS FOR NINE-MONTH PERIOD ENDED SEPTEMBER 30

(In Canadian dollars)

	Three-month period ended September 30, 2016	Three-month period ended September 30, 2015	Nine-month period ended September 30, 2016	Nine-month period ended September 30, 2015
	\$	\$	\$	\$
EXPENSES				
Salaries and fringe benefits	363,292	286,512	1,072,612	1,065,973
Share-based compensation	80,884	129,929	328,879	535,301
Professional and consultant fees	163,173	273,376	404,937	469,343
Management fees	17,250	12,842	29,750	101,217
Registration and listing fees	2,403	6,871	53,033	60,031
Annual general meeting	(3,377)	-	31,501	41,601
Communications	85,911	74,441	184,538	218,572
Promotion, representation and travel	34,599	44,318	95,317	155,358
Insurance	9,900	11,452	29,892	35,533
Rent and office expenses	36,702	41,860	113,585	120,872
Bank charges	1,618	1,750	7,074	9,912
Depreciation of property, plant and equipment	11,398	14,350	34,195	43,050
Operating loss	803,753	897,701	2,385,313	2,856,763
OTHER EXPENSES (INCOME)				
Interest income	(548)	(1,776)	(807)	(28,076)
Foreign exchange (gain) loss	2,312	1,978	-	3,819
Net loss (gain) on disposition of property, plant and equipment	(1,181)	-	(1,181)	-
Net loss of investment property – Outfitters (Note 4)	23,951	32,656	50,592	90,765
	24,534	32,858	48,604	66,508
LOSS BEFORE INCOME TAXES	828,287	930,559	2,433,917	2,923,271
Deferred income taxes	(1,768)	(17,353)	8,553	19,330
NET LOSS FOR THE PERIOD	826,519	913,206	2,442,470	2,942,601
Other comprehensive loss that may be reclassified subsequently to net income:	-	-	-	-
COMPREHENSIVE LOSS FOR THE PERIOD	-	-	-	-
BASIC AND DILUTED LOSS PER SHARE	0.01	0.01	0.03	0.03
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING	97,112,165	95,325,755	97,112,165	95,325,755

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 NINE-MONTH PERIOD ENDED SEPTEMBER 30
(in Canadian dollars)

	Capital stock	Capital stock	Warrants	Contributed surplus	Deficit	Total equity
	common shares	\$	\$	\$	\$	\$
Balance as at January 1, 2016	96,825,755	53,977,978	1,957,387	11,344,855	(39,338,867)	27,941,353
Net loss and comprehensive loss for the period					(2,442,470)	(2,442,470)
Share-based compensation				328,879		328,879
Grant of warrants (note 11)			266,708			266,708
Grant of broker warrants				23,023	-	23,023
Exercise of broker warrants	422,325	494,659		(72,334)		422,325
Exercise of warrants (note 11)	400,000	310,765	(14,765)			296,000
Modification of warrants			183,904		(183,904)	-
Balance as at September 30, 2016	97,648,080	54,783,402	2,393,234	11,624,423	(41,965,241)	26,835,818
Balance as at January 1, 2015	95,325,755	51,593,734	2,816,369	9,636,224	(35,273,199)	28,773,128
Net loss and comprehensive loss for the period	-	-	-	-	(2,942,601)	(2,942,601)
Share-based compensation	-	-	-	535,301	-	535,301
Options granted to brokers expired			(65,810)	65,910		
Modification of warrants	-	-	141,752		(141,752)	-
Value assigned to warrants	-	-	14,765	-	-	14,765
Balance as at September 30, 2015	95,325,755	51,593,734	2,907,076	10,237,335	(38,357,552)	26,380,593

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

ARIANNE PHOSPHATE INC.
CONSOLIDATED INTERIM STATEMENTS OF CASH FLOWS
FOR NINE MONTH PERIOD ENDED SEPTEMBER 30
(In Canadian dollars)

	2016	2015
	\$	\$
CASH FLOW FROM (USED IN)		
OPERATING ACTIVITIES		
Net loss for the period	(2,442,470)	(2,942,601)
Adjustments for:		
Share-based payments	328,879	535,301
Depreciation – Investment property - Outfitters	23,165	27,768
Depreciation – Property, plant and equipment	34,195	43,050
Deferred income taxes	8,553	19,567
Net change in non-cash working capital items (note 12)	(83,559)	-
	<u>(2,131,237)</u>	<u>(2,316,915)</u>
INVESTING ACTIVITIES		
Tax credit related to resources and mining tax credit received	-	459,871
Acquisition of property, plant and equipment – Outfitters	(252)	(6,319)
Acquisition of mining properties	(28,463)	(1,270)
Acquisition of exploration and evaluation assets	(1,691,744)	(1,260,049)
	<u>(1,720,459)</u>	<u>(807,767)</u>
FINANCING ACTIVITIES		
Proceeds from credit line	3,275,000	-
Proceeds from loan	3,000,000	-
Transaction cost	(137,720)	-
Issuance of shares – Exercises of broker warrants	422,325	-
	<u>6,559,605</u>	<u>-</u>
CHANGE IN CASH AND CASH EQUIVALENTS DURING THE PERIOD	<u>2,707,909</u>	<u>(3,582,161)</u>
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	<u>91,920</u>	<u>3,837,720</u>
CASH AND CASH EQUIVALENTS, END OF PERIOD	<u><u>2,799,829</u></u>	<u><u>255,559</u></u>
Supplementary cash flow information		
Interest received	548	28,076

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

ARIANNE PHOSPHATE INC.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(in Canadian dollars)

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

Ariane Phosphate Inc. ("the Company"), was incorporated under Part IA of the Companies Act (Quebec) and was continued under the Quebec Business Corporations Act (Quebec) (QBCA). The Company is engaged in the acquisition and exploration of mining properties in Quebec, Canada. During 2013, the Company completed a feasibility study on its Lac à Paul property. The Company's objective is to focus on developing a phosphate mine by concentrating its resources on this property. The Company's shares are listed on the TSX Venture Exchange (symbol DAN), on the Frankfurt exchange (symbol JE9N) and on the US Stock Exchange Over-the-Counter (OTC) (symbol DRRSF). The registered office of the Company is located at 393 Racine Street, Suite 200, Chicoutimi, Quebec, Canada G7H 1T2.

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

These condensed consolidated interim financial statements have been prepared on the basis of accounting principles applicable to a going concern, which contemplates the realization of assets and settlement of liabilities in the normal course of business as they come due. In assessing whether the going concern assumption is appropriate, management takes into account all available information about the future, which is at least, but not limited to, 12 months from the end of the reporting period. For the period ended September 30, 2016, the Company recorded a net loss of \$2,442,470 (2015 – \$ 2,942,601) and has an accumulated deficit of \$41,988,264 as at September 30, 2016 (\$39,338,867 as at December 31, 2015). In addition to ongoing working capital requirements, the Company must secure sufficient funding to meet its obligations and pay general and administration costs.

As at September 30, 2016, the Company had a working capital of \$1,797,073 (negative working capital of \$288,027 as at December 31, 2015), and has an undrawn non-revolving credit line of \$291,881. Management estimates that the working capital will not be sufficient to meet the Company's obligations and budgeted expenditures through September 30, 2017. 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 financing in 2017.

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

The accounting policies followed in these condensed consolidated interim financial statements are consistent with those applied in the Company's annual financial statements for the year ended December 31, 2015. These condensed consolidated interim financial statements should be read in conjunction with the Company annual financial statements for the year ended December 31, 2015 which have been prepared in accordance with IFRS as issued by the IASB.

The Board of Directors approved these condensed consolidated interim financial statements on November 17th, 2016.

ARIANNE PHOSPHATE INC.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(in Canadian dollars)

3. CASH AND CASH EQUIVALENTS

	As at September 30, 2016 \$	As at December 31, 2015 \$
Cash and cash equivalents	<u>2,799,829</u>	<u>91,920</u>

As at September 30, 2016, cash and cash equivalents comprises cash on hand amounting to \$2,700,438, bearing interest at a fixed rate 0.70% and an amount of \$99,391 not bearing interest. An amount of \$30,000 is restricted in connection with the Company's credit card agreement.

As at December 31, 2015, cash and cash equivalents comprises cash on hand amounting to \$91,920, not bearing interest.

4. INVESTMENT PROPERTY – OUTFITTERS

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

	Nine-month period ended September 30, 2016 \$	Nine-month period ended September 30, 2015 \$
Outfitters income	<u>68,781</u>	<u>40,434</u>
Operating expenses:		
Management fees	48,063	61,452
Repair and maintenance	11,208	18,507
Supplies	10,381	13,777
Advertising, promotion and travel	9,064	18,743
Taxes and licenses	6,670	9,128
Insurance	8,428	6,272
Loss (gain) on assets disposal	629	117
Interest and bank charges	102	-
Depreciation of property, plant and equipment	23,165	27,768
Tax on investment property – outfitter	-	237
Bad debts	1,663	-
	<u>119,373</u>	<u>156,001</u>
Net loss of investment property – Outfitters	<u>50,592</u>	<u>90,765</u>

ARIANNE PHOSPHATE INC.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(in Canadian dollars)

5. PROPERTY, PLANT AND EQUIPMENT

	Leasehold improvements \$	Tools and equipment \$	Rolling equipment \$	Computer equipment \$	Land \$	Total \$
Cost						
Balance as at January 1, 2015	305,443	128,740	10,376	11,919	-	456,478
Balance as at December 31, 2015	305,443	128,740	10,376	11,919	-	456,478
Balance as at September 30, 2016 (1)	305,443	126,490	10,376	11,919	734,650	1,188,879
Accumulated depreciation						
Balance as at January 1, 2015	34,844	55,161	1,556	980	-	92,541
Depreciation	54,120	22,073	2,646	3,281	-	82,120
Balance as at December 31, 2015	88,964	77,234	4,202	4,261	-	174,661
Depreciation	32,470	10,295	1,389	1,725	-	45,880
Balance as at September 30, 2016	121,434	87,529	5,591	5,986	-	220,541
Net book value						
Balance as at January 1, 2015	270,599	73,579	8,820	10,939	-	363,937
Balance as at December 31, 2015	216,479	51,506	6,174	7,658	-	281,817
Balance as at September 30, 2016	184,009	38,961	4,785	5,933	734,650	968,338

- (1) The Company had options to buy land in order to develop its project. As at September 30, 2016 the Company exercised those options.

6. INTANGIBLE ASSETS

	Intangible assets \$
Cost	
Balance as at January 1, 2015	-
Acquisition	167,168
Balance as at December 31, 2015	167,168
Balance as at September 30, 2016	167,168
Accumulated depreciation	
Balance as at January 1, 2015	16,717
Depreciation	33,433
Balance as at December 31, 2015	50,150
Depreciation	25,076
Balance as at September 30, 2016	75,226
Net book value	
Balance as at January 1, 2015	150,451
Balance as at December 31, 2015	117,018
Balance as at September 30, 2016	91,942

ARIANNE PHOSPHATE INC.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(in Canadian dollars)

7. MINING PROPERTIES

	Royalties (NSR) %	Balance as at December 31, 2015 \$	Additions \$	Impairments \$	Disposal \$	Balance as at September 30, 2016 \$
Properties in Quebec						
Lac à Paul (100%)	2.75	1,217,177	28,463			1,245,640

8. EXPLORATION AND EVALUATION ASSETS

	Balance as at December 31, 2015 \$	Additions \$	Tax credits \$	Impairments \$	Disposals \$	Balance as at September 30 , 2016 \$
Quebec						
Lac à Paul	40,502,866	3,322,721	(87,122)	-	-	43,738,465

For the nine-month periods ended September 30, 2016 and 2015, the following expenses, related to discovery of mineral resources, have been included in the cost of exploration and evaluation assets:

	Nine-month period ended September 30, 2016 \$	Nine-month period ended September 30, 2015 \$
Camp, travel and lodging and general expenses	114,648	141,023
Chemical analysis	30,405	4,796
Line cutting and geophysics	6,539	-
Planning and supervision	97,298	137,563
Professional fees and independent technical reports	1,661,190	1,066,767
Borrowing costs	1,374,626	1,320,874
Depreciation of property, plant and equipment	12,941	18,540
Depreciation of intangible asset	25,075	25,074
	<u>3,322,721</u>	<u>2,714,637</u>
Tax credits related to resources and mining tax credit	(87,122)	(115,002)
	<u>3,235,599</u>	<u>2,599,635</u>
Balance – Beginning of period	40,502,866	36,623,579
Balance – End of period	<u>43,738,465</u>	<u>39,223,214</u>

ARIANNE PHOSPHATE INC.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(in Canadian dollars)

9. CREDIT LINE

In August 2012 and July 2013, the Company entered into agreements to obtain a non-revolving credit line, with Mercury Financing Corp. (the "Lender"), for authorized amounts of respectively \$10 million and \$2.5 million to finance a feasibility study for the Lac à Paul property and to cover the general and administrative expenditures related to this property. Terms and conditions are essentially the same for both agreements.

Interest was capitalized quarterly until the earlier of the following dates: (a) December 31, 2013 for the August 2012 agreement and June 30, 2014 for the June 2013 agreement or (b) the date at which time the Company raises cumulative net cash proceeds of at least \$21 million by way of equity, debt or other instruments. Subsequently, interest was payable quarterly until maturity.

On October 20, 2015, the Company obtained a third non-revolving credit line amounting to \$4,566,887, bearing interest at a fixed rate of 6.25% per annum, to finance exclusively the general and administrative operations and other activities related to the project development for the Lac à Paul project. This credit line will be gradually disbursed until the termination date, December 31, 2017. As at September 30, 2016, the Company drew \$4,275,000 from the credit lines and repaid \$1,616,000 with proceeds from the exercise of warrants, granting 1,900,000 shares to the Lender. As at September 30, 2016, the Company has an undrawn non-revolving credit line of \$291,881.

The third non-revolving credit line and all unpaid interest will be repayable in full on the earlier of the following dates: (a) December 31, 2017; (b) the date at which time the Company raises cumulative net cash proceeds of at least \$51 million by way of equity, debt or other instruments; and (c) the date of change of control of the Company.

The credit line has a current portion of \$16,923,260 at the end of September 30, 2016 (\$12,561,084 as at December 31, 2015).

	Nine-month period ended September 30, 2016 \$	As at December 31, 2015 \$
Balance – Beginning of period	12,561,084	12,605,641
Debt repayment from proceeds from the issuance of shares related to the warrants exercised	(296,000)	(1,320,000)
Proceeds from credit lines	3,275,000	1,000,000
Transaction cost	-	(1,522,945)
Capitalized interests	761,522	867,288
Amortization of transaction costs	621,654	931,100
Balance – End of period	<u>16,923,260</u>	<u>12,561,084</u>

10. LOAN

In September 2016, the Company closed on a \$3 Million loan agreement with various third party lenders (the "Loan"). The loan will bear interest at 8%, paid semi-annually, and has a maturity of 3 years with the Company having the ability to repay the loan after one year at its option. As part of the loan, the Company has 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 and is 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 and is calculated using the Black & Scholes model.

	Nine-month period ended September 30, 2016 \$	As at December 31, 2015 \$
Balance – Beginning of period	-	-
Proceeds from loan	3,000,000	-
Transaction cost	(437,972)	-
Capitalized interests	1,973	-
Balance – End of period	<u>2,564,001</u>	<u>-</u>

ARIANNE PHOSPHATE INC.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(in Canadian dollars)

11. STOCK OPTIONS, WARRANTS AND OPTIONS GRANTED TO BROKERS

Stock options

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

During the second quarter of 2016, 575,000 stock options were granted. The fair value of stock options granted amounted to \$254,174 and was estimated using the Black-Scholes pricing model with the following weighted average assumptions:

	Six-month period ended June 30, 2016	Six-month period ended June 30, 2015
Weighted average price of share at time of grant	\$0.90	\$0.88
Weighted average risk-free interest rate	0.82%	1.26%
Weighted average expected volatility	58.4%	81%
Weighted average expected life	4.5 years	6.0 years
Weighted average expected dividend yield	0%	0%
Weighted average fair value of options granted	0.41	0.61

Company stock options were as follows:

	Nine-month period ended September 30, 2016		Nine-month period ended September 30, 2015	
	Number	Weighted average exercise price \$	Number	Weighted average exercise price \$
Balance – Beginning of period	5,121,167	1.10	6,019,167	1.02
Expired	(96,667)	1.18	(965,000)	1.36
Forfeited	(350,000)	1.16	(316,333)	1.04
Granted	575,000	0.90	545,000	0.85
Balance – End of period	<u>5,249,500</u>	<u>1.07</u>	<u>5,282,834</u>	<u>1.10</u>
Exercisable at the end of the period	<u>3,921,000</u>	<u>1.11</u>	<u>3,050,834</u>	<u>1.12</u>

Warrants

During the third quarter of 2016, 2,400,000 warrants were granted in relation to the Loan (note 10). The fair value of stock options granted amounted to \$266,708 and was estimated using the Black-Scholes pricing model with the following weighted average assumptions:

	Nine-month period ended September 30, 2016	Nine-month period ended September 30, 2015
Weighted average price of share at time of grant	\$0.95	\$0.74
Weighted average risk-free interest rate	0.49%	0.54%
Weighted average expected volatility	45%	53%
Weighted average expected life	3 years	1 year
Weighted average expected dividend yield	0%	0%
Weighted average fair value of options granted	\$0.11	\$0.04

ARIANNE PHOSPHATE INC.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(in Canadian dollars)

Changes in Company warrants were as follows:

	Nine-month period ended September 30, 2016		Nine-month period ended September 30, 2015	
	Number	Weighted average exercise price \$	Number	Weighted average exercise price \$
Balance – Beginning of period	13,117,500	1.07	9,217,500	1.24
Granted	2,400,000	1.25	400,000	0.74
Exercised	(400,000)	0.74	-	-
Balance – End of period	15,117,500	1.11	9,617,500	1.22

In July 2016, the Company amended the terms and conditions of the 2,815,500 warrants granted during the quarter ended July 31, 2014. Initially, each warrants entitled its holder to acquire one common share at a price of \$1.25 per share for a period of two years ending in July 2016. These warrants were amended in July 2016 to extend their expiration date to July 2017. All other terms and conditions remained similar. The Company calculated the fair value of the warrants prior and after the amendment. The fair value of the extended warrants was estimated at \$183,904 considering the fair value of the original warrants existing on the date of the amendment, according to the Black & Scholes model, and it was recorded as an increase in deficit for the nine-month period ended September 30, 2016.

Options granted to brokers

Changes in Company options granted to brokers options were as follows:

	Nine-month period ended September 30, 2016		Nine-month period ended September 30, 2015	
	Number	Weighted average exercise price \$	Number	Weighted average exercise price \$
Balance – Beginning of period	447,750	1.00	792,659	1.09
Granted	96,000	0.92	-	-
Exercised	(422,325)	1.00	(214,165)	1.10
Balance – End of period	121,425	0.94	578,494	1.09

12. SUPPLEMENTARY INFORMATIONS RELATED TO CASH FLOWS

	Nine-month period ended September 30, 2016 \$	Nine-month period ended September 30, 2015 \$
Net change in non-cash working capital items		
Receivable and other current assets	34,087	(8,870)
Sales taxes receivable	19,194	44,400
Grant receivable	-	(12,595)
Accounts payable and accrued liabilities	136,840	(430,414)
Provision	-	(50,000)
	(83,559)	(457,479)

ARIANNE PHOSPHATE INC.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(in Canadian dollars)

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

	Nine-month period ended September 30, 2016 \$	Nine-month period ended September 30, 2015 \$
Addition to exploration and evaluation assets not yet paid	243,333	90,101
Addition to property, plant and equipment not yet paid	709,650	

13. RELATED PARTY TRANSACTIONS

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

	Nine-month period ended September 30, 2016 \$	Nine-month period ended September 30, 2015 \$
Key management compensation ⁽¹⁾		
Share-based compensation	100,185	427,644
Management fees	29,750	101,217
	<u>129,735</u>	<u>528,861</u>
Salaries and fringe benefits ⁽²⁾	366,347	454,439
	<u>496,282</u>	<u>983,300</u>
Balance included in accounts payable and accrued liabilities	<u>-</u>	<u>-</u>

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

(2) Salaries and fringe benefits capitalized to exploration and evaluation assets amount to \$78,405 (\$82,598 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 September 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 September 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).

14. COMMITMENTS

- 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.
- The Company granted contracts in relation to the development of the Lac à Paul project for a total of \$205,678. These contracts do not have termination dates and disbursements will be made in accordance with the project's milestones.
- 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
September 30, 2016	52,971	127,535	-	180,506

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15. CONTINGENCIES

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

16. FINANCIAL INSTRUMENTS AND FINANCIAL RISKS

Classification

The Company's financial instruments as at September 30, 2016 consist of cash and cash equivalents, receivable and other current assets, accounts payable and accrued liabilities, loan and credit line. The fair value of these financial instruments approximates their carrying value due to their short-term maturity, to current market rates or they bear interest at variable rates.

The classification of financial instruments is summarized as follows:

	Classification	As at September 30,	Carrying value
		2016	As at December 31,
		\$	2015
			\$
Financial assets			
Cash and cash equivalents	Loans and receivables	2,799,829	91,920
		<u>2,799,829</u>	<u>91,920</u>
Financial liabilities			
Accounts payable and accrued liabilities	Financial liabilities at amortized cost	2,488,683	1,672,540
Loan	Financial liabilities at amortized cost	2,564,001	-
Credit line	Financial liabilities at amortized cost	<u>16,926,260</u>	<u>12,561,084</u>
		<u>21,978,944</u>	<u>14,233,624</u>

The Company defines the fair value hierarchy under which its financial instruments are valued as follows: level 1 includes unadjusted quoted prices in active markets for identical assets or liabilities; level 2 includes inputs other than quoted prices in level 1 that are observable for assets or liabilities, either directly or indirectly; and level 3 includes inputs for the asset or liability that are not based on observable market data. Marketable securities were considered a level 1. There was no transfer of hierarchy level as at September 30, 2016 and December 31, 2015.

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 consists 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.

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Liquidity risk

Liquidity risk is the risk that the Company will not have sufficient cash resources to meet its financial obligations as they come due. The Company's liquidity and operating results may be adversely affected if the Company's access to the capital market is hindered, whether as a result of a downturn in stock market conditions generally or related to matters specific to the Company. The Company generates cash flows primarily from its financing activities. As at September 30, 2016, the Company had cash and cash equivalents of \$2,799,829 (\$91,920 as at December 31, 2015) to settle current liabilities of \$2,488,683 (\$1,672,540 as at December 31, 2015). The Company regularly evaluates its cash position to ensure preservation and security of capital as well as maintenance of liquidity (Refer to note 1 for the use of the going concern assumption).

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

	Carrying amount \$	Contractual cash flows \$	0 to 12 months \$	12 to 24 months \$	More than 24 months \$
Accounts payable and accrued liabilities	2,488,683	2,488,683	2,488,683	-	-
Credit line	16,923,260	20,562,518	-	20,562,518	-
Loan	2,564,001	3,720,000	241,644	240,000	3,238,356

Interest rate risk

According to the third non-revolving credit line and amendments made to the first and second credit lines dated October 20, 2015, the interest rate has been modified from a variable to fixed rate and therefore, the Company has no interest rate risk as at December 31, 2015 and September 30, 2016. The Company's policy as it relates to its cash balances is to invest excess cash in financial instruments held with a Canadian chartered bank.

Currency risk

As at September 30, 2016, the Company has a bank account in US dollars for an amount of \$479 (\$951 as at December 31, 2015). The Company estimates that a variation of $\pm 10\%$ in exchange rates on that date would have resulted in a variation of approximately \$48 in 2016 (\$95 as at December 31, 2015) in net loss.

17. SUBSEQUENT EVENT

In October 2016, the Company extended the term of 1,184,500 warrants issued as part of a private placement which was closed on October 15, 2014. Each of the warrants entitles its holder to purchase one common share of the Company at an exercise price of \$ 1.25 per common share until October 15, 2016. The Company has elected to extend the expiry date of the Warrants to October 15, 2017. No other Warrant terms were amended.

In October 2016, the Company had closed on a second tranche of a loan financing representing \$1.1 Million with various third party lenders. The loan will bear interest at 8%, paid semi-annually and has a maturity of 3 years with the Company having the ability to repay the loan after one year at its option. As part of the loan, the Company has issued non-transferable warrants in the amount of 800 per \$1,000 face value (for a total of 880,000 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. 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.