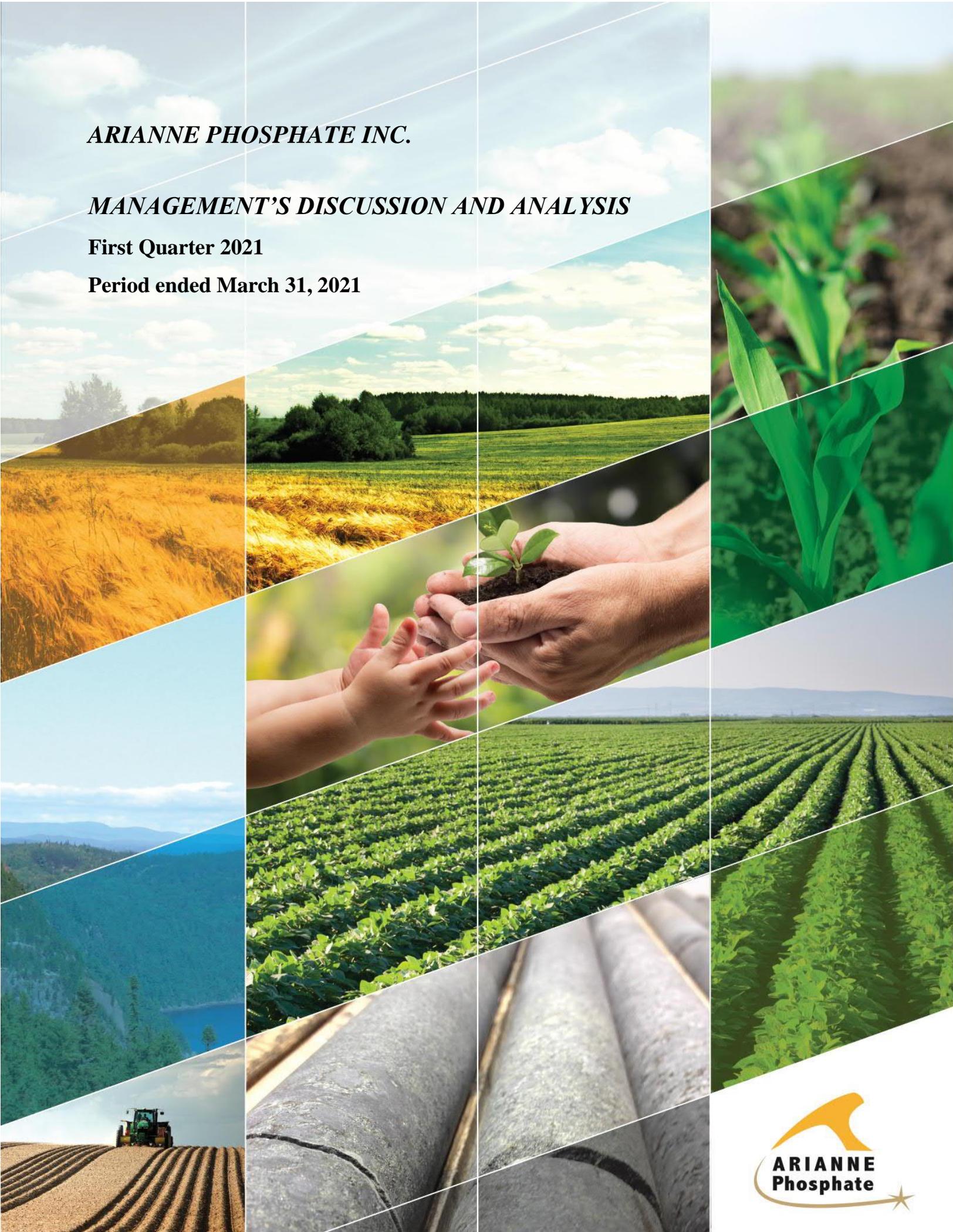


***ARIANNE PHOSPHATE INC.***

***MANAGEMENT'S DISCUSSION AND ANALYSIS***

**First Quarter 2021**

**Period ended March 31, 2021**



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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 March 31, 2021. This report was prepared in compliance with the provisions of Form 51-102F1, approved by the Board of Directors and dated May 27, 2021. It should be read in conjunction with the audited consolidated financial statements for the period ended March 31, 2021 (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, 2020 and, where required, in Note 2 of the unaudited condensed interim consolidated financial statements for the three-month period ended March 31, 2021. The financial statements should be read in conjunction with the Company's consolidated and audited annual financial statements for the year ended December 31, 2020, 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 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 March 2021, the Company announced the restructuring of its current credit line and loans. For the credit line, the Lender has exercised 26,780,000 warrants into the Company's common shares, thereby reducing the credit facility from \$31,496,897 to \$24,892,949, a reduction of \$6,603,948. The credit facility will be extended for a period of 5 years at an annual interest rate of 8%. The annual interest can be paid by the Company, at its sole option, either in cash or in common shares of the Company. The Company will issue the 32,000,000 warrants at an exercise price of \$0.33 per share for a period of 5 years. The Lender shall not be entitled to exercise warrants which would result in the Lender holding, following such exercise, on a partially diluted basis, more than 19.9% of the issued and outstanding common shares of the Company, except under limited circumstances. The Company will increase the buyback purchase price of the existing production fee granted in favour of the Lender to \$11.25M.
- Arianne also announced the conversion of its existing loans and working capital facility. The holders of \$5,970,155 of these facilities will have their debt converted into common shares of the Company at a price of \$0.275 per share. As a result of the debt conversion, the Company will issue a total of 21,709,655 common shares to such debt holders. The Company will also cancel 11,028,584 warrants that were originally issued with the loans and working capital facility.
- In April 2021, the Company announced that it has reached an agreement in principle with the Port of Saguenay regarding the future site of a maritime loading facility on the north shore of the Saguenay River. This Agreement will allow for both the Company and the Port to finalize details surrounding the costs, construction and operations of the facility from which, Arianne will be shipping its phosphate concentrate globally. The final agreement will cover the use of the facility for an initial period of 30 years, thereafter renewable twice for periods of 10 years.
- In April 2021, Arianne partnered with the Quebec Center of Geomatics (CGQ), to advance research and development on a new method for the design and future monitoring of the Company's tailings operations. This work will use geomatic and remote sensing tools combined with artificial intelligence that should greatly improve the safety aspects of Arianne's operations.
- In May 2021, Arianne announced that Jeffrey Beck will assume the role of Chief Executive Officer and also joined the Board of Directors. Brian Ostroff is becoming President of the Company.
- On May 13, Arianne entered into an agreement with a syndicate of underwriters by which the Company will raise \$5 Million (M) by issuing 10 M units of the Company by way of a bought deal private placement. The units were priced at 50 cents per unit and consist of one common share and one-half common share purchase warrant good for a period of 24 months at an exercise price of 71 cents.

## 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 Trader Agreement**

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 Française 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 October 2019, Arianne 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% P<sub>2</sub>O<sub>5</sub> 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.

The Company has partnered with the Province of New Brunswick for the review of constructing a phosphoric acid plant in Belledune, New Brunswick.

### **Paul project reserves**

Proven and Probable (P&P) reserves estimated in the Feasibility study published in October 2013 are presented in the next table.

Reserve <sup>(1)</sup>	Paul Zone (cut-off grade: 3.5% P <sub>2</sub> O <sub>5</sub> )	
	Tonnage (Mt)	Grade (% P <sub>2</sub> O <sub>5</sub> )
Proven (P)	313.71	6.92
Probable (P)	158.38	6.80
<b>Total (P&amp;P)</b>	<b>472.09</b>	<b>6.88</b>

(1) Reserves were estimated in 2013 from the Paul Zone resources estimate at the time which amount 590M.24 Mt at 7.13%P<sub>2</sub>O<sub>5</sub> (cut-off grade of 4.0%P<sub>2</sub>O<sub>5</sub>)

## Paul project resources

Through further exploration activities completed in 2014, additional resources were estimated on the project. All the up-to-date resources of the Lac à Paul project are presented in the next table.

	Measured (M) <sup>(2)</sup>		Indicated (I) <sup>(2)</sup>		Total (M&I) <sup>(2)</sup>		Inferred (I) <sup>(2)</sup>	
	Mt	%P <sub>2</sub> O <sub>5</sub>	Mt	%P <sub>2</sub> O <sub>5</sub>	Mt	%P <sub>2</sub> O <sub>5</sub>	Mt	%P <sub>2</sub> O <sub>5</sub>
<b>Paul + extensions<sup>(1)</sup></b> (cut-off grade: 4.4% P <sub>2</sub> O <sub>5</sub> )	317.64	7.29	385.06	7.05	<b>702.7</b>	<b>7.16</b>	26.01	6.58
<b>Nicole</b> (cut-off grade: 3.5% P <sub>2</sub> O <sub>5</sub> )							78.20	5.34
<b>Manouane</b> (cut-off grade: 2.43% P <sub>2</sub> O <sub>5</sub> )	136.90	5.93	26.90	5.64	<b>163.80</b>	<b>5.88</b>		
<b>Traverse</b> (cut-off grade: 3.5% P <sub>2</sub> O <sub>5</sub> )							17.00	5.98
<b>TraMan Sud</b> (cut-off grade: 3.5% P <sub>2</sub> O <sub>5</sub> )							146.00	5.30
<b>Zone 2</b> (cut-off grade: 2.43% P <sub>2</sub> O <sub>5</sub> )							64.00	4.55

Resources presented were published in press releases from February 18, 2015, July 16, 2014, May 15, 2014 and November 8, 2011.

<sup>(1)</sup> **Cautionary Statements:** M+I Resources are inclusive of P&P reserves

<sup>(2)</sup> **Cautionary Statements:** Mineral Resources that are not Mineral Reserves do not have demonstrated economic viability. It is uncertain if further exploration will result to upgrade this inferred resource at indicated and measured resources.

## Metallurgy

In 2020, the Company conducted metallurgical tests performed at COREM Labs in Quebec City, Canada. Arianne weighed the benefits of using a different collector agent sourced from NordChem, a Canadian-based company that provides tailor-made chemicals to the mining industry. Results from these tests demonstrated that Arianne could produce a phosphate concentrate averaging 40.25% P<sub>2</sub>O<sub>5</sub> with recoveries ranging between 91.1% and 93.2% and, combined with the rapidity with which this collector acts, would also produce cost savings in the production of our high-purity concentrate.

In 2020, Arianne also received further results from tests designed to optimize its metallurgical process. The process was run at lower water temperatures to simulate the water temperatures available at site through most of the operating year. Using water at 4°C, as opposed to the originally tested 20°C, showed no adverse effect on the recoveries or quality of Arianne's phosphate concentrate and thus, will allow Arianne to produce the same quality product while reducing the time and costs associated with heating.

The tests conducted in 2013 for the feasibility study demonstrated the possibility of producing an apatite concentrate containing 38.6% P<sub>2</sub>O<sub>5</sub> 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% P<sub>2</sub>O<sub>5</sub> content.

## 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 European legislation and 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. Further, recent events surrounding the COVID-19 virus should continue to focus attention on both the food chain and supply chain and thus, the attractiveness of the Lac à Paul project.

### **FINANCIAL POSITION ANALYSIS**

As at March 31, 2021, total assets were \$64,342,711 compared to \$64,805,604 as at December 31, 2020. The primary reason for the decrease is the reduction of mining tax credit receivable after receiving \$94,824 from mining tax credit and a tax credit adjustment from a previous period of \$409,302. This is off set by development cost of \$68,599 during the period ended March 31, 2021. The Company also received \$333,333 from a warrant exercise, which is offset by operating expenses and cash finance costs.

Current assets of \$842,148 as at March 31, 2021 have decreased from \$941,588 as at December 31, 2020. This is the result of decrease of mining tax credit receivable.

Current liabilities of \$924,524 as at March 31, 2021 have decreased from \$37,651,750 as at December 31, 2020. Which is the result of the classification of credit line in the non-current liabilities since it had been extended for 5 years expiring in March 2026. The lender of the credit line exercised warrants held and reduced the credit line by \$6.6M. Finally, the conversion in equity of the loans and working capital facility which reduced the current liabilities by \$6M.

### **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 March 31, 2021 was \$606,882.

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)	Period ended March 31, 2021 \$	Period ended March 31, 2020 \$
Operating activities	(340,647)	(201,445)
Investment activities	22,368	(276,211)
Financing activities	296,251	378,930
Increase (decrease) in cash and cash equivalents	(22,028)	(98,726)

### **Operating activities**

For the period ended March 31, 2021, cash outflows from operating activities totalled 0.3M (million), while there were outflows of \$0.2M of cash for the same year in 2020. The reason for the change in operating activities from the period ended March 31, 2021 is due to the fees paid in regard of the extension of the credit line and the conversion of the loans and working capital facility and investor relation activities.

### **Investment activities**

For the period ended March 31, 2021, cash inflow from investing activities was \$0.02 M, whereas \$0.3M of cash was paid in the comparative period, both reflecting costs capitalized for property, plant and equipment. The difference is the reception of \$0.1M in tax credit proceeds in the period ended March 31, 2021 and nil for the period ended March 31, 2020.

### **Financing activities**

For the period ended March 31, 2021, \$0.3M of cash inflow was provided by the issuance of shares from warrants exercise. For the period ended March 31, 2020, \$0.4M provided by the issuance of shares from private placements.

## **FINANCING**

### **Working capital**

The negative working capital was \$82,376 on March 31, 2021, compared to a negative working capital of \$36,710,162 as at December 31, 2020.

On May 13, Arianne entered into an agreement with a syndicate of underwriters by which the Company will raise \$5 M by issuing 10 M units of the Company by way of a bought deal private placement. The units were priced at 50 cents per unit and consist of one common share and one-half common share purchase warrant good for a period of 24 months at an exercise price of 71 cents.

### SUMMARY OF QUARTERLY RESULTS

	<b>June 30, 2019 \$</b>	<b>September 30, 2019 \$</b>	<b>December 31, 2019 \$</b>	<b>March 31, 2020 \$</b>	<b>June 30, 2020 \$</b>	<b>September 30, 2020</b>	<b>December 31, 2020</b>	<b>March 31, 2021</b>
Net loss	(641,842)	(429,177)	(453,456)	(1,830,034)	(750,023)	(1,666,073)	(1,666,391)	(4,396,059)
Basic and diluted loss per share	(0.01)	(0.01)	(0.01)	(0.01)	(0.01)	(0.01)	(0.01)	(0.01)

The amounts reported in the 2020 interim financial statements have been adjusted, refer to note 22 of the consolidated financial statements.

For each quarter in fiscal 2020 and 2021, 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.

#### SUMMARY OF FINANCIAL ACTIVITIES FOR THE THREE-MONTH PERIOD ENDED MARCH 31, 2021

The net loss for the three-month period ended March 31, 2021 was \$4,396,059 compared to a net loss adjusted of \$1,830,034 for the three-month period ended March 31, 2020.

The increase in net loss is explained by the borrowing costs incurred during the first quarter of 2021 regarding the extension of the credit line and the conversion in equity of the loans and working capital facility. The conversion in equity created a noncash borrowing cost of \$3.5M due to a gap between the fair value of the stock on the date of the transaction versus the value of the stock used in the conversion. This is due to a quickly increase of the stock in the market during the first quarter of 2021.

Since the Company is currently in a period of raising funding for its project through financing and off-take agreements and is not carrying substantial technical work, the Company has suspended the capitalization of its borrowing costs until further technical work is done on the project. Increase of borrowing costs are offset by a reduction of salaries and benefits (decrease of \$75,239), management fee (decrease of \$13,750). Those decreases are offset by an increase of communication of \$20,930 this is due due to the increase investor relation activities.

## RELATED PARTY TRANSACTIONS

The following operations occurred during the period ended March 31, 2021 and 2020:

	2021 \$	2020 \$
<b>Key management compensation (1)</b>		
Share-based compensation	27,048	23,671
Management fees	48,654	20,000
	75,702	43,671
Salaries and benefits (2)	78,510	71,575
	154,212	115,246
<b>Balance included in accounts payable and accrued liabilities</b>	<b>54,112</b>	<b>74,255</b>

(1) The key management is composed of the Chief executive officer (CEO), Chief Financial Officer (CFO), Chief Operating Officer (COO) and Executive Chairman.

(2) Salaries, benefits and management fees capitalized to property, plant and equipment amount to \$42,404 (\$51,718 in 2020).

The Company has entered into employment and management contracts with its key executives whose estimated annual remuneration amounts to \$432,500. 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, 2021, 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, 2021, the total amounts payable to the executive team in respect of severance would have totaled \$925,000 (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, 2021, the total amounts payable to the executive team in respect of severance would have totaled \$1,175,000 (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 the financial statements.

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 the financial statements.

### 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 \$9 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 \$2.25 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.

The following are the contractual maturities of financial liabilities, including interest where applicable as at March 31, 2021:

	<b>Carrying amount</b>	<b>Contractual cash flows</b>	<b>0 to 12 months</b>	<b>12 to 24 months</b>	<b>More than 24 months</b>
	\$	\$	\$	\$	\$
Accounts payable and accrued liabilities	759,149	759,149	759,149	-	-
Lease liability	133,793	133,793	65,375	68,418	-
Loans	143,139	130,000	100,000	-	30,000
Credit line	15,970,362	35,825,488	2,134,658	2,051,977	31,638,853

### **APPLICATION OF NEW 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 consolidated financial statements for the period ended March 31, 2021, and a summary of the critical accounting estimates and judgements in the note 4 of the audited financial statements for the period ended March 31, 2021.

### **FINANCIAL INSTRUMENTS, FINANCIAL RISKS AND CAPITAL MANAGEMENT**

The Company's financial instruments, financial risk and capital management are presented and described in the audited consolidated financial statements for the period ended March 31, 2021.

### **INFORMATION ON SHARES OUTSTANDING**

As at May 27, 2021, 173,889,469 common shares are issued and outstanding. There are 6,249,230 stock options, 39,454,675 warrants and 55,740 options granted to brokers outstanding.

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

(s) Pier-Elise Hebert-Tremblay  
Pier-Elise Hebert-Tremblay  
Chief Financial Officer

### **Board of Directors and Officers**

**Dominique Bouchard**, Executive Chairman of the Board of Director  
**Jeffrey Beck**, Chief Executive Officer and Director  
**Brian Ostroff**, Director and President  
**Jim Cowley**, Director  
**Steven L. Pinney**, Director  
**Siva J. Pillay**, Director  
**Marco Gagnon**, Director  
**Claude Lafleur**, Director

**Jean-Sébastien David**, Chief Operating Officer  
**Pier-Elise Hebert-Tremblay**, Chief Financial Officer

### **Ticker symbols**

DAN: TSX-V (Canada)  
JE9N: FSE (Germany)  
DRRSF: OTC (USA)

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