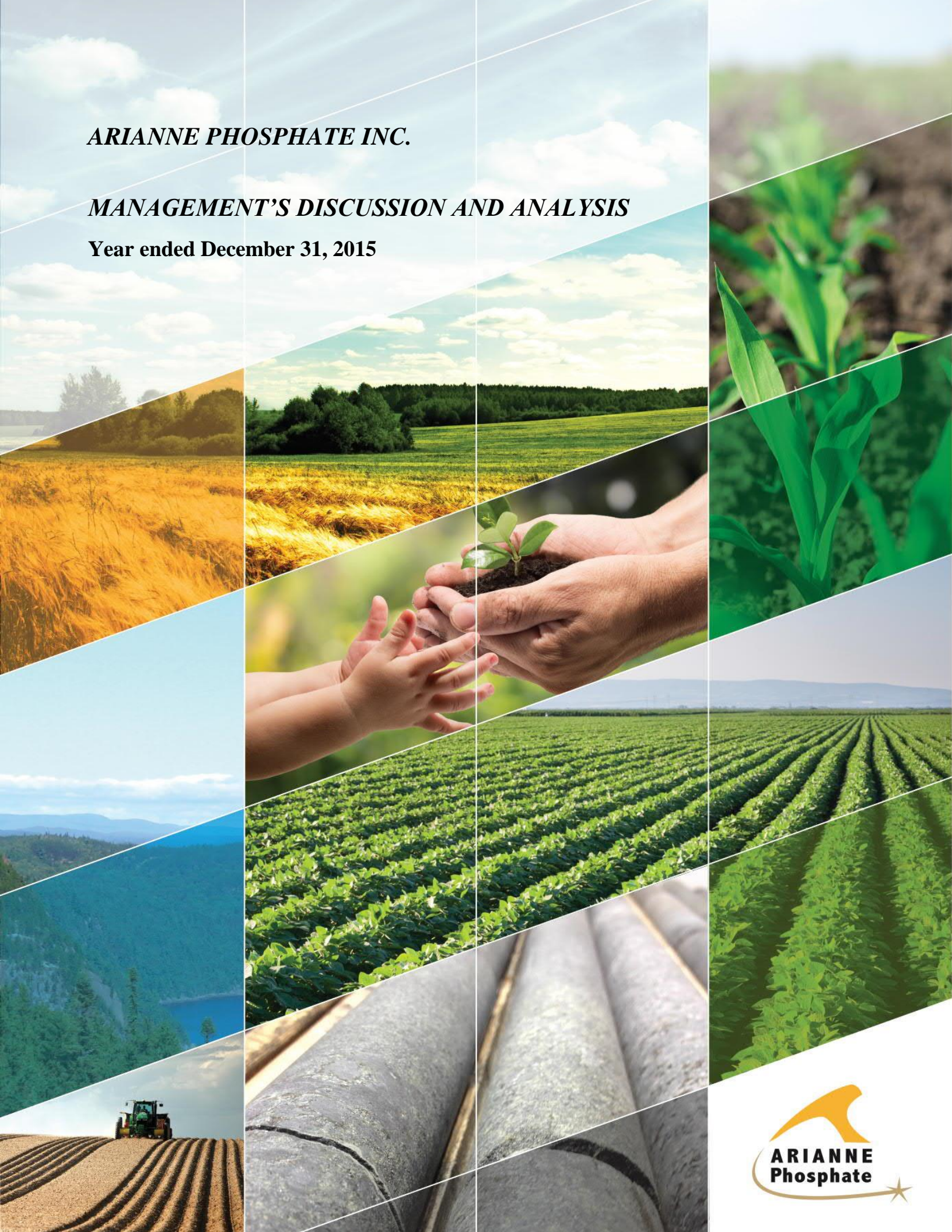


***ARIANNE PHOSPHATE INC.***

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

**Year ended December 31, 2015**



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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 year ended December 31, 2015. This report was prepared in compliance with the provisions of Form 51-102F1, approved by the Board of Directors and dated March 30, 2016. It should be read in conjunction with the audited consolidated financial statements for the year ended December 31, 2015 (the "financial statements").

The financial statements for the year ended December 31, 2015, were prepared in accordance with International Financial Reporting Standards ("IFRS").

All amounts presented in the MD&A are in Canadian dollars (CAD) unless otherwise noted.

## **FORWARD-LOOKING INFORMATION**

Certain statements in this MD&A about our current and future plans, expectations and intentions, results, levels of activity, performance, goals or achievements, or any other future events or developments constitute forward-looking statements. The words "may", "will", "would", "should", "could", "expects", "plans", "intends", "trends", "indications", "anticipates", "believes", "likely", "predicts", "estimates" or "potential" or the negative or other variations of these words or other comparable words or phrases, are intended to identify forward-looking statements. Specific forward-looking statements in this MD&A include, but are not limited to, statements with respect to the general development of the business and the eventual start of commercial production and to the liquidity position of the Company. Forward-looking statements are based on information currently available to us and on estimates and assumptions made by us regarding, among other things, general economic conditions and the mining industry in general, in light of our experience and perception of historical trends, current conditions and expected future developments, as well as other factors that we believe are appropriate and reasonable in the circumstances. Although reasonable, the statements can entail known and unknown risks and uncertainties and, accordingly, actual results and future events could differ materially from those anticipated in such statements.

## **DESCRIPTION OF THE BUSINESS**

Arianne is a company focused on the development of the Lac à Paul phosphate rock project (Lac à Paul) located in the Saguenay–Lac-St-Jean area, in the province of Quebec. The Company's shares are listed on the TSX Venture Exchange (symbol DAN), on the Frankfurt exchange (symbol JE9N) and on the US Stock Exchange Over-the-Counter (OTC) (symbol DRRSF). The registered office of the Company is located at 393 Racine Street East, Suite 200, Chicoutimi, Québec, Canada G7H 1T2.

## HIGHLIGHTS

### 2016

- On March 14, Pierre Fitzgibbon, stepped down as Chairman and concurrently the Board has appointed Jean Lamarre as the new Chairman of the Board. He is fully skilled in international business development, finance and corporate strategy and will be a great addition to Arianne. Furthermore, the Company announced the appointment of a new CEO, Brian Ostroff. His experience will help to consolidate partnerships and financing arrangements.
- The Company respected the deadlines for the port facilities project carried out by the Port of Saguenay. The environmental studies are underway for the Canadian Environmental Assessment Agency (“CEAA”). This significant stage in the project’s development will allow Port of Saguenay to obtain the necessary government approvals in order to begin the construction of the port facilities and then obtain the permits requested.

### 2015

- In March 2015, the Company issued 400,000 non-transferable common share purchase warrants (“Warrants”) to Mercury Financing Corp. (the “Lender”), the lender of the credit lines further described in note 12 of the financial statements. The Warrants were issued in relation to an agreement with the Lender to defer interest payments on the credit lines (the “Agreement”). The Agreement provided for the deferral of approximately \$600,000 in interest payable to the Lender until maturity of the credit lines in December 31, 2015. Each Warrant entitles the Lender to purchase one common share of the Company at an exercise price of \$0.74. The Warrants shall be exercisable for a period of one year from the date of the signature of the Agreement. The Warrants are subject to a hold period of four months.
- On March 17, 2015, the Company announced that it has successfully completed a customer trial program that produced a phosphate concentrate with a higher P<sub>2</sub>O<sub>5</sub> grade and lower contaminants than previously ever achieved by the Company. The customer trial produced 1.2 tonnes of phosphate concentrate with a grade of 40.0% of P<sub>2</sub>O<sub>5</sub> and 0.03% of contaminants. The results surpass previous metallurgical test work that had produced a P<sub>2</sub>O<sub>5</sub> concentrate of 38.8% with 0.089% of contaminants.
- During the first quarter of 2015, the Company identified cost savings of US\$4.26 per ton phosphate concentrate. During the second quarter, Arianne announced an additional reduction of the production cost of its high-purity phosphate concentrate of US\$8 per ton. The total cost saving of US\$12.26 per ton is expected to reduce the total cash operating cost to US\$79 per ton. These reductions represents a cost savings of 13% from the original Feasibility Study (“FS”), and are the result of an optimized mining plan as well as savings associated with a more streamlined metallurgical process.
- Following the exploration activities completed in 2014, analysis and geologic interpretation, Arianne has identified new measured and indicated resources on the Paul Eastern Extension. Arianne’s updated resource estimate now shows a 5% increase in measured and indicated resources (702.7 million tonnes vs. 668.7 million tonnes) over its previously announced resources released on October 14, 2014.

- Dino Fuoco, Chief Financial Officer (“CFO”) and Corporate Secretary left the Company on July 3, 2015. In the interim, the CFO role is being filled by James Cowley. Mr. Cowley, who currently sits on the Board of Arianne, is also a member of the audit committee. Mr. Cowley had previously served as President of Arianne from August of 2011 to August of 2014.
- On June 2, during the annual and special shareholder’s meeting of shareholders in Montreal, Arianne shareholders elected Pierre Fitzgibbon, Dominique Bouchard, Brian Ostroff, James Cowley, David DeBiasio, Marco Gagnon, Siva Pillay, and Steven Pinney as directors of the Company. The Board of Directors confirmed the nominations of Mr. Pierre Fitzgibbon as Chairman and Mr. Dominique Bouchard as Vice-Chairman, respectively.
- On June 12, the Company signed a Cooperation Agreement for the Lac à Paul Mining project with the Innu First Nations from Pessamit, Essipit and Mashteuiatsh. With the signing of the Cooperation Agreement completed, the parties are looking to finalize the specifics of the Impact and Benefit Agreement (IBAs) before the project construction begins.
- On July 29, the Company extended the term of 1,217,500 common share purchase warrants (“Warrants”) issued as part of a private placement which closed on July 29, 2013. Each of the Warrants entitles its holder to purchase one common share of the Company at an exercise price of \$1.45 per common share until July 29, 2015. The Company has elected to extend the expiry date of the Warrants to January 27, 2017. No other Warrant terms were amended.
- On October 22, the Company secured an expanded Credit Facility from its existing Lender, increasing the total facility to \$18,750,000. The new facility will be used to add its current facilities of an aggregate amount of \$12,500,000 (plus any accrued interest). The new facility will mature on December 31, 2017 and will bear interest at an annual rate of 6.25% with all interest capitalized through the maturity date of the New Credit Facility. The Company has issued the Lender 7,500,000 warrants, of which 5,000,000 warrants have an exercise price of \$0.86 per share and 2,500,000 warrants an exercise price of \$1.08 per share. All warrants are exercisable through December 31, 2017. All warrants issued in connection with the New Credit Facility are subject to a regulatory hold period of four (4) months and one (1) day expiring on February 21, 2016. In connection with this transaction, the Company paid an arrangement fee of \$45,669 to the agent and a commitment fee of \$91,338 to the Lender.
- On December 22, the Company announced that its project received approval from the Cabinet of the Government of Quebec. The granting of the Ministerial Decree is an important step in the process to develop the Lac à Paul project. The Company will continue its discussions with potential corporate, strategic and financial partners to finance the construction of its Lac à Paul mine.

## OBJECTIVES

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

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

Over the medium term, the Company's goal remains to build a profitable phosphate mine that will generate economic returns and benefits for our shareholders as well as stakeholders in the Saguenay–Lac-St-Jean region and Québec.

## FEASIBILITY STUDY (“FS”)

In October 2013, Arianne released the FS of its Lac à Paul phosphate mine project. The FS outlines an open pit mine, a mill producing a high-quality phosphate concentrate product and a transport system to deliver the product to a year-round, deep-water port on the Saguenay River.

### Study highlights

- Net present value (“NPV”) of US\$1,910.1 million before taxes at an 8% discount rate.
- Gross revenue, in real terms, of US\$16.1 billion, and operating cash flows of US\$7.4 billion.
- Internal rate of return (“IRR”) of 20.7% with a capital payback of 4.4 years before taxes and mining duties.
- A 26-year mine life (excluding pre-production) with an average annual phosphate concentrate production of 3 million tonnes with a grade of 38.6% P<sub>2</sub>O<sub>5</sub> and with average mill recovery of 90.0%.
- Initial capital cost of US\$1,215 million, comprised of US\$983 million for the mine and US\$232 million for the concentrate transport system that delivers product to the deep-water Port of Saguenay, open 365 days a year.
- Life of Mine (LOM) operating cash cost on board the ship in the deep-water Port of Saguenay of US\$93.7/ton yielding an operating margin of 56% on an average selling price of US\$213/tonne.
- Measured and indicated mineral resources in the Paul Zone of 590 million tonnes grading an average of 7.13% P<sub>2</sub>O<sub>5</sub> at a 4.0% cut-off grade (does not include 164 million tonnes of Manouane Zone mineral resources).
- Production of 76 million tons of saleable concentrate at 38.6% P<sub>2</sub>O<sub>5</sub> from proven and probable mineral reserves of 472.1 million tonnes at an average grade of 6.9% P<sub>2</sub>O<sub>5</sub> (based on a 3.5% cutoff grade) for the Paul Zone mineral resource.
- Hydro-Québec confirmed power availability of 115 MW at the Chute des Passes power plant located 40 km from the mine.

## OPERATIONAL REVIEW

### *Paul Zone growth potential*

Through further exploration activities completed last year, Arianne has identified new measured and indicated resources on the Paul Eastern Extension of 12.5 million tonnes at 6.31% P<sub>2</sub>O<sub>5</sub> with a 4.0% P<sub>2</sub>O<sub>5</sub> cut-off grade. Additionally, an updated resource estimate from the remodeling on the Paul Zone and its Western Extension now amount to 690 million tonnes at 7.18% P<sub>2</sub>O<sub>5</sub> with a 4.0% P<sub>2</sub>O<sub>5</sub> cut-off grade in the measured & indicated category. In total, Arianne's updated resource estimate now shows a 5% increase in measured and indicated resources (703 Mt vs 669 Mt) over its previously announced resources released.

### *Infrastructure*

The project is located 240 km north of the Saguenay–Lac-St-Jean region in Québec, Canada. This region is economically well-diversified with existing infrastructure, a strong industrial base and a high-quality labour pool. The region is also known for numerous hydropower generating dams. It has a well-developed road network and access to deep-sea ports.

The Lac à Paul project will get its 115 MW of electricity from Hydro-Québec through Rio Tinto Alcan's Chute-des-Passes Power dam, which is located 40 km from the project. A 345-kV/161-kV substation at Chute-des-Passes and a 161-kV power line will be built to supply the electricity to the Lac à Paul mine site.

### *Phosphate concentrate transport*

The phosphate concentrate will be transported by truck from the mine on an existing logging road to a deep-water port located on the north shore of the Saguenay River. Studies completed in June 2014 led to the selection and presentation of a scenario using forest roads R-253 and R-200 on the "Monts-Valin" and the maritime terminal on the north shore of the Saguenay River at Sainte-Rose-du-Nord.

### *Metallurgy*

The Company completed a customer trial program that produced a phosphate concentrate with a higher grade and lower contaminants than previously ever achieved by the company. The customer trial produced 1.2 tonnes of phosphate concentrate with a grade called Arianne 40 of 40.0% of P<sub>2</sub>O<sub>5</sub> and a minor element ratio ("MER") of 0.03%. These tests were completed by adding an additional step beyond Arianne's already optimized metallurgical process. The results surpass previous metallurgical test work that had produced a P<sub>2</sub>O<sub>5</sub> concentrate of 38.8% with 0.089% of contaminants.

### *Cost savings*

The Company has identified additional operating cost savings of US\$12.26 per ton (US\$4.26 announced in the first quarter and US\$8 announced in the second quarter) related to its planned production of phosphate concentrate, which now reduces the cash operating costs to US\$79 per ton. The reduction represents a cost savings of 13% below that estimated in the Company's FS. Arianne generated these cost savings by optimizing its original mine plan and sequencing commencement of mining operations

on the western part of the deposit, thereby improving the stripping ratio and allowing the Company to adopt an improved schedule for material waste handling. This calculation was performed using an exchange rate of \$0.95, consistent with that used in the Company's FS. Furthermore, the Company has secured 115 MW of its energy requirements from the government of Quebec at the industrial rate (L rate).

### ***First Nations***

Negotiations with the three First Nation communities regarding the Lac à Paul project: Pessamit, Mashteuiatsh and Essipit, led to the signing of a Cooperation Agreement for the Lac à Paul Mining project. The Cooperation Agreement will be used as a framework to govern the relationship between Arianne and the three communities, reflecting mutual intentions to further build a relationship characterized by cooperation and mutual respect in connection with the development of the Lac à Paul project. The common agreement in principle will set out the areas in which Arianne and the three communities have agreed to work together and maintain effective avenues of communication to support mutual goals.

### ***Community relations Saguenay–Lac-St-Jean***

As the Project develops, the Company is maintaining an open dialogue with the stakeholders in the region, as well as with groups and individuals impacted by the project. Community relations have always been a priority for Arianne. The Company is committed to maintaining full and open communication with all communities affected by the Lac à Paul project. During 2015, Arianne created an independent Monitoring Committee in relation to the Quebec Government's Mining Law.

Throughout the year, numerous meetings were held with key political, economic and community stakeholders involved in the project.

### ***Economic impact of the project***

In February 2014, the firm Raymond Chabot Grant Thornton (RCGT) submitted the results of its study on the economic impacts of the implementation of the Lac à Paul project.

The RCGT analysis confirms that the significant economic benefits of the mine will increase collective wealth in the region by increasing the average income of workers and fostering the emergence of a new cluster of mining contractors, in addition to diversifying the region's traditional economy based on the forest and aluminium industries.

The project will also attract new residents with expertise in the mining sector, in addition to generating opportunities for educational institutions in the region. Arianne is working with all stakeholders, including First Nations, so that the project will enable the region to grow and become more competitive.



### ***Port of Saguenay***

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

The port authority of Saguenay (Port of Saguenay) has filed a description of a maritime terminal and its adjacent facilities construction project on the north shore of the Saguenay River to the CEEA in April 2015, followed by a 20-day public comment period on this project description. Additional information regarding the functionalities of this process can be viewed on the following web site: <http://www.ceaa-acee.gc.ca>.

This project was initiated as a complement to Arianne's phosphate concentrate mining project. The aim of Port of Saguenay's project is to facilitate shipment of Arianne's phosphate concentrate to world markets.

### ***Social acceptance***

In 2015, in order to minimize the transport impact for the residents of the Zec Martin-Valin and Lake Neil, the Company has signed an agreement with those parties to offset the impact of the transport of the concentrate.

## **PHOSPHATE INDUSTRY TRENDS**

Phosphate rock mining is declining in North America, with an estimated deficit in Canada and United States of 4 million tons per year expected to increase to 8 million tons per year by 2020. Global demand for phosphate is increasing at approximately 3% per year due to global population growth and a shift in dietary habits towards more protein-rich foods.

Within this context, the Lac à Paul project can satisfy a portion of this demand growth and provide a reliable and secure supply of high-quality phosphate rock.

Phosphate has no substitute and is a key component essential to life. It helps root development and drought resistance of plants.

Phosphate purchasers (potential customers) are concerned about supply security and are cognizant of the geopolitical situation regarding the region where the mine is located. The Lac à Paul project is located in a politically stable mining-friendly jurisdiction.

## SUSTAINABLE DEVELOPMENT

### *Measuring and offsetting greenhouse gas emissions*

As part of its Sustainable Development Policy, Arianne offsets its greenhouse gas (“GHG”) emissions by investing in sustainable development and innovation projects.

During 2015, Arianne’s activities have been responsible for the emission of 37 tonnes of CO<sub>2</sub> equivalent (Table 1).

Arianne’s activities are focused on the development of the Lac à Paul project, fieldwork, including sampling and equipment and workforce transport. Arianne invests in a compensation for the emission of CO<sub>2</sub> equivalent (Table 2).

*Table 1: Greenhouse gas emissions associated with each of the Company’s activities during the year 2015 (in tonnes)*

	<b>Total</b>	<b>Administration and field transportation</b>	<b>Logging</b>	<b>Drilling</b>	<b>Excavation</b>	<b>Other</b>
<i>Work and representation</i>	37	37	-	-	-	-
<b>Percentage (%)</b>	<b>100%</b>	<b>100%</b>	-	-	-	-

*Table 2: Summary of offset measures implemented by Arianne as of December 31, 2015*

<b>Emissions</b>	<b>Tonnes</b>
1999-2010	867
2011	222
2012	963
2013	100
2014	2,070
2015	37
<b>Financial equivalents</b>	<b>4,259</b>
Price/tonne CO <sub>2</sub> (\$/tonne)	12.82
Amount to offset (\$)	54,600
<b>Amounts already invested</b>	<b>\$</b>
Global TraPs 2011	5,181
UQAC Eco-advising Chair	4,240
Global TraPs 2012	3,490
Research grant 2012-2014	27,000
Carbone Boréal 2012	37
Biopterre	1,000
<b>Total invested</b>	<b>40,948</b>
<b>Additional investment</b>	<b>13,652</b>

## SELECTED ANNUAL INFORMATION

### Highlights of the last three fiscal years

	DECEMBER 31, 2015	DECEMBER 31, 2014	DECEMBER 31, 2013
		\$	\$
Total assets	44,259,699	44,654,876	39,655,934
Non-current financial liabilities – credit line	12,561,084	-	11,399,817
Net loss	3,977,746	5,662,140	6,407,836
Net loss per share	0.04	0.06	0.08

The financial statements have been prepared in accordance with IFRS, as issued by the International Accounting Standards Board (“IASB”). The accounting policies applied in the financial statements are based on IFRS effective for the year ended December 31, 2015, as issued and outstanding as of March 30, 2016, the date when the Board of Directors approved the financial statements.

### Results of operations for the year ended December 31, 2015

The net loss for the year ended December 31, 2015 was \$3,977,746 compared to a net loss of \$5,662,140 for the year ended December 31, 2014 and \$6,407,836 for the year ended December 31, 2013.

The reduction in losses during the past three years is mainly due to income tax recovery of \$84,677 compared to a deferred income tax recovery of \$189,445 in 2014 and to an income tax expense of \$1,288,844 in 2013. These amounts are related to indications that the Company’s exploration and evaluation assets could be recovered through use rather than through sale. This has been reflected in 2013. Accordingly, the Company recorded a deferred income tax liability of \$2,084,722 as of 2015.

The operating loss in 2015 of \$3,926,222 was lower than in 2014 and 2013 (\$5,610,243 and \$4,851,903). This is mainly due to reductions in the size of the staff (decrease of \$273,959 between 2015 and 2014 and increase of \$615,751 between 2014 and 2013), because exploration activities were completed with a focus of the Company turned toward the development of the Lac à Paul project.

With regards to reductions in the size of the staff, the share-based compensation expense was lower during 2015 compared to 2014 (decrease of \$289,685 between 2015 and 2014 and increase of \$350,569 between 2014 and 2013).

The professional and consultant fees decreased by \$464,450 between 2015 and 2014 (decrease of \$135,869 between 2014 and 2013) due to the lower level of activities.

Most other operating expenses in 2015 decreased as a result of the decreased level of activity of the Company. The management fees decreased by \$276,452 between 2015 and 2014 (increase of \$7,668 between 2014 and 2013). The promotion, representation and travel expenses decreased by \$194,745 between 2015 and 2014 (increase of \$50,709 between 2014 and 2013). Communications costs decreased by \$172,000 between 2015 and 2014 (increase of \$72,668 between 2014 and 2013).

## FINANCIAL POSITION ANALYSIS

As at December 31, 2015, total assets are lower compared to December 31, 2014. This is mainly due to a decrease in cash and cash equivalent to \$91,920 in 2015 compared to \$3,837,720 in 2014 offset by an increase in the exploration and evaluation assets of \$40,502,866 in 2015 compared to \$36,623,579 in 2014. All through the year, the Company has continued to develop its assets by investing \$3,879,287, net of tax credits, in its exploration and evaluation assets, composed of the Lac à Paul property.

Accounts payable and accrued liabilities also increased from \$1,191,290 in 2014 to \$1,672,540 in 2015. This is due to the higher expenses incurred at the end of the year and term of payment.

Non-current liabilities as at December 31, 2015 of \$14,645,806 are higher than at December, 31 2014, at \$2,034,817, as a result of the classification of the credit line and related accrued interests as non-current liabilities in relation to the third non-revolving credit line agreement due in December 2017.

During the fourth quarter of 2015, the Company drew an additional \$1,000,000 from the credit lines and repaid \$1,320,000 by granting 1,500,000 shares to the Lender in connection with the warrants exercised. At the end of December 31, 2015, the Company has an amount of \$3,566,887 available.

## CASHFLOWS, LIQUIDITY AND CAPITAL MANAGEMENT

Liquidity risk is the risk that the Company encounters difficulty in meeting obligations associated with its financial liabilities. The Company's cash balance as at December 31, 2015 was \$91,920, and it has a current tax credit related to resources and mining tax credit receivable of \$1,106,305.

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

Cash flows provided by (used in)	<b>December 31, 2015 \$</b>	<b>December 31, 2014 \$</b>
Operating activities before the net change in non-cash working capital items	(3,303,004)	(4,886,069)
Net change in non-cash working capital items	(681,561)	722,729
Operating activities	(3,984,565)	(4,163,340)
Investment activities	(586,169)	(6,841,277)
Financing activities	824,934	7,946,006
Decrease in cash and cash equivalents	(3,745,800)	(3,058,611)

### **Operating activities**

For the year ended December 31, 2015, cash outflows from operating activities totalled \$3.9 million, while there was \$4.2 million of cash outflows for the same period in 2014. The change in non-cash working capital decreased by \$1.4 million during the year, which is explained by the increase in accounts payable and accrued liabilities.

### **Investment activities**

For the year ended December 31, 2015, cash used in investing activities was \$0.6 million, which primarily reflects expenses for exploration and evaluation assets of \$1.5 million offset by the receipt of refundable tax credits for resources from the Government of Québec of \$0.9 million. During 2015, exploration and evaluation expenses increased to \$4.0 million, however this amount included \$2.5 million of non-cash expenses related to capitalised borrowing cost of \$1.8 million and \$0.7 million recorded in accounts payables and accrued liabilities.

### **Financing activities**

For the year ended December 31, 2015, cash provided by financing activities was \$0.8 million versus \$7.9 million in 2014. The decrease is primarily due to the fact that the third non-revolving credit line negotiated in October 2015 of the amount of \$4.6 million, was gradually drawn in 2015 for \$1.0 million. In 2014, there was a repayment of the \$1.5 million loan, which was partially offset by the receipt of gross proceeds from the exercise of warrants, stock options and options granted to brokers of \$2.0 million and \$8.0 million received from the private placement less share issuance expenses of \$0.6 million.

## **FINANCING**

Under the terms of the New Credit agreement, the Company obtained a third non-revolving credit line amounting to \$4,566,887 to finance exclusively the general and administrative operations and other activities related to the project development for the Lac à Paul project. The third non-revolving credit line bears interest at a fixed rate equal to 6.25% per annum commencing on Closing Date (October 20, 2015).

In connection with obtaining the third non-revolving credit line, the Company granted to Lender, 5,000,000 warrants at an exercise price of \$0.86 per warrant and 2,500,000 warrants at an exercise price of \$1.08 per warrant. Each warrant entitles the Lender to purchase one common share of the Company and shall be exercisable until December 31, 2017. The warrants are subject to a hold period of four (4) months and one day from the date of the issuance. If the credit line is reduced or repaid within one (1) year of the Closing Date, a pro rata number of the warrants must have their term reduced to the later of (i) one year from the Closing Date and (ii) 30 days from the reduction or repayment of the credit line.

Related to the third non-revolving credit line, on December 30, 2015, the Company issued 1,500,000 shares to the Lender through the exercise of warrants. Each warrant entitled the holder to acquire one common share of the Company at a price of \$0.88. This issuance was used to reduce the non-revolving credit line.

### Working capital

The negative working capital is \$288,027 as at December 31, 2015 compared to a negative working capital of \$9,442,302 as at December 31, 2014. This reduction was primarily due to the classification of the credit line from current to non-current following the third non-revolving credit line, as the payment of the capital and interest changed from December 2015 to December 2017.

Management estimates that the cash available at the end of 2015 will not be sufficient to meet the Company's obligations and budgeted expenditures through December 31, 2016. These circumstances lend some doubt as to the ability of the Company to meet its obligations as they come due and, accordingly, the appropriateness of the use of accounting principles applicable to a going concern. The Company will need to secure financing in 2016.

If management is unable to obtain new funding, the Company may be unable to continue its operations, and amounts realized for assets might be less than amounts reflected in the financial statements.

### SUMMARY OF QUARTERLY RESULTS

	March 31, 2014	June 30, 2014	September 30, 2014	December 31, 2014	March 31, 2015	June 30, 2015	September 30, 2015	December 31, 2015
	\$	\$	\$	\$	\$	\$	\$	
Net loss	(1,405,964)	(1,636,936)	(1,260,208)	(1,359,032)	(891,200)	(1,138,195)	(913,206)	(1,035,145)
Basic and diluted loss per share	(0.02)	(0.02)	(0.01)	(0.01)	(0.01)	(0.01)	(0.01)	(0.01)

For each quarter in fiscal 2014 and fiscal 2015, the information contained in the summary of quarterly results is presented in accordance with IFRS. Amounts in this table are presented in Canadian dollars which is also the functional currency.

For the first two quarters of 2014, the net loss is higher than to the second half of the year. This is due to the exploration campaign and the hiring of new employees. For the second half of the year 2014, the net loss has decreased due to reduced activities from less use of external consultants. For the first quarter of 2015, the net loss decreased by \$467,832 as compared to the last quarter of 2014. This decrease is primarily due to the decrease in size of the team due to the lower activity. For the last three quarters, the activities have remained stable.

## SUMMARY OF FINANCIAL ACTIVITIES FOR THE THREE MONTH PERIOD ENDED DECEMBER 31, 2015

The net loss in Q4 2015 decreased to \$1,035,145 versus \$1,359,032 in Q4 2014. The net loss for the quarter also includes \$104,757 (\$196,260 in 2014) in share-based compensation expense, a decrease of \$91,503 compared to the same period in 2014.

### RELATED PARTY TRANSACTIONS

The following operations occurred during the year ended December 31, 2015 and 2014:

	<b>2015</b>	<b>2014</b>
	\$	\$
<b>Key management compensation (1)</b>		
Share-based compensation	279,872	125,100
Management fees	<u>113,717</u>	<u>390,168</u>
	393,589	515,268
Salaries and fringe benefits (2)	<u>633,352</u>	<u>747,515</u>
	<u>1,026,941</u>	<u>1,262,783</u>
Balance included in accounts payable and accrued liabilities	6,250	73,056

(1) The key management compensation includes amounts for a former vice-president and CEO who left respectively in February and December 2014, as well as amounts related to the departure of former CFOs' in August 2014 and July 2015.

(2) Salaries and fringe benefits capitalized to exploration and evaluation assets amount to \$128,169 (\$113,592 in 2014).

The Company has entered into employment and management contracts with its key executives whose estimated annual remuneration amounts to \$425,000. 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 December 31, 2015, the Company would have had to pay a total amount of \$350,000 as severance. If a change of control had occurred on December 31, 2015, the total amounts payable to the executive team in respect of severance would have totaled \$700,000 (assuming they left after a change of control and each named executive opted to receive such compensation). For one key executive, if both a termination of the employment agreement and a change of control of the Company occur within 6 months of each other, the Company would have to pay a one-time severance equal to \$75,000.

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.

During 2015, Windermere charged \$45,669 in finder's fees. Those fees were charged in order to close a third non-revolving credit line.

## OFF BALANCE SHEET ARRANGEMENTS

As of the date of this MD&A, the Company does not have any off balance sheet arrangements that have, or are reasonably likely to have, a current or future effect on the results of operations or financial condition of the Company, including, and without limitation, such considerations as liquidity and capital resources.

## OBLIGATIONS AND COMMITMENTS

- a) The Company has granted the Lender of the August, 2012 credit line a royalty of \$1 per ton of phosphate concentrate sales from the Lac à Paul project. This royalty may be redeemed at any time through a lump-sum payment of \$6 million. In July 2013, the Company has also granted the Lender of the second credit line a royalty of \$0.25 per ton of phosphate concentrate sales from the Lac à Paul project. This royalty may be redeemed at any time through a lump-sum payment of \$1.5 million. These royalties will have to be redeemed by the Company for the same amount in the event of a change of control where at least 90% of the issued and outstanding shares of the Company are acquired, purchased or held by a third party, either through a tender offer or other transaction with the same result.
- b) The Company granted contracts in relation to the development of the Lac à Paul project for a total of \$697,864. These contracts do not have termination dates and disbursements will be made in accordance with the project's milestones.
- c) The Company's future minimum operating lease payments for the rent in Chicoutimi office, trucks rental and Lac à Paul camp are as follows:

	Within 1 year	1 to 5 years	After 5 years	Total
December 31, 2015	\$122,623	\$127,535	-	\$250,158

The following are the contractual maturities of financial liabilities, including interest where applicable as at December 31, 2015:

	Carrying amount	Contractual cash flows	0 to 12 months	12 to 24 Months	More than 24 months
	\$	\$	\$	\$	\$
Accounts payable and accrued liabilities	1,672,540	1,672,540	1,672,540	-	-
Credit line	12,561,084	19,885,377	296,000	19,589,377	-



## **APPLICATION OF NEW AND REVISED IFRS AND CRITICAL ACCOUNTING ESTIMATES**

The preparation of consolidated financial statements in conformity with IFRS requires management to make estimates and assumptions that affect amounts reported in the financial statements and accompanying notes. There is a full disclosure and description of the Company's critical accounting policies and accounting estimates in note 4 of the audited financial statements for the year ended December 31, 2015. In addition, there is a summary of significant accounting policies in note 2 of the financial statements for the year ended December 31, 2015.

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

There is a full disclosure and description of the Company's financial instruments, financial risks and capital management in note 20 of the financial statements for the year ended December 31, 2015.

## **SUBSEQUENT EVENT**

On March 14, 2016, the Company announced that Jean Lamarre was appointed to the Board as the new Chairman in replacement of the incumbent. Furthermore, the Company announced the appointment of a new CEO, Brian Ostroff.

## **INFORMATION ON SHARES OUTSTANDING**

As at March 30, 2015, 97,225,755 common shares are issued and outstanding. There are 5,496,167 shares purchase options, 12,717,500 warrants and 447,750 options granted to brokers outstanding.

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

(s) Jim Cowley  
Jim Cowley  
Director and Interim CFO

## **Board of Directors and Officers**

**Jean Lamarre**, Chairman of the Board of Directors  
**Dominique Bouchard**, Vice-Chairman of the Board of Directors  
**Brian Ostroff**, Director and Chief Executive Officer  
**Jim Cowley**, Director and Interim Chief Financial Officer  
**Pierre Fitzgibbon**, Director  
**Steven L. Pinney**, Director  
**Dave DeBiasio**, Director  
**Siva J. Pillay**, Director  
**Marco Gagnon**, Director

**Jean-Sébastien David**, Chief Operating Officer  
**Daniel Boulianne**, Vice President Exploration

### **Ticker symbols**

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

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