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ARIANNE PHOSPHATE INC.

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS THREE-MONTH PERIODS ENDED MARCH 31, 2025 AND 2024

(IN CANADIAN DOLLARS)

(UNAUDITED AND UNREVIEWED BY THE COMPANY'S INDEPENDENT AUDITORS)



ARIANNE PHOSPHATE INC.
CONSOLIDATED INTERIM STATEMENTS OF FINANCIAL POSITION
(IN CANADIAN DOLLARS)

	AS AT MARCH 31, 2025 (UNAUDITED)	AS AT DECEMBER 31, 2024 (AUDITED)
	\$	\$
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	3,962,684	4,479,865
Receivables and other current assets	227,974	159,260
Sales taxes receivable	81,482	73,998
	4,272,140	4,713,123
NON-CURRENT ASSETS		
Investment property – Outfitters	187,398	192,601
Right-of-use assets	88,369	94,260
Property and equipment (Note 3)	63,158,570	63,114,153
TOTAL ASSETS	67,706,477	68,114,137
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	400,110	254,863
Lease liabilities	24,063	23,218
Convertible debenture and embedded derivatives (Note 5)	3,558,907	3,332,912
Credit line and embedded derivatives (Note 4)	32,146,698	1,677,813
	36,129,778	5,288,806
NON-CURRENT LIABILITIES		
Credit line and embedded derivatives (Note 4)	-	29,543,545
Lease liabilities	79,576	84,426
Deferred income taxes	3,702,929	3,702,929
TOTAL LIABILITIES	39,912,283	38,619,706
EQUITY		
Capital stock	93,934,776	92,256,963
Warrants (Note 4)	8,468,851	8,416,000
Contributed surplus	18,464,776	18,437,707
Deficit	(93,074,209)	(89,616,239)
TOTAL EQUITY	27,794,194	29,494,431
TOTAL LIABILITIES AND EQUITY	67,706,477	68,114,137

GOING CONCERN (NOTE 1)

APPROVED ON BEHALF OF THE BOARD:

(s) Siva J. Pillay, Director

(s) Marco Gagnon, Director

The accompanying Notes are an integral part of these consolidated financial statements.

ARIANNE PHOSPHATE INC.

CONSOLIDATED INTERIM STATEMENTS OF LOSS AND COMPREHENSIVE LOSS FOR THE THREE-MONTH PERIODS ENDED MARCH 31, 2025, AND 2024

(UNAUDITED)

(IN CANADIAN DOLLARS)

	THREE-MONTH PERIOD ENDED MARCH 31, 2025	THREE-MONTH PERIOD ENDED MARCH 31, 2024
	\$	\$
EXPENSES		
Salaries and benefits	198,226	181,524
Share-based compensation (Note 7)	27,069	71,021
Professional and consultant fees	62,940	45,240
Registration and listing fees	30,184	19,661
Communications, public relations and investors relation	56,311	54,504
Promotion, representation, and travel	11,104	29,490
Direct application projects and prefeasibility study	144,987	440,776
Insurance	17,562	18,562
Rent and office expenses	17,248	17,963
Depreciation of property and equipment and right-of-use assets	2,948	9,974
Bank charges	719	1,007
OPERATING LOSS	569,298	889,722
OTHER EXPENSES (INCOME)		
Finance costs (Note 4,5)	2,853,365	1,987,633
Foreign exchange loss	1,300	466
Net loss of investment property – Outfitters	23,216	20,446
	2,877,881	2,008,545
LOSS BEFORE INCOME TAXES	3,447,179	2,898,267
Deferred income taxes recovery	-	(5,538)
NET AND COMPREHENSIVE LOSS	3,447,179	2,892,729
BASIC AND DILUTED LOSS PER SHARE	0.02	0.01
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING	202,890,210	196,809,271

The accompanying Notes are an integral part of these consolidated financial statements.

ARIANNE PHOSPHATE INC.

CONSOLIDATED INTERIM STATEMENTS OF CHANGES IN EQUITY FOR THE THREE-MONTH PERIODS ENDED MARCH 31, 2025 and 2024

(UNAUDITED)

(IN CANADIAN DOLLARS, EXCEPT FOR NUMBER OF SHARES)

	CAPITAL STOCK	CAPITAL STOCK	SHARES TO BE ISSUED	WARRANTS	CONTRIBUTED SURPLUS	DEFICIT	TOTAL EQUITY
	common shares	\$		\$	\$	\$	\$
BALANCE AS AT JANUARY 1, 2025	202,890,210	92,256,963	-	8,416,000	18,437,707	(89,616,239)	29,494,431
Net and Comprehensive loss	-	-	-	-	-	(3,447,179)	(3,447,179)
Share-based compensation (Note 7)	-	-	-	-	27,069	-	27,069
Warrants issued (Note 4)	-	-	-	52,851	-	-	52,851
Debt conversion (Note 4)	10,824,601	1,677,813	-	-	-	-	1,677,813
Share issuance expense	-	-	-	-	-	(10,791)	(10,791)
BALANCE AS AT MARCH 31, 2025	213,714,811	93,934,776	-	8,468,851	18,464,776	(93,074,209)	27,794,194
BALANCE AS AT JANUARY 1, 2024	196,809,271	90,615,110	-	8,624,673	17,944,673	(78,614,702)	38,569,754
Net and Comprehensive loss	-	-	-	-	-	(2,892,729)	(2,892,729)
Share-based compensation	-	-	-	-	71,021	-	71,021
Warrants expired	-	-	-	(90,395)	90,395	-	-
Debt conversion (Note 4)	6,080,939	-	1,641,853	-	-	-	1,641,853
BALANCE AS AT MARCH 31, 2024	202,890,210	90,615,110	1,641,853	8,534,278	18,106,089	(81,507,431)	37,389,899

The accompanying Notes are an integral part of these consolidated financial statements

ARIANNE PHOSPHATE INC.
CONSOLIDATED INTERIM STATEMENTS OF CASH FLOWS
FOR THE THREE-MONTH PERIODS ENDED MARCH 31, 2025 and 2024
(UNAUDITED)
(IN CANADIAN DOLLARS)

	THREE-MONTH PERIOD ENDED	
	MARCH 31, 2025	MARCH 31, 2024
	\$	\$
OPERATING ACTIVITIES		
Net loss	(3,447,179)	(2,892,729)
Adjustments for:		
Share-based payments	27,069	71,021
Depreciation – Investment property - Outfitters	5,203	4,903
Depreciation – Property and equipment and right-of-use assets	2,948	9,974
Finance costs	2,885,824	2,019,297
Deferred income taxes recovery	-	(5,538)
Changes in non-cash working capital items		
Receivables and other current assets	(68,714)	(59,079)
Sales taxes receivable	(7,484)	(32,109)
Accounts payable and accrued liabilities	139,442	284,419
CASH FLOWS USED IN OPERATING ACTIVITIES	(462,891)	(599,841)
INVESTING ACTIVITIES		
Proceeds from tax credits related to resources and mining tax credits	-	14,742
Acquisition of property and equipment	(35,669)	(7,128)
CASH FLOWS FROM (USED IN) INVESTING ACTIVITIES	(35,669)	7,614
FINANCING ACTIVITIES		
Share issuance expenses	(10,791)	-
Repayment of lease liabilities	(7,830)	(11,147)
CASH FLOWS USED IN FINANCING ACTIVITIES	(18,621)	(11,147)
NET CHANGE IN CASH AND CASH EQUIVALENTS	(571,181)	(603,374)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	4,479,865	3,245,503
CASH AND CASH EQUIVALENTS, END OF YEAR	3,962,684	2,642,129
SUPPLEMENTARY CASH FLOW INFORMATION		
Interest received	26,419	33,409
Interest paid	3,825	2,921
Interest on credit line paid in shares	1,677,813	1,641,853
Acquisition of property and equipment not yet paid	11,174	46,138

The accompanying Notes are an integral part of these consolidated financial statements.

ARIANNE PHOSPHATE INC.

NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE THREE-MONTH PERIODS ENDED MARCH 31, 2025 AND 2024 (IN CANADIAN DOLLARS)

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

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

The Company's shares are listed on the TSX Venture Exchange (symbol DAN), on the Frankfurt exchange (symbol JE9N) and on the OTCQX Market (OTCQX) (symbol DRRSF). The registered office of the Company is located at 901 Talbot boulevard, Suite 302, Chicoutimi, Quebec, Canada G7H 6N7.

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 considers 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 three-month period ended March 31, 2025, the Company recorded a net loss of \$3,447,179 and has an accumulated deficit of \$93,074,209 as at March 31, 2025. 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 March 31, 2025, the Company had a negative working capital of \$31,857,638 (negative working capital of \$575,683 as at December 31, 2024). The working capital includes the convertible debenture of \$3,558,907 as at March 31, 2025 even if the repayment is due in 2027 because the convertible option is a derivative and not an equity item (Note 5). Management estimates that the working capital will not be sufficient to meet the Company's obligations and budgeted operating and development expenditures for the next 12 months, considering the maturity of the credit line in March 2026. These circumstances are indicative of the existence of material uncertainties that may cast 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 for 2025.

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 consolidated financial statements.

These 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.

ARIANNE PHOSPHATE INC.

NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE THREE-MONTH PERIODS ENDED MARCH 31, 2025 AND 2024 (IN CANADIAN DOLLARS)

2. SUMMARY OF MATERIAL ACCOUNTING POLICIES

These condensed consolidated interim financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS Accounting Standards") applicable to the preparation of interim financial statements, including International Accounting Standard ("IAS") 34, Interim Financial Reporting. These condensed consolidated interim financial statements should be read in conjunction with the Company annual consolidated financial statements for the year ended December 31, 2024, which have been prepared in accordance with IFRS Accounting Standards.

The accounting policies followed in these condensed consolidated interim financial statements are consistent with those applied in the Company's annual consolidated financial statements for the year ended December 31, 2024.

The Board of Directors approved these condensed consolidated interim financial statements on May 21, 2025.

ARIANNE PHOSPHATE INC.

NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE THREE-MONTH PERIODS ENDED MARCH 31, 2025 AND 2024

(IN CANADIAN DOLLARS)

3. PROPERTY AND EQUIPMENT

	TOOLS AND EQUIPMENT	COMPUTER EQUIPMENT	ROLLING EQUIPMENT	LAND	MINERAL PROPERTY UNDER DEVELOPMENT	TOTAL
COST	\$	\$	\$	\$	\$	\$
AS AT DECEMBER 31, 2023	19,673	16,817	37,635	1,096,415	61,855,024	63,025,564
Acquisition	2,070	5,238	-	-	133,572	140,880
Derecognition of assets	-	(4,812)	-	-	-	(4,812)
Mining tax credits reversal	-	-	-	-	4,515	4,515
AS AT DECEMBER 31, 2024	21,743	17,243	37,635	1,096,415	61,993,111	63,166,147
Acquisition	-	-	-	-	41,474	41,474
AS AT MARCH 31, 2025	21,743	17,243	37,635	1,096,415	62,034,585	63,207,621
ACCUMULATED DEPRECIATION						
AS AT DECEMBER 2023	14,128	12,729	17,867	-	-	44,724
Depreciation	1,357	6,021	4,704	-	-	12,082
Derecognition of assets	-	(4,812)	-	-	-	(4,812)
AS AT DECEMBER 31, 2024	15,485	13,938	22,571	-	-	51,994
Depreciation	391	(4,510)	1,176	-	-	(2,943)
AS AT MARCH 31, 2025	15,876	9,428	23,747	-	-	49,051
NET BOOK VALUE						
AS AT DECEMBER 31, 2024	6,258	3,305	15,064	1,096,415	61,993,111	63,114,153
AS AT MARCH 31, 2025	5,867	7,815	13,888	1,096,415	62,034,585	63,158,570

ARIANNE PHOSPHATE INC.
NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS
FOR THE THREE-MONTH PERIODS ENDED MARCH 31, 2025 AND 2024
(IN CANADIAN DOLLARS)

4. CREDIT LINE AND EMBEDDED DERIVATIVES

The Company has non-revolving credit lines with Mercury Financing Corp. ("the Lender") which were obtained to finance the development of the Lac a Paul project. As of May 12, 2016, the lines were fully drawn. The Lender holds a first ranking security over the Company's Lac a Paul property claims, up to an aggregate amount of \$27 million. The wholly owned subsidiary, 9252-5880 Québec Inc., has guaranteed jointly and severally the credit lines. Furthermore, the Company is subject to restrictions related to the disposal of assets and equity issuance through financing. The combined credit lines have been extended in 2017, 2018, 2020 and 2021.

On March 17, 2021, the Company amended and extended its credit line until March 31, 2026. Since the amendment, the credit line bears interest at an annual rate equal to 8%, with all interest capitalized to the principal amount, to be paid annually in cash or in common shares of the Company using the volume weighted average price ("VWAP") of the Company's shares for a period of 1 year prior to the interest payment date. It was determined that the option of conversion of the interest using the VWAP is an embedded derivatives to be separated from the host contract.

On March 31, 2021, the Lender also exercised 26,780,000 warrants into the Company's common shares, thereby reducing the credit facility of \$6,603,948. In conjunction with the amended credit line, the Lender received 32 million non-transferable share purchase warrants, exercisable at a price of \$0.33 per warrant for a period of 5 years. These warrants are subject to a "warrant blocker" provision meaning the Lender's holdings can only go above 19.9% of the issued and outstanding common shares of the Company in certain limited circumstances. An amount of \$8,412,413 was allocated to the fair value of the warrants, using the Black-Scholes pricing model. In connection with this extension, the Company also paid \$47,522 of transaction fees.

Since the terms of the extended credit facility were substantially different, the modification was considered as an extinguishment of the original credit line. The difference between the carrying value of the credit line extinguished and the new credit line was recognized in the year ended December 31, 2021, in the consolidated statement of loss and comprehensive loss, through a gain of \$175,827. The Company used an effective interest rate of 33.7%.

The Company has undertaken to raise additional funds in the amount of \$3 million within the 1-year anniversary of the closing of the transaction, and every anniversary thereafter for the three subsequent years, for total cumulative gross proceeds of \$12M. Should the Company not raise additional funds on a yearly and cumulative basis, the Company shall issue the Lender an additional 5M non-transferable share purchase warrants per year where a funding milestone has not been met (maximum of 20M non-transferable warrants). Each warrant will be exercisable at a price per share equal to the market price on the date such warrants must be issued by the Company and will expire on the date the amended credit facility expires. This requirement included in the debt agreement was determined to be an embedded derivative to be separated from the host contract and classified as a liability because it failed the fixed for fixed criteria per IAS 32.11.

In connection with the credit line, 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

ARIANNE PHOSPHATE INC.

NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE THREE-MONTH PERIODS ENDED MARCH 31, 2025 AND 2024 (IN CANADIAN DOLLARS)

the Lender of the credit line a royalty of \$0.25 per ton of phosphate concentrate sales from the Lac à Paul project that can be also redeemed 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. It was determined that this clause does not constitute an embedded derivative because of the non-financial variable specific to the Company and therefore the cash flows from the buy back of the production fees had to be included in the amortized cost of the host contract.

For the first 4 years of the amended credit facility, in the event the Company has not repaid the credit line in full and the Lender remains the creditor of the Company in relation to such credit line, the Company shall grant the Lender an additional annual production fee of \$0.25/tonne, which may be bought back by the Company for \$2.25M, for a maximum annual additional production fee of \$1/tonne (which may be bought back by the Company for a total amount of \$9M). It was determined that this clause does not constitute an embedded derivative because of the non-financial variable specific to the Company and therefore the cash flows from the buy back of the production fees had to be included in the amortized cost of the host contract. After the second anniversary, since the Company had not settled the Mercury debt, the Company had granted an additional Production Fee of \$0.25 per tonne. The cumulative additional production fee can be bought back for \$4,500,000. On March 28, 2024, the Company amended the credit line to cap the maximum additional production fees and the buy-back price to \$0.75/tonne and \$6.75M respectively, if the credit line is not repaid in full before March 31, 2024.

The Company has the option to reimburse the credit line before its maturity without any penalty. This was considered an embedded derivative to be separated from the host contract and it was determined that the fair value of that option was nil.

On March 16, 2023, the Company sold its James Bay area 1.5% NSR royalty to Lithium Royalty Corp for \$2,350,000, having a cost of nil. In connection with this transaction, the Company agreed to reduce its outstanding debt through a one-time cash payment of \$1,000,000. That amount was paid in April 2023. Also, the Company waived the reduction of the additional production fees of that capital payment.

On March 31, 2024, the Company opted to issue 6,080,939 common shares at a price of \$0.27 per share, in lieu of cash, as its annual interest payment to the Lender due on March 31, 2024 (3,899,424 common shares at a price of \$0.5107 per share in lieu of cash as at March 31, 2023). The carrying value of the interest payable and of the corresponding embedded derivative – interest conversion option were then transferred to capital stock.

On March 31, 2025, the Company opted to issue 10,824,601 common shares at a price of \$0.155 per share, in lieu of cash, as its annual payment to the Lender due on March 31, 2025. The carrying value of the interest payable and of the corresponding embedded derivative – interest conversion option were then transferred to capital stock. Also, on the same day the Company issued the Lender of the credit line 5 million non-transferable share purchase warrants with a maturity on March 31, 2026, and an exercise price of \$0.33. The fair value was estimated at \$52,851 using the Black-Scholes option pricing model.

ARIANNE PHOSPHATE INC.

NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE THREE-MONTH PERIODS ENDED MARCH 31, 2025 AND 2024

(IN CANADIAN DOLLARS)

THREE-MONTH PERIOD ENDED MARCH 31, 2025	HOST	EMBEDDED DERIVATIVES		TOTAL
		INTEREST CONVERSION OPTION	SUPPLEMENTAL WARRANTS	
	\$	\$	\$	\$
BALANCE – BEGINNING OF PERIOD	31,453,461	(280,357)	48,254	31,221,358
Interest paid in shares	(1,958,170)	280,357	-	(1,677,813)
Change in fair value of derivative	-	-	4,597	4,597
Warrants issued	-	-	(52,851)	(52,851)
Capitalized interest and accretion	2,651,407	-	-	2,651,407
BALANCE – END OF PERIOD	32,146,698	-	-	32,146,698
Current portion	32,146,698	-	-	32,146,698
Non-current portion	-	-	-	-

YEAR ENDED DECEMBER 31, 2024	HOST	EMBEDDED DERIVATIVES		TOTAL
		INTEREST CONVERSION OPTION	SUPPLEMENTAL WARRANTS	
	\$	\$	\$	\$
BALANCE – BEGINNING OF YEAR	24,565,877	(456,148)	24,519	24,134,248
Interest paid in shares	(1,963,535)	321,682	-	(1,641,853)
Change in fair value of derivative	-	(145,891)	23,735	(122,156)
Capitalized interest and accretion	8,851,119	-	-	8,851,119
BALANCE – END OF YEAR	31,453,461	(280,357)	48,254	31,221,358
Current portion	1,958,170	(280,357)	-	1,677,813
Non-current portion	29,495,291	-	48,254	29,543,545

5. CONVERTIBLE DEBENTURE

On October 10, 2024, the Company issued a convertible debenture in the principal of \$3,808,269, that matures on October 10, 2027 and bears interest at 9.5% per annum that are added to the principal amount.

The Holder has the option, at any time and subject to customary adjustments, to convert (i) the principal amount of the convertible debenture at a price of \$0.35 per common share, and (ii) the accrued interest thereon at a price per share equal to the greater of (a) \$0.35 and (b) the market price at the time the accrued interest is converted, as determined in accordance with the rules of the TSX Venture Exchange.

The conversion price of the convertible debenture is subject to adjustments, including in the event that the Company issues a convertible debenture or other similar debt-like instrument convertible into common shares to any person (other than the debenture Holder or its affiliates) pursuant to a transaction that is not

ARIANNE PHOSPHATE INC.

NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE THREE-MONTH PERIODS ENDED MARCH 31, 2025 AND 2024

(IN CANADIAN DOLLARS)

a common share reorganization, rights offering or capital reorganization (a "Third Party Debenture Issuance"), in any such case at an effective conversion or exercise price (net of all fees and commissions associated with such subscription) (the "Third Party Debenture Issuance Price") that is less than the conversion price applicable at the time of such issuance, in which case, upon closing of such Third Party Debenture Issuance: (i) the conversion price for the principal amount shall automatically be adjusted downwards to the greater of: (a) the Third Party Debenture Issuance Price; and (b) \$0.19, and (ii) the conversion price for the accrued interest shall be equal to the market price at the time such amounts are converted into common shares, as determined in accordance with the rules of the TSX Venture Exchange, subject to the application of Policy 4.3 – Shares for Debt of the TSX Venture Exchange. It was determined that the conversion option is an embedded derivative to be separated from the host contract and classified as a liability because it failed the fixed for fixed criteria per IAS 32.11. Also, because the Holder can convert the debenture at any time, per IAS 1 *Presentation of financial statements*, the convertible debt is classified as a short-term liability.

In some circumstances of common share reorganization, rights offering, special distribution and capital reorganization, the conversion price for the principal amount can be modified. It was determined that this was an embedded derivative classified as a liability to be separated from the host contract.

In the event of a change of control or a project transfer, the Holder has the right to require the Company to redeem the debenture at a price equal to (i) 130% of the original principal amount of the debenture, plus (ii) all accrued and unpaid interest. This was considered as an embedded derivative classified as a liability to be separated from the host contract.

No common shares of the Company shall be issued to the Holder if, as a result of such issuance, the Holder would beneficially own or exercise control or direction over 9.99% that would be issued and outstanding immediately after giving effect of such issuance. The Holder may, at its sole discretion, increase the ownership cap to 19.99% of the common shares that would be issued and outstanding immediately after any issuance. This clause does not constitute an embedded derivative but has to be considered when evaluating the fair value of the conversion option.

According to IFRS 9.B4.3.4, all the embedded derivatives in the single hybrid contract were treated as a single compound embedded derivative. The Company used an effective interest rate of 16.67%.

Upon the Holder reaching an ownership of at least 3.0% of the issued and outstanding common shares of the Company (either through conversion, open market purchase or otherwise), the Company will enter into an investor rights agreement with the Holder that will provide customary participation and top-up rights and a board nomination right.

THREE-MONTH PERIOD ENDED MARCH 31, 2025	HOST	EMBEDDED DERIVATIVES	TOTAL
	\$	\$	\$
BALANCE – BEGINNING OF PERIOD	2,822,062	510,850	3,332,912
Change in fair value of derivative	-	108,375	108,375
Capitalized interest and accretion	117,620	-	117,620
BALANCE – END OF PERIOD	2,939,682	619,225	3,558,907

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NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE THREE-MONTH PERIODS ENDED MARCH 31, 2025 AND 2024 (IN CANADIAN DOLLARS)

YEAR ENDED DECEMBER 31, 2024	HOST	EMBEDDED DERIVATIVES	TOTAL
	\$	\$	\$
BALANCE – BEGINNING OF YEAR	-	-	-
New debenture	2,871,123	937,146	3,808,269
Issuance costs	(150,942)	-	(150,942)
Change in fair value of derivative	-	(426,296)	(426,296)
Capitalized interest and accretion	101,881	-	101,881
BALANCE – END OF YEAR	2,822,062	510,850	3,332,912

6. FINANCE COSTS

	THREE-MONTH PERIOD ENDED MARCH 31, 2025	THREE-MONTH PERIOD ENDED MARCH 31, 2024
	\$	\$
Financial expenses on credit line	2,651,407	2,070,811
Financial expenses on convertible debenture	117,620	-
Change in fair value of embedded derivatives – credit line	4,597	(54,435)
Change in fair value of embedded derivatives – convertible debenture	108,375	-
Interest expense on lease liabilities	3,825	2,921
Interest income	(32,459)	(31,664)
	2,853,365	1,987,633

7. STOCK OPTIONS, WARRANTS AND OPTIONS GRANTED TO BROKERS

STOCK OPTIONS

The shareholders of the Company initially approved on June 25, 2013, a stock option plan, amended on June 21, 2022 (the “plan”) whereby the Board of Directors may grant stock options of the Company to directors, officers, employees and suppliers. The terms of stock options are determined by the Board of Directors.

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

Stock options expire no later than ten years after being granted. The exercise price of each share purchase option is determined by the Board of Directors and may not be lower than the market price of the common shares at the time of grant.

On January 8, 2025, the Company granted 570,000 stock options to its directors and management, having an exercise price of \$0.165 and expiring on January 8, 2035. On March 13, 2025, 300,000 stock options were granted to a consultant, having an exercise price of \$0.14 and expiring on March 13, 2027. Both grants have a total fair value of \$88,119 determined by the Black-Scholes option pricing model.

ARIANNE PHOSPHATE INC.

NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE THREE-MONTH PERIODS ENDED MARCH 31, 2025 AND 2024

(IN CANADIAN DOLLARS)

The following table summarizes the information relating to the stock options outstanding under the plan as at March 31, 2025 and December 31, 2024:

EXERCISE PRICE RANGE	WEIGHTED AVERAGE EXERCISE PRICE	WEIGHTED AVERAGE REMAINING CONTRACTUAL LIFE	AS AT MARCH 31, 2025	AS AT DECEMBER 31, 2024
\$	\$	Years		
0.18 – 0.28	0.21	7.30	2,813,000	1,943,000
0.29 – 0.44	0.37	7.23	2,396,667	2,396,667
0.45 – 0.63	0.54	5.01	2,580,000	2,580,000
0.63 – 1.30	0.81	1.00	915,000	915,000
			8,704,667	7,834,667
		EXERCISABLE	6,796,334	6,551,334

WARRANTS

The following table summarizes the information relating to the outstanding warrants as at March 31, 2025, and December 31, 2024:

EXERCISE PRICE	EXPIRY DATE	WEIGHTED AVERAGE REMAINING CONTRACTUAL LIFE	AS AT MARCH 31, 2025	AS AT DECEMBER 31, 2024
\$		Years		
0.33	2026-03-31	1.00	37,000,000	32,000,000
			37,000,000	32,000,000

8. RELATED PARTY TRANSACTIONS

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

	THREE-MONTH PERIOD ENDED MARCH 31, 2025	THREE-MONTH PERIOD ENDED MARCH 31, 2024
	\$	\$
KEY MANAGEMENT COMPENSATION ⁽¹⁾		
Share-based compensation	25,297	61,020
Salaries and benefits ⁽²⁾	203,405	154,624
TOTAL COMPENSATION	228,702	215,644
Balance included in accounts payable and accrued liabilities	7,030	-

⁽¹⁾ The key management is composed of the Chief executive officer, Chief Financial Officer, Chief Operating Officer, President, and Directors.

⁽²⁾ Salaries and benefits capitalized to property and equipment amount to \$3,671 (\$6,236 for the three-month period ended March 31, 2024).

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NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE THREE-MONTH PERIODS ENDED MARCH 31, 2025 AND 2024

(IN CANADIAN DOLLARS)

9. FAIR VALUE OF FINANCIAL INSTRUMENTS

The Company defines the fair value hierarchy under which its financial instruments are valued as follows: level 1 includes unadjusted quoted prices in active markets for identical assets or liabilities; level 2 includes inputs other than quoted prices in level 1 that are observable for assets or liabilities, either directly or indirectly; and level 3 includes inputs for the asset or liability that are not based on observable market data. There was no transfer of hierarchy level during the three-month periods ended March 31, 2025, and 2024.

The carrying value of cash and cash equivalents, receivables and other assets, accounts payable and accrued liabilities are considered to be a reasonable approximation of their fair value because of the short-term maturity and contractual terms of these instruments.

The fair value of the credit line and the convertible debenture is based on discounted cash flows and is not materially different from their carrying value because there was no material change in the assumptions used for fair value determination at inception. Therefore, their principal amounts approximate their fair value.

The embedded derivatives on the convertible debenture are classified as a level 3 instrument. An increase of 10% in the volatility and a 10% change in the probability determined for each embedded derivative, the main non-observable inputs used in the model, would lead to a variation in the fair value as at March 31, 2025, of \$97,000.