

**ARIANNE PHOSPHATE INC.  
CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS  
(UNAUDITED)  
THREE-MONTH PERIODS ENDED MARCH 31, 2021 AND MARCH 31, 2020  
(in Canadian dollars)**



**Condensed consolidated interim financial statements for the three-month period ended March 31, 2021 haven't been reviewed by the auditors.**

# ARIANNE PHOSPHATE INC.

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# ARIANNE PHOSPHATE INC.

## CONSOLIDATED INTERIM STATEMENTS OF FINANCIAL POSITION

(In Canadian dollars)

	As at March 31, 2021	As at December 31, 2020
	\$	\$
<b>ASSETS</b>		
<b>Current assets</b>		
Cash (note 4)	606,882	628,910
Receivables and other current assets	143,538	132,552
Sales taxes receivable	25,212	18,805
Mining tax credit receivable	66,516	161,321
	<u>842,148</u>	<u>941,588</u>
<b>Non-current assets</b>		
Mining tax credit receivable	10,866	-
Investment property – Outfitters (note 5)	272,386	277,119
Property, plant and equipment (note 6)	63,079,445	63,436,498
Right-of-use assets (note 7)	137,866	150,399
	<u>63,500,563</u>	<u>63,864,016</u>
<b>Total assets</b>	<u>64,342,711</u>	<u>64,805,604</u>
<b>LIABILITIES</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities	759,149	1,134,335
Lease liabilities (note 8)	65,375	65,052
Loans (note 10)	100,000	5,791,750
Credit line (note 9)	-	30,660,613
	<u>924,524</u>	<u>37,651,750</u>
<b>Non-current liabilities</b>		
Loans (note 10)	43,139	43,139
Lease liabilities (note 8)	68,418	75,823
Credit line (note 9)	15,970,362	-
Deferred income taxes	3,168,377	3,157,491
<b>Total liabilities</b>	<u>20,174,820</u>	<u>40,928,203</u>
<b>Equity</b>		
Capital stock (note 11)	80,701,251	64,354,302
Warrants (note 12)	8,895,986	1,133,214
Contributed surplus	15,833,097	15,226,269
Deficit	(61,262,443)	(56,836,384)
<b>Total equity</b>	<u>44,167,891</u>	<u>23,877,401</u>
<b>Total liabilities and equity</b>	<u>64,342,711</u>	<u>64,805,604</u>
<b>GOING CONCERN</b> (note 1)		
<b>COMMITMENTS</b> (note 16)		
<b>EVENTS AFTER REPORTING DATE</b> (note 19)		

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

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

(s) Pier-Elise Hebert-Tremblay, CFO

# ARIANNE PHOSPHATE INC.

## CONSOLIDATED INTERIM STATEMENTS OF LOSS AND COMPREHENSIVE LOSS FOR THE THREE-MONTH PERIODS ENDED MARCH 31, 2021 AND 2020

(In Canadian dollars)

	Three-month period ended March 31, 2021	Three-month period ended March 31, 2020
		\$
<b>EXPENSES</b>		
Salaries and benefits	61,516	136,755
Share-based compensation	31,704	42,776
Professional and consultant fees	51,548	59,313
Management fees	6,250	20,000
Registration and listing fees	27,431	21,400
Communications	34,599	13,669
Promotion, representation and travel	2,735	7,799
Insurance	11,430	16,776
Rent and office expenses	15,562	26,053
Depreciation of property, plant and equipment	17,434	31,118
Bank charges	849	1,886
Government grant	(11,005)	-
<b>Operating loss</b>	<b>250,053</b>	<b>377,545</b>
<b>OTHER EXPENSES (INCOME)</b>		
Finance costs (note 13)	4,120,261	1,384,882
Foreign exchange loss	2,234	30,258
Net (income) loss of investment property – Outfitters (Note 5)	12,625	18,337
	<b>4,135,281</b>	<b>1,433,477</b>
<b>LOSS BEFORE INCOME TAXES</b>	<b>4,385,173</b>	<b>1,811,022</b>
Deferred income taxes	10,886	19,012
<b>NET LOSS AND COMPREHENSIVE LOSS FOR THE PERIOD</b>	<b>4,396,059</b>	<b>1,830,034</b>
<b>BASIC AND DILUTED LOSS PER SHARE</b>	<b>0.03</b>	<b>0.02</b>
<b>WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING</b>	<b>111,462,816</b>	<b>106,004,229</b>

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

# ARIANNE PHOSPHATE INC.

## CONSOLIDATED INTERIM STATEMENTS OF CHANGES IN EQUITY FOR THE THREE-MONTH PERIOD ENDED MARCH 31, 2021 AND 2020

(in Canadian dollars)

	Capital stock	Capital stock	Warrants	Contributed surplus	Deficit	Total equity
	common shares	\$	\$	\$	\$	\$
<b>Balance as at January 1, 2021</b>	123,198,348	64,354,302	1,133,214	15,226,269	(56,836,384)	23,877,401
Net and Comprehensive loss for the year	-	-	-	-	(4,396,059)	(4,396,059)
Share-based compensation (note 12)	-	-	-	31,704	-	31,704
Grant of warrants (note 12)	-	-	8,412,413	-	-	8,412,413
Warrants expired (note 12)	-	-	(575,124)	575,124	-	-
Exercise of warrants (note 12)	28,446,666	7,011,798	(74,517)	-	-	6,937,281
Debt conversion	21,709,655	9,335,151	-	-	-	9,335,151
Share issuance expenses	-	-	-	-	(30,000)	(30,000)
<b>Balance as at March 31, 2021</b>	173,356,669	80,701,251	8,895,986	15,833,097	(61,262,443)	44,167,891
<b>Balance as at January 1, 2020</b>	111,458,250	62,677,095	810,221	15,066,201	(50,820,912)	27,732,605
Net and Comprehensive loss for the year	-	-	-	-	(5,912,521)	(5,912,521)
Share-based compensation (note 12)	-	-	-	165,948	-	165,948
Grant of warrants (note 12)	-	-	259,698	-	-	259,698
Exercise of options (note 12)	40,000	11,880	-	(5,880)	-	6,000
Private Placement (note 11)	11,700,098	1,665,327	-	-	-	1,665,327
Share issuance expenses	-	-	-	-	(39,656)	(39,656)
Modification of warrants	-	-	63,295	-	(63,295)	-
<b>Balance as at December 31, 2020</b>	123,198,348	64,354,302	1,133,214	15,226,269	(56,836,384)	23,877,401

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

# ARIANNE PHOSPHATE INC.

## CONSOLIDATED INTERIM STATEMENTS OF CASH FLOWS FOR THE THREE -MONTH PERIODS ENDED MARCH 31, 2021 AND 2020 (In Canadian dollars)

	Three-month period ended March 31, 2021	Three-month period ended March 31, 2020
		\$
<b>CASH FLOW FROM (USED IN)</b>		
<b>OPERATING ACTIVITIES</b>		
Net loss for the period	(4,396,059)	(444,629)
Adjustments for:		
Share-based payments	31,704	42,776
Depreciation – Investment property - Outfitters	4,733	3,884
Depreciation – Property, plant and equipment	17,434	31,118
Income taxes and deferred taxes	10,886	19,012
Tax credit adjustment	409,302	
Finance costs	3,970,357	-
Noncash grant	(846)	-
Net change in non-cash working capital items (note 14)	(388,158)	146,394
	<u>(340,647)</u>	<u>(201,445)</u>
<b>INVESTING ACTIVITIES</b>		
Proceeds of tax credit	94,824	-
Acquisition of property, plant and equipment	(72,456)	(276,211)
	<u>22,368</u>	<u>(276,211)</u>
<b>FINANCING ACTIVITIES</b>		
Proceeds from the issuance of units	-	425,025
Share issuance expenses	(30,000)	(14,524)
Warrants exercised	333,333	-
Reimbursement of lease liabilities	(7,082)	(31,571)
	<u>296,251</u>	<u>378,930</u>
<b>CHANGE IN CASH DURING THE PERIOD</b>	(22,028)	(98,726)
<b>CASH BEGINNING OF PERIOD</b>	628,910	355,704
<b>CASH END OF PERIOD</b>	<u>606,882</u>	<u>256,978</u>
Supplementary cash flow information (note 14)		
Interest received	161	523

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

# ARIANNE PHOSPHATE INC.

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(in Canadian dollars)

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

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

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

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

These consolidated interim financial statements have been prepared on the basis of accounting principles applicable to a going concern, which contemplates the realization of assets and settlement of liabilities in the normal course of business as they come due. In assessing whether the going concern assumption is appropriate, management takes into account all available information about the future, which is at least, but not limited to, 12 months from the end of the reporting period. For the period ended March 31, 2021, the Company recorded a net loss of \$4,396,059 (2020 – \$631,282 for the period ended March 31, 2020) and has an accumulated deficit of \$61,262,443 as at March 31, 2021 (\$56,836,384 as at December 31, 2020). 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, 2021, the Company had a negative working capital of \$82,376. Management estimates that the working capital will not be sufficient to meet the Company's obligations and budgeted operating and development expenditures through March 31, 2022. These circumstances lend significant doubt as to the ability of the Company to meet its obligations as they come due and, accordingly, the appropriateness of the use of accounting principles applicable to a going concern. The Company will need to secure financing for 2021.

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 interim 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.

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

The accounting policies followed in these condensed consolidated interim financial statements are consistent with those applied in the Company's annual consolidated financial statements for the year ended December 31, 2020. These condensed consolidated interim financial statements should be read in conjunction with the Company annual consolidated financial statements for the year ended December 31, 2020, which have been prepared in accordance with IFRS as issued by the IASB.

The Board of Directors approved these condensed consolidated interim financial statements on May 27, 2021.

### 3. NEW ACCOUNTING STANDARD ADOPTED AND NEW ACCOUNTING STANDARD ISSUED BUT NOT YET IN EFFECT

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#### **New accounting standard issued but not yet in effect** Amendments to IAS 16 *Property, plant and equipment*

The IASB has made amendments to *IAS 16 Property, plant and equipment*, which will be effective for financial years beginning on or after January 1, 2022. Proceeds from selling items before the related item of Property, plant and equipment is available for use should be recognized in profit or loss, together with the costs of producing those items. The Company will therefore need to distinguish between the costs associated with producing and selling items before the item of Property, plant and equipment (pre-production revenue) is available for use and the costs associated with making the item of Property, plant and equipment available for its intended use. For the sale of items that are not part of a company's ordinary activities, the amendments will require the Company to disclose separately the sales proceeds and related production cost recognized in profit or loss and specify the line items in which such proceeds and costs are included in the statement of loss and comprehensive loss. Management is in the process of evaluating the impact of adopting this new standard to its consolidated financial statements.

# ARIANNE PHOSPHATE INC.

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(in Canadian dollars)

### 4. CASH

	As at March 31, 2021	As at December 31, 2020
	\$	\$
Cash	<u>606,882</u>	<u>628,910</u>

As at March 31, 2021, cash comprise cash on hand amounting to \$446,807 (December 31, 2020 - \$548,526) bearing interest at a fixed rate of 1.20% and an amount of \$160,075 (December 31, 2020- \$80,384) not bearing interest.

As at March 31, 2021 an amount of \$12,000 (\$12,000 in 2020) is restricted in connection with the Company's credit card agreement.

### 5. INVESTMENT PROPERTY – OUTFITTERS

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

	Three-month period ended March 31, 2021	Three-month period ended March 31, 2020
	\$	\$
Outfitters income	-	-
Other income	1,014	-
Operating expenses:		
Management fees	1,901	4,267
Repair and maintenance	-	3,555
Supplies	215	100
Advertising, promotion and travel	1,245	1,422
Taxes and licenses	1,292	1,200
Insurance	4,214	3,865
Interest and bank charges	39	44
Depreciation of property, plant and equipment	4,733	3,884
	<u>13,639</u>	<u>18,337</u>
Gain (loss) of investment property – Outfitters	<u>12,625</u>	<u>18,337</u>

The carrying value, net of amortization, for the outfitter operating assets is \$272,386 as at March 31, 2021 (\$277,119 as at December 31, 2020).



# ARIANNE PHOSPHATE INC.

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(in Canadian dollars)

### 6. PROPERTY, PLANT AND EQUIPMENT

	Leasehold improvements	Tools and equipment	Computer equipment	Land	Mineral property under development	Total
	\$	\$	\$	\$	\$	\$
<b>Cost</b>						
Balance as at December 31, 2019	294,032	134,515	29,878	1,433,215	61,371,328	63,262,968
Acquisition	-	-	-	-	532,762	532,762
Borrowing costs	-	(111,105)	-	-	-	(111,105)
Balance as at December 31, 2020	294,032	23,410	29,878	1,433,215	61,904,090	63,684,625
Acquisition	-	-	-	-	68,599	68,599
Tax credit	-	-	-	-	(420,189)	(420,189)
Balance as at March 31, 2021	294,032	26,210	29,878	1,433,215	61,552,500	63,333,035
<b>Accumulated depreciation</b>						
Balance as at December 31, 2019	193,553	102,204	13,916	-	-	309,673
Depreciation	18,442	5,820	4,269	-	-	28,531
Disposal	-	(90,077)	-	-	-	(90,077)
Balance as at December 31, 2020	211,955	17,947	18,185	-	-	248,128
Depreciation	4,039	563	860	-	-	5,462
Balance as at March 31, 2021	216,034	18,510	19,045	-	-	253,590
<b>Net book value</b>						
Balance as at December 31, 2020	82,037	5,463	11,693	1,433,215	61,904,090	63,436,498
Balance as at March 31, 2021	77,998	4,900	10,833	1,433,215	61,552,500	63,079,445

### 7. RIGHT-TO-USE ASSETS

	Buildings, Camp and Accommodations	Total
	\$	\$
<b>Cost</b>		
Balance as at December 31, 2019	310,767	310,767
Acquisition	30,496	30,496
Termination	(115,663)	(115,663)
Balance as at December 31, 2020	225,600	225,600
Balance as at March 31, 2021	225,600	225,600
<b>Accumulated depreciation</b>		
Balance as at December 31, 2019	42,810	42,810
Depreciation	74,814	74,814
Termination	(42,423)	(42,423)
Balance as at December 31, 2020	75,201	75,201
Depreciation	12,533	12,533
Balance as at March 31, 2021	86,734	86,734
<b>Net book value</b>		
Balance as at December 31, 2020	150,399	150,399
Balance as at March 31, 2021	137,866	137,866

# ARIANNE PHOSPHATE INC.

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(in Canadian dollars)

### 8. LEASE LIABILITIES

	As at March 31, 2021	As at December 31, 2020
	\$	\$
Balance – Beginning of year	140,875	266,668
New debt obligations under lease liabilities	-	30,496
Reimbursement of lease liabilities	(7,082)	(78,678)
Termination	-	(77,611)
Balance – End of year	133,793	140,875
Current portion	65,375	65,052
Non-current portion	68,418	75,823

### 9. CREDIT LINE

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.

In December 2017, the Company had extended its credit line until January 15, 2019. The credit line bears interest at an annual rate equal to 15%, with all interests capitalized to the principal amount until the credit line matures. In connection with this transaction, the Company paid to the lender a commitment fee of 3% of the total amount of the credit facility, due on January 15, 2019. At the closing, the parties also agreed to terminate 3,717,000 non-transferable warrants which were issued to the lender in October 2015. In connection with the extension of the credit line, the Company granted 17,181,739 warrants at an exercise price of \$0.68 per warrant.

In December 2018, the Company had extended its credit line until June 30, 2020. The credit line bears interest at an annual rate equal to 15%, with all interests capitalized to the principal amount until the credit line matures. At the closing, the parties have also agreed to terminate 17,338,739 non-transferable warrants which were issued to the lender in December 2017 (17,181,739 warrants) and in October 2014 (157,000 warrants). In connection with this extension, the Company also paid \$20,348 of transaction fees. In connection with the extension of the credit line, the Company granted 22,417,458 warrants at an exercise price of \$0.425 per warrant.

In June 2020, the Company had extended its credit line until June 15, 2021. The credit line bears interest at an annual rate equal to 15%, with all interests capitalized to the principal amount until the credit line matures. At the closing, the parties have also agreed to terminate 22,417,458 non-transferable warrants which were issued to the lender in December 2018. In connection with the extension of the credit line, the Company granted 26,780,000 warrants at an exercise price of \$0.2466 per warrant.

On March 31, 2021 the Company had extended its credit line until March 31, 2026. The credit line bears interest at an annual rate equal to 8%, with all interests capitalized to the principal amount, to be paid annually in cash or in common shares of the Company. 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 facility, the Lender received 32 million non-transferable share purchase warrants, exercisable at a price of \$0.33 per share 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. The warrants are subject to a hold period of four months and one day from the date of the issuance. 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 are substantially different, the modification has been 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 has been recognized in the statement of loss, through a gain of \$1,211,484.

The Company had increased the buyback purchase price of the existing production fee granted in favour of the Lender to \$11.25M.

The Company has undertaken to raise additional funds in the amount of \$3M 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- for the first 4 years of the amended credit facility, in the event the Company has not repaid the Loan in full and the Lender remains the creditor of the Company in relation to such Loan, 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).

# ARIANNE PHOSPHATE INC.

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(in Canadian dollars)

	As at March 31, 2021 \$	As at December 31, 2020 \$
Balance – Beginning of the period	30,660,613	26,526,083
Repayment by exercise of warrants	(6,603,948)	-
Amortization of transaction costs	1,420,462	850,209
Debt extinction	(24,892,949)	-
New debt under IFRS 9	15,269,052	-
Transaction costs	-	(14,752)
Capitalized interests	117,132	4,192,589
Gain on modification on credit line	-	(893,516)
Balance – End of the period	<u>15,970,362</u>	<u>30,660,613</u>

### 10. LOANS

In September 2016, the Company closed on a \$3 million loan agreement with various third-party lenders (the “Loans”). The Loans bears interest at 8%, paid semi-annually, and has a maturity of 3 years. The Company had the ability to repay the Loan after one year at its option. As part of the Loan, the Company issued 2,400,000 non-transferable warrants, with each warrant entitling the holder to purchase one common share of the Company at a price of \$1.25 per share for a term of 3 years which expired on September 28, 2019.

In October 2016, the Company closed an additional \$1.1 million loan agreement with various third-party lenders. The loan bears interest at 8%, paid semi-annually and has a maturity of 3 years. The Company had the ability to repay the loan after one year at its option. As part of the loan, the Company issued 880,000 non-transferable warrants, with each warrant entitling the holder to purchase one common share of the Company at a price of \$1.25 per share for a term of 3 years which expired on October 27, 2019.

In September 2019, the Company extended the total \$4.1 million loans. These extensions will mature on September 28, 2021 and bear interest at 8%, paid semi-annually. In connection with the loan extensions, the Company issued non-transferable warrants in the amount of 1,818 per \$1,000 face value (for a total of 7,453,800 warrants), with each warrant entitling the holder to purchase one common share of the Company at a price of \$0.55 per share for a term of 2 years expiring on September 28, 2021.

On March 31, 2021, the Company issued 14,545,455 common shares of the Company at a deemed price of \$0.43 per share, as settlement for \$4,000,000 of the loans. Also, 7,272,000 warrants, with an exercise price of \$0.55, had been cancelled. A loss on settlement of \$2,346,723 has been recorded in the statement of loss.

	As at March 31, 2021 \$	As at December 31, 2020 \$
Balance – Beginning of period	3,932,483	3,728,024
Amortization of transactions costs	167,517	204,459
Conversion in common shares	(4,000,000)	-
Balance – End of period	<u>100,000</u>	<u>3,932,483</u>
Current portion	100,000	-
Non-current portion	-	-

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

In December 2019, the Company extended the total \$1.5 million loan. This extension will mature on June 18, 2021 and bear interest at 12%, capitalized monthly. In connection with the loan extensions, the Company issued non-transferable warrants in the amount of 2,222 per \$1,000 face value (for a total of 3,756,583 warrants), with each warrant entitling the holder to purchase one common share of the Company at a price of \$0.27 per share for a term of 18 months expiring on June 18, 2021.

On March 31, 2021, the Company issued 7,164,200 common shares of the Company at a deemed price of \$0.43 per share, as settlement for \$1,970,155 of the loans. Also, 3,756,584 warrants, with an exercise price of \$0.27, had been cancelled. A loss on settlement of \$1,155,852 has been recorded in the statement of loss.

# ARIANNE PHOSPHATE INC.

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(in Canadian dollars)

	As at March 31, 2021 \$	As at December 31, 2020 \$
Balance – Beginning of period	1,859,267	1,523,680
Capitalized interests	57,163	216,040
Amortization of transactions costs	53,725	119,547
Conversion in common shares	(1,970,155)	-
Balance – End of period	<u>-</u>	<u>1,859,267</u>

In April 2020, the Company received a \$40 000 loan from Canada Emergency Business Account (“CEBA”). In December, the subsidiary 9252-5880 Quebec Inc. also received a \$40,000 loan from CEBA. This interest-free loan, used to finance operating costs, was offered by the Canadian Government through the Company’s bank in the context of the Covid-19 pandemic outbreak. Repayment of the loan balance on or before December 31, 2022 will result in a loan forgiveness of \$10 000. On January 1st, 2023, the Company will have the option to extend the repayment of the capital for 3 years and will benefit from an interest rate of 5%. The loans were initially recorded at a fair value of \$43,139 considering the grant, the interest-free loan and the reimbursement on December 31, 2022. An effective rate of 15% was used, taking into account the rate that the Company would have obtained for a similar loan. The residual value of \$36,860 was recorded as a deferred government grant in the statement of financial position and will be recognized in the statement of loss and comprehensive loss at the same time as the underlying expenses in general and administrative.

	As at March 31, 2021 \$	As at December 31, 2020 \$
Balance – Beginning of period	43,139	-
Loan received	-	80,000
Value attributed to the governmental subsidy	-	(36,861)
Balance – End of period	<u>43,139</u>	<u>43,139</u>
Current portion	-	-
Non-current portion	43,139	43,139

## 11. CAPITAL STOCK

### Authorized

Unlimited number of common shares without par value

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

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

	Three-month period ended March 31, 2021		Year ended December 31, 2020	
	Number	Amount \$	Number	Amount \$
<b>Balance – Beginning of year</b>	123,198,348	64,354,302	111,458,250	62,677,095
Private placement <sup>(1)</sup>	-	-	11,700,098	1,665,327
Exercise of options	-	-	40,000	11,880
Exercise of warrants	28,446,666	7,011,798	-	-
Debt conversion	21,705,655	9,335,151	-	-
<b>Balance – End of year</b>	<u>173,354,669</u>	<u>80,701,251</u>	<u>123,198,348</u>	<u>64,354,302</u>

(1) Value of capital stock paid in cash (private placement) is presented net of fair value of warrants units amounting to \$nil in 2021 (2020 – 259,698) – refer to description below.

# ARIANNE PHOSPHATE INC.

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(in Canadian dollars)

### For the year ended December 31, 2020

On February 13, 2020 the Company closed an equity financing in the amount of \$425,025 financing. Under the terms of the financing, Arianne has issued 1,700,100 units at a price of \$0.25 per unit. Each unit is comprised of one common share and one-half warrant. Each full warrant entitles the holder to purchase one common share at a price of \$0.40 until February 13, 2023.

On June 10, 2020 the Company closed an equity financing in the amount of \$1,500,000 financing. Under the terms of the financing, Arianne has issued 9,999,998 units at a price of \$0.15 per unit. Each unit is comprised of one common share and one-half warrant. Each full warrant entitles the holder to purchase one common share at a price of \$0.20 until June 10, 2023.

## 12. STOCK OPTIONS, WARRANTS AND OPTIONS GRANTED TO BROKERS

### Stock options

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

Changes in Company stock options were as follows:

	Three-month period ended March 31, 2021		Year ended December 31, 2020	
	Number	Weighted average exercise price \$	Number	Weighted average exercise price \$
<b>Balance – Beginning of year</b>	6,014,447	0.77	6,859,500	0.88
Granted	300,000	0.24	1,034,050	0.20
Exercised	-	-	(40,000)	0.15
Expired	(350,000)	0.46	(1,569,000)	0.96
Forfeited	-	-	(270,103)	0.39
<b>Balance – End of year</b>	<u>5,964,447</u>	<u>0.79</u>	<u>6,014,447</u>	<u>0.77</u>
Exercisable at the end of the year	<u>4,484,710</u>	<u>0.90</u>	<u>4,693,464</u>	<u>0.87</u>

### Warrants

Changes in Company warrants were as follows:

	Three-month period ended March 31, 2021		Year ended December 31, 2020	
	Number	Weighted average exercise price \$	Number	Weighted average exercise price \$
<b>Balance – Beginning of year</b>	48,546,591	0.36	38,334,001	0.50
Granted	32,000,000	0.33	32,630,048	0.24
Exercised	(28,466,666)	0.24	-	-
Expired	(12,145,250)	0.49	(22,417,458)	0.43
<b>Balance – End of year</b>	<u>39,954,675</u>	<u>0.38</u>	<u>48,546,591</u>	<u>0.36</u>

# ARIANNE PHOSPHATE INC.

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(in Canadian dollars)

### Options granted to brokers

Changes in Company options granted to brokers were as follows:

	Three-month period ended March 31, 2021		Year ended December 31, 2020	
	Number	Weighted average exercise price \$	Number	Weighted average exercise price \$
<b>Balance – Beginning of year</b>	55,740	0.75	353,140	0.77
Expired	-	-	(297,400)	0.76
<b>Balance – End of year</b>	<u>55,740</u>	<u>0.75</u>	<u>55,740</u>	<u>0.75</u>

### 13. FINANCE COSTS

	Three-month period ended March 31, 2021 \$	Three-month period ended March 31, 2020 \$
Accretion and interest on loans	278,405	203,642
Accretion and interest on credit line	1,488,426	1,181,763
Loss on conversion of loans	3,502,575	-
Gain on extension of credit line	(1,211,484)	-
Interest expense on lease liabilities	8,994	-
Interest income	(161)	(523)
Transaction costs	53,506	-
	<u>4,120,261</u>	<u>1,384,882</u>

### 14. SUPPLEMENTARY INFORMATION RELATED TO CASH FLOWS

	Three-month period ended March 31, 2021 \$	Three-month period ended March 31, 2020 \$
Net change in non-cash working capital items		
Receivable and other current assets	(10,986)	2,375
Sales taxes receivable	(6,407)	8,930
Accounts payable and accrued liabilities	(370,765)	135,089
	<u>(388,158)</u>	<u>146,394</u>

Items not affecting cash not otherwise disclosed elsewhere in the financial statements:

	Three-month period ended March 31, 2021 \$	Three-month period ended March 31, 2020 \$
Addition to property, plant and equipment not yet paid	140,124	212,490
Transaction costs not yet paid	-	35,619

# ARIANNE PHOSPHATE INC.

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

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### 15. 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, 2021 \$	Three-month period ended March 31, 2020 \$
<b>Key management compensation</b> <sup>(1)</sup>		
Share-based compensation	27,048	23,671
Management fees <sup>(2)</sup>	48,654	20,000
	<u>75,702</u>	<u>43,671</u>
Salaries and benefits <sup>(2)</sup>	78,510	71,575
	<u>154,212</u>	<u>115,246</u>
Balance included in accounts payable and accrued liabilities	<u>54,112</u>	<u>74,255</u>

(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 these financial statements and are therefore not described in this note.

Ocean Partners is also considered as a related party because a director of the Company is one of its managing directors. All agreements and transactions with Ocean Partners are already disclosed in these financial statements and are therefore not described in this note.

### 16. 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 ("NSR"). The royalty may be redeemed at any time through a lump-sum payment of \$2.5 million.

### 17. CONTINGENCIES

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

### 18. FINANCIAL INSTRUMENTS AND FINANCIAL RISKS

#### Classification

The Company's financial instruments as at December 31, 2020 and 2018 consist of cash, receivable and other current assets, accounts payable and accrued liabilities, loans and credit line.

# ARIANNE PHOSPHATE INC.

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(in Canadian dollars)

The classification of financial instruments is summarized as follows:

	<u>Carrying value</u> As at March 31, 2021 \$	<u>Carrying value</u> As at December 31, 2020 \$
<b>Financial assets at amortized costs</b>		
Cash	606,882	628,910
Receivables and other assets	143,538	132,552
	<u>750,420</u>	<u>761,462</u>
<b>Financial liabilities at amortized costs</b>		
Accounts payable and accrued liabilities	759,149	1,134,335
Loans	143,139	5,834,889
Credit line	16,023,869	30,660,613
	<u>16,926,157</u>	<u>37,629,837</u>

The Company defines the fair value hierarchy under which its financial instruments are valued as follows: level 1 includes unadjusted quoted prices in active markets for identical assets or liabilities; level 2 includes inputs other than quoted prices in level 1 that are observable for assets or liabilities, either directly or indirectly; and level 3 includes inputs for the asset or liability that are not based on observable market data. There was no transfer of hierarchy level during the periods ended March 31, 2021 and 2020.

### Financial risks

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

#### Credit risk

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

#### Liquidity risk

Liquidity risk is the risk that the Company will not have sufficient cash resources to meet its financial obligations as they come due. The Company's liquidity and operating results may be adversely affected if the Company's access to the capital market is hindered, whether as a result of a downturn in stock market conditions generally or related to matters specific to the Company. The Company generates cash flows primarily from its financing activities. As at March 31, 2021, the Company had cash of \$606,882 (\$628,910 as at December 31, 2020) to settle current liabilities of \$924,524 (\$37,651,750 as at December 31, 2020). The Company regularly evaluates its cash position to ensure preservation and security of capital as well as maintenance of liquidity (Refer to note 1 for the use of the going concern assumption).

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



# ARIANNE PHOSPHATE INC.

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(in Canadian dollars)

### Interest rate risk

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

As at March 31, 2021, the Company's exposure to interest rate risk is summarized as follows:

Cash	Fixed interest rate and non-interest bearing
Accounts payable and accrued liabilities	Non-interest bearing
Credit line	Fixed interest rate
Loans	Fixed interest rate

### Currency risk

As at March 31, 2021, the Company has a bank account in US dollars for an amount of \$172 (\$25 as at December 31, 2020). The Company also had US \$171,382 and GBP 50,000 payable as at March 31, 2021 (US \$172,782 and GBP 50,000 as at December 31, 2020).

### Fair Value risk

Current financial assets and financial liabilities are valued at their carrying amounts, which are reasonable estimates of their fair value due to their near-term maturities; this includes cash, receivables and other assets and accounts payable and accrued liabilities. Loans were accounted at amortized cost, and its fair value approximates its carrying value. The credit line was accounted at amortized cost, and its fair value is \$24,969,333.

## 19. EVENTS AFTER THE REPORTING PERIOD

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On May 13, Arianne entered into an agreement with a syndicate of underwriters by which the Company will raise \$5 Million by issuing 10 Million 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.