



## **MANAGEMENT DISCUSSION AND ANALYSIS FOR THE NINE MONTHS ENDED JUNE 30, 2017**

### **GENERAL**

For further information on the Company, reference should be made to its public filings on SEDAR at [www.sedar.com](http://www.sedar.com). Information is also available on the Company's website at [www.dusolo.com](http://www.dusolo.com). This Management's Discussion and Analysis ("MD&A") should be read in conjunction with the unaudited condensed consolidated interim financial statements for the nine months ended June 30, 2017 and audited consolidated financial statements for the year ended September 30, 2016, and related notes thereto which have been prepared in accordance with International Financial Reporting Standards. The MD&A contains certain Forward Looking Statements which are provided on Page 22.

This MD&A has been prepared as of August 23, 2017.

### **RECENT EVENTS**

On July 25, 2017, the Company announced that it had received final approval of its new Guia de Utilização ("GUIA") issued by the National Department for Mineral Production ("DNPM"), and had re-started extraction of phosphate rock from its Direct Application Natural Fertilizer ("DANF") Santiago Project in Tocantins State, Brazil ("**Santiago Project**"). The Company has also received approval of its Final Exploration Report for the Santiago Project, allowing it to complete its application for various permanent production licences.

The new GUIA has the following terms:

- Permission to extract up to 200,000 tonnes of phosphate mineralization by May 30, 2018 (previously 100,000 tonnes per annum ("tpa")).
- Final Exploration Report approved – paving the way for the Company to complete the application for its permanent mining and environmental licences.
- GUIA application can be renewed annually until the permanent licences are received.

On July 11, 2017, the Company consolidated its issued and outstanding capital on the basis of one (1) post-consolidation share for each ten (10) pre-consolidation shares. All per share amounts in the MD&A and unaudited condensed consolidated interim financial statements have been retroactively restated.

On July 5, 2017, the Company announced the appointment of Mr. Keith Carpenter to the Board of Directors. Mr. Carpenter is an experienced analyst and brings significant business, agriculture, and fertilizer experience. In connection with his appointment, the Company granted a total of 50,000 stock options to Mr. Carpenter, exercisable at \$0.50 per share for a period of five years in accordance with the Company's stock option plan.

On June 27, 2017, the Company completed the second and final tranche of the non-brokered private



placement announced March 3, 2017 by issuing 6,450,000 common shares at a price of \$0.30 per common share for gross proceeds of \$1,935,000. The Company incurred closing costs of \$13,581 in connection with the financing. Of the gross proceeds, \$834,998 remained collectible as at June 30, 2017 and was received subsequent to period end.

On June 16, 2017, the Company announced the appointment of Mr. Alastair Brownlow as Chief Financial Officer (“CFO”).

On June 16, 2017, the Company executed an amendment agreement with Quantum Mineração Ltda., (“Quantum”) the vendor of various concessions that make up the Company’s assets in Tocantins State in Brazil. The amendment supersedes a previous amendment, dated January 20, 2017 and sets out a monthly payment schedule through December 2019.

On June 1, 2017 the Company completed the first tranche of the non-brokered private placement announced March 3, 2017 by issuing 2,103,550 common shares at a price of \$0.30 per common share for gross proceeds of \$631,065. In connection with the closing, the Company paid finder’s fees totaling \$37,864 and granted 1,262,130 finder’s warrants with a Black-Scholes valuation of \$22,406. Each finder’s warrant is exercisable at \$0.40 until June 1, 2019.

On May 18, 2017, the shareholders of the Company approved all items placed before its annual general and special meeting. Each resolution was passed by more than 95% of shares voting with no other business proposed at the meeting. Shareholders representing 58% of the existing shareholders voted.

On April 25, 2017 the Company announced that Mr. Leslie Shen has resigned as CFO. Dr. Peter Ruxton will serve as the interim CFO in the short-term while the Company conducts an executive search to identify a permanent CFO.

## **COMPANY OVERVIEW AND GOING CONCERN**

DuSolo Fertilizers Inc. is a publicly listed company trading on the TSX Venture Exchange under the trading symbol “DSF”. The Company is engaged in exploration and development of its phosphate fertilizer business in Brazil’s Cerrado region, a significant agricultural production area. The Company’s assets consist of a number of exploration concessions in Tocantins State (at Aug 23, 2017 totaling 20,807ha) containing phosphate rock ( $P_2O_5$ ) deposits, and the Company also owns and operates the Santiago Project, located in Tocantins State, with a crushing / milling / screening plant located near the town of Campos Belos, just south of the Tocantins’ border in Goiás State. The Company produces a DANF sold to local farmers and large agricultural companies such as COFCO, Bunge, Jalles Machado and Goiasa. The Company’s combined exploration and development projects are known overall as the Bonfim Project.

The Company’s core business of developing and producing phosphate rock deposits is dependent on the natural cyclic process of planting, maturing and harvesting agricultural crops, or livestock grazing. In Brazil the main significance is that a very significant portion of the Company’s annual deliveries is made during the second half of the calendar year. A good proportion of its sales are negotiated during the first half of the calendar year, with additional sales negotiated during the second half as planting etc accelerates.



Obviously this leaves the Company with a working capital situation which requires careful timing and management to minimize the overall amount expended on production prior to deliveries, combined with obtaining the best payment terms and timing from our customers. In calendar 2016 and into 2017, due to various changes to the Company's management and reorganization of the business this was not optimized, with the Company having to build up a stockpile of DANF material in the period October 2016 to January 2017. The Company has since processed and delivered that stockpile and resumed mining in July 2017, matching production and deliveries more closely. It is anticipated that for the rest of calendar 2017 and into 2018 this issue will be optimized.

Marketing and Sales are an essential part of the development of the Company's business, and can be broken down in 3 main parts:

- current year sales, deliveries and customer support;
- future sales and market expansion / price development; and
- support for product development to expand and diversify the markets open to the Company.

As at June 30, 2017 the Company had concluded contracts for c.27,500t of DANF, with negotiations on an additional 18,000t ongoing. As at the date of this MD&A, the Company has concluded contracts for 43,200t of DANF, and was negotiating contracts totaling an additional 19,800t. The Company therefore expects to meet its calendar 2017 target of delivering 60,000t of DANF.

The Company and its commercial team continues to develop and expand the markets for the DANF products, working with the technical team on product development including the granulation of the existing DANF product, both with and without the addition of sulphuric acid, as well as developing the registration and certification testwork needed to confirm the agronomic benefits of the Company's DANF products. On-going engagement with customers and a growing network of sales agents is also improving our market exposure and access.

The Company continues to focus on cost reduction and completed the consolidation of its new management and technical team in the Belo Horizonte office. As at June 30, 2017, the Company had \$351,526 in cash as it continues to work on the development of its Bonfim Project in Brazil, with an additional \$834,998 received after the end of the quarter. During the nine-month period ended June 30, 2017 the Company completed a financing of \$2.5 million and the proceeds included expenditure on the following items:

- Granulation testwork including process design testwork, market studies and agronomic testing.
- Process plant relocation trade-off study, to eliminate significant transport costs between the Santiago DANF deposit and the Campos Belos Plant.
- Additional product development for granulated DANF, including process design and agronomic efficiency trials.
- Preparation of various applications for permanent environmental and mining permits.
- Market development and expansion of sales team.

It is expected that the above work will cost approximately \$750,000 during calendar 2017.



Additionally, the financing has been allocated for:

- Property payments of \$360,000.
- Exploration Costs of approximately \$700,000 including exploration and expansion of the Amaury concession and existing resource, exploration at the Santiago DANF Project and the Bonfim concession.
- The balance of funding will be used to increase working capital as the Company's production increases, restructuring one-off payments as the Company completes its re-organization and to fund general corporate and administration costs.

The Company believes the continued growth of Brazil's agricultural sector supports the country's strong increase in demand for fertilizers and the Company's business plan to focus on developing and producing phosphate and fertilizer products for the Brazilian market. The Company's strategic objective is to become a profitable producer in Brazilian phosphate fertilizer. DuSolo has identified and acquired various concession areas possessing the potential to host significant phosphate deposits. By developing and commercializing phosphate-based fertilizers in strategic agricultural locations in Brazil, DuSolo's objective is to be well positioned to capitalize on the needs of a growing industry and create value for its shareholders.

The Company is currently operating in a deficit working capital position. During the nine-month period ended June 30, 2017, the Company extended the payment terms of the convertible debenture to December 2017. In addition, the Company is currently working to amend its payment terms on the acquisition payable. The Company has been successful in managing its cash position and delaying or renegotiating payment terms for various accounts payable, however the Company will need to raise additional finance to continue with its objectives over the next 12 months. Further, additional finances will be required to execute on longer-term plans associated with the Bonfim Project. The Company is using its best efforts to achieve its business plans by examining various financing alternatives, including raising additional equity financing, estimating future exercises of options and warrants, and considering the cash likely to be generated from future sales, the Company requires additional financing for use in operations of its Bonfim Project. Although the Company has been successful at raising capital in the past, there can be no assurance that we will be able to do so on terms that are acceptable to the Company, if at all. Accordingly, there are material risks and uncertainties that cast significant doubt about the Company's ability to continue as a going concern. The consolidated financial statements of the Company do not reflect adjustments that would be necessary if the going concern assumption is not appropriate. If the going concern assumption is not appropriate for the financial statements of the Company, adjustments would be necessary to the carrying values of assets and liabilities, and the reported expenses and the balance sheet classifications used. Such adjustments could be material.

## **SANTIAGO PROJECT DANF PRELIMINARY ECONOMIC ASSESSMENT**

On March 23, 2017, the Company announced the completion of a DANF Preliminary Economic Assessment ("DANF PEA") of the Company's DANF Santiago Project demonstrating the project's positive economic potential. The DANF PEA is the first stage of the Company's strategy to demonstrate the economic potential of the Company's mineral resources based on the phosphate (" $P_2O_5$ ") deposits at its Bonfim Project in Brazil. The Santiago deposit within the Bonfim area currently extracts phosphate rock which is processed into two DANF products grading 12% and 15%  $P_2O_5$  at the Campos Belos Plant. The



second stage of this strategy is to further improve its economic viability through the potential production of an Acid Granulated Phosphate Fertilizer, which combines 15% DANF with sulphuric acid to improve the agronomic performance of the DANF. This granulated product is expected to increase the market available to the Company, and yield higher selling prices due to improved solubility and agronomic performance based on a market study completed by Agroconsult. With the positive results of the DANF PEA, the Company has commenced the second stage of the strategy to produce the AG DANF PEA and is also assessing the potential for other forms of granulation.

### ***DANF PEA HIGHLIGHTS***

- Indicated Resources of 1.16Mt at 8.23% P<sub>2</sub>O<sub>5</sub>, including 0.29Mt at 14.78% P<sub>2</sub>O<sub>5</sub>
- Inferred Resources of 2.70Mt at 8.58% P<sub>2</sub>O<sub>5</sub>, including 0.82Mt at 14.72% P<sub>2</sub>O<sub>5</sub>
- Life of Mine (“LOM”) 12.5 years
- LOM Production of 543Kt of 12% DANF and 635Kt of 15% DANF
- Post-tax NPV (10%) of US\$13.0m
- Zero Initial Capital (already operating)
- Operating Costs (Mine, Plant, G&A) of US\$18.47/t
- Upside Case NPV(10%) of US\$30.3m based on Agroconsult Consultoria e Projetos (“**Agroconsult**”) DANF Prices

The Company’s decision to produce DANF, its DANF production targets and cash flow projections were not based on a feasibility study of mineral reserves demonstrating economic and technical viability. Without a technical report demonstrating economic and technical viability, there is uncertainty as to whether the Company will be able to economically produce DANF in the long run and as to whether the Company will be confronted with any unforeseen technical impediments. The Company has now completed a PEA. Note that the DANF PEA is preliminary in nature as it includes inferred mineral resources that are considered too speculative geologically to have the economic considerations applied to them that would enable them to be categorized as mineral reserves. Mineral resources that are not mineral reserves do not have demonstrated economic viability, and as such there is no certainty that the preliminary assessment and economics will be realized.

### **OPERATIONS**

#### *Santiago DANF Project*

The Company completed delivery of all previously stockpiled phosphate material at the Campos Belos plant in July 2017, and given existing sales contracts and customer demand, re-started extraction operations at the Santiago Project upon receipt of its new GUIA. This material provided DANF for customer deliveries in Q3 2017 and the freshly extracted phosphate rock in July and August 2017 will provide material for deliveries in Q4 2017. Mining will now stop and start as required to meet delivery demand, minimizing the working capital requirement. A small stockpile will be created at calendar year end 2017 to meet delivery needs for the much quieter Jan-April period in 2018.

### ***EXPLORATION POTENTIAL***



Mineralization at Santiago remains open along the NW-SE trend, with a number of samples of outcropping phosphorite grading between 7.5% to 23.3% P<sub>2</sub>O<sub>5</sub>. The potential area is some 3 times the size of the current area considered in this DANF PEA and GE21 estimated an exploratory potential of 5 million tonnes to 14 million tonnes with the P<sub>2</sub>O<sub>5</sub> grade varying between 4% and 18%. The potential quantity and grade is conceptual in nature, there has been insufficient exploration to define a Mineral Resource and that it is uncertain if further exploration will result in the target being delineated as a Mineral Resource in the future.

<b>Resource</b>	<b>Type</b>	<b>Tonnes (Mt)</b>	<b>P<sub>2</sub>O<sub>5</sub>%</b>	<b>CaO%</b>	<b>MgO%</b>	<b>SiO<sub>2</sub>%</b>	<b>Al<sub>2</sub>O<sub>3</sub>%</b>	<b>LOI%</b>
Indicated	HG*	0.29	14.78	20.49	1.02	41.53	8.44	4.08
	LG*	0.87	6.08	7.92	1.22	58.79	9.96	3.90
<b>Total Indicated</b>		1.16	8.23	11.03	1.17	54.52	9.59	3.94
Inferred	HG*	0.82	14.72	20.92	0.97	42.62	7.95	4.22
	LG*	1.88	5.89	7.83	1.48	58.39	10.73	4.43
<b>Total Inferred</b>		2.70	8.58	11.82	1.32	53.59	9.88	4.37
<ul style="list-style-type: none"> <li>• High Grade Mineralization (HG): P<sub>2</sub>O<sub>5</sub> ≥ 10%, Low Grade Mineralization (LG): P<sub>2</sub>O<sub>5</sub> ≥ 3% and &lt; 10 %</li> <li>• Mineral Resources are based on dry tonnes.</li> </ul>								

#### *MINERAL PROCESSING & METALLURGICAL TESTING*

The material is placed in the run-of-mine (“ROM”) patio area, stockpiled and blended in such a way so as to guarantee a constant feed grade for the beneficiation process. The processing route consists of crushing, screening and grinding.

All of the material that is obtained from mining is transformed into the final product, which generates products that have greater or lesser value, depending on the phosphate concentration. Therefore, tailings are not produced during ore processing, and the recovery of material during the process is 100%.

For internal quality control purposes, the Company maintains its own laboratory, with equipment that serves to analyze certain characteristics of the product such as particle size, comminution, sample preparation and a spectrophotometer for determining the concentration of P<sub>2</sub>O<sub>5</sub>



<b>Table 2</b>				
<b>Summary of Production</b>				
<b>Material</b>			<b>Mass wet basis (Kt)<sup>1</sup></b>	<b>P<sub>2</sub>O<sub>5</sub> (%)</b>
<b>Mining products</b>	<b>Type</b>	<b>P<sub>2</sub>O<sub>5</sub> 12%</b>	543	11.90
		<b>P<sub>2</sub>O<sub>5</sub> 15%</b>	635	15.24
	<b>Total</b>			1,178
<b>Waste Rock</b>			865	n/a
<b>Material Stockpiled for Potential Future Beneficiation</b>			1,080	7.15

<b>Strip Ratio<sup>2</sup></b>	1.56
<b>Strip Ratio<sup>3</sup></b>	0.37

<sup>1</sup>Wet tonnes contain 12% moisture, both as ROM and as product;

<sup>2</sup>Considers the material stockpiled for Potential Future Beneficiation as waste rock;

<sup>3</sup>Considers the material stockpiled for Potential Future Beneficiation as product;

Note that the DANF PEA is preliminary in nature as it includes Inferred Mineral Resources that are considered too speculative geologically to have the economic considerations applied to them that would enable them to be categorized as Ore Reserves. Mineral Resources that are not Ore Reserves do not have demonstrated economic viability, and as such there is no certainty that the preliminary assessment and economics will be realized.

### *CAPITAL & OPERATING COSTS*

As the Santiago DANF Project and the Campos Belos plant are already extracting and processing phosphate rock, there is no additional capital requirement for the Project. Sustaining capital over the LOM is minimal and included in the maintenance costs. The Company estimates the existing capital equipment (primary crusher, hammer mills) have a capacity of c.280,000 tonnes per annum and the projected DANF PEA production of 100,000 tonnes per annum is approximately 35% of the actual installed capacity, resulting in reduced operating hours and general wear. Mobile equipment such as trucks, water trucks and front-end loader and excavator are all supplied on a contract basis. The Company maintains insurance for its assets which includes the Campos Belos Plant.

Operating costs are based on actual costs incurred by the Company, using the 2016 actual mining and processing costs. Fixed costs have been adjusted for the increase to 100,000 tonnes per annum.



<b>Item</b>		<b>Cost</b>	<b>Unit</b>
Mine	Ore	2.88	<b>US \$/t ROM</b>
	Waste Rock	0.97	
Transport & Road Maintenance		6.17	
Plant		5.11	
G&A		3.34	
<b>Total</b>		<b>18.47</b>	

A trade-off study to assess the impact of relocating the Campos Belos Plant to the Santiago Project and significantly reducing transport costs is currently being prepared.

Taxes are included in the DANF PEA cashflow analysis as follows:

- Royalties - 3.0% of revenue
- Taxes - 29.8% of EBIT

The Company has had significant tax losses available to be applied to future income in Brazil, which have not been included in the DANF PEA analysis.

The Company is in the process of preparing a further Technical Report with its independent technical consultant GE21 Consultoria Mineral based in Belo Horizonte for the production of an Acid Granulated Phosphate Fertilizer (the “AGPF PEA”) combining 15% Phosphate DANF with Sulphuric Acid to improve the agronomic performance of the DANF. The intent of this granulated product is to widen the market available to the Company, and achieve higher selling prices due to improved solubility and agronomic performance. This report is targeted for completion by late-2017.

#### *Permitting*

On July 25, 2017, the Company announced that it had received final approval of its new **GUIA** issued by the **DNPM**, and had re-started extraction of phosphate rock from its **DANF** Santiago Project. The Company has also received approval of its Final Exploration Report for the Santiago Project, allowing it to complete its application for various permanent production licences.

The new GUIA has the following terms:

- Permission to extract up to 200,000 tonnes of phosphate mineralization by 30 May, 2018 (previously 100,000 tpa).
- Final Exploration Report approved – paving the way for the Company to complete the application for its permanent mining and environmental licences.
- GUIA application can be renewed annually until the permanent licences are received.

GUIAs are issued under the terms of the exploration concessions, and are replaced by the life of mine



license known as a Portaria de Lavra, issued by the DNPM. The GUIAs are re-issued on an annual basis and are valid until after completion of exploration activities and the issuance of the Portaria de Lavra. A life of mine Environmental License is also required, issued by Naturatins.

The Company expects to renew its current Environmental License which is valid until August 2018. Having completed the DNPM and received the approval of its Final Exploration Report for the Santiago Concession, the Company now expects to submit its application for a Portaria de Lavra in late 2017, and expects to receive approval during the 2018 fiscal year. In a parallel process the Company will apply for its life of mine Environmental License from Naturatins.

As the Company's assessment of an acid granulated product and then a high-grade fertilizer progress, additional applications will be required to obtain amendments to the Company's existing licenses. As with any such permitting process it is subject to interaction with State and Federal authorities and there can be no guarantee that the Company will be able to acquire such licenses.

#### *New Product Development*

Brazil remains a substantial agricultural market and imports significant quantities of fertilizer including phosphate-based products. The Company is working with Agroconsult, the leading Brazilian consultancy for agriculture and fertilizers, to determine market size potential and pricing ranges for various products to be used in the AGPF PEA for the acid granulated product. In addition, Agroconsult has prepared a study of the market potential – size and price – for the Company's 12% P<sub>2</sub>O<sub>5</sub> and 15% P<sub>2</sub>O<sub>5</sub> existing products, to be included in the DANF PEA.

The Company is currently conducting the following testwork and research:

**EMBRAPA** – Federal Brazilian Agricultural Research Agency - Development and execution of agronomic efficiency tests at the greenhouse scale initially followed by larger scale field tests, conducted with gramineous and leguminous plants. The testwork started in May 2017 and will take c.12 months to complete. EMBRAPA will measure the agronomic efficiency for different particle size distribution of the acid granulated 13% DANF and for the 15% granulated DANF (greenhouse only);

Federal University of Uberlândia, - a public university in Goias State which is certified for agronomic testwork and has a very strong reputation. Development and execution of agronomic efficiency tests at the greenhouse scale, where they are being conducted with gramineous and leguminous plants. The experiment is scheduled to finish in November 2017 and is for the existing 15% DANF and the potential acid granulated 13% DANF; and

**Labfert** – Labfert is a private company specializing in process and chemical analysis of fertilizers, it's based in Uberaba, Minas Gerais State. The work carried out by Labfert is part of the process and engineering design, developing granulation processes with and without acidulation, measuring parameters that will allow the project to select the optimum process routes to obtain the best granulated product. This will allow the preparation of operating and capital cost estimates.

#### *Exploration*



Exploration work continued at the Company’s concessions, with field mapping, auger drilling and sampling. Geophysics fieldwork at the Santiago and Amaury Concessions has been completed as of the date of this MD&A, with processing and interpretation to be completed. Planning for drilling will then be finalized and the Amaury Concession is expected to be drilled in September / October of 2017, targeting expansion of the existing resources with similar material grading between 6%-8% P<sub>2</sub>O<sub>5</sub>. Drilling will include augering, diamond core and reverse circulation holes.

Assuming successful exploration results and a positive increase in the resources which are the subject of the Company’s existing resource estimate, the Company expects to file a positive Final Exploration Report with the DNPM by January 2018 prior to assessing the potential for the production of a various potential phosphate products during 2018.

At the date of this MD&A, the Company now holds 20,807 hectares, reduced from 54,057 hectares in the Bonfim Project area in 2016. This rationalization focuses the Company’s efforts to the high-grade Santiago and Bomfin concessions and the medium grade exploration target at Amaury, reducing logistics and exploration costs and maintaining a significant land package.

*Bonfim Initial Technical Report (“NI 43-101” or “the Report”)*

The Company filed the Report for the Bonfim Project titled “Bonfim Agro-mineral Phosphate Project, Technical Report and Initial Resource Estimate, Tocantins and Goiás States, Brazil” on the 22<sup>nd</sup> January 2014. The report was dated and effective as of 21<sup>st</sup> December 2013. The Report was prepared by John Harrop PGeo, FGS, of Coast Mountain Geological Ltd, a qualified person and independent of the Company under NI 43-101 with the Initial Resource Estimate portion authored by Mr. Porfirio Cabaleiro Rodriguez, an Associate Consultant, and Mr. Fábio Valério Câmara Xavier of Coffey Consultoria e Serviços Ltda. The Report was prepared in accordance with Standards of Disclosure for Mineral Projects NI 43-101 and is filed under the Company’s profile on SEDAR at <http://www.sedar.com>.

The Initial Mineral Resource Estimate from portions of three targets (Amaury+Bonfim Hill-PZE+Santiago) using a 3% Cut Off Grade (“COG”):

<b>TOTAL RESOURCES 3% P<sub>2</sub>O<sub>5</sub> COG (AMAURY + BONFIM HILL-PZE + SANTIAGO)</b>		
<b>Resources</b>	<b>Tonnage (Kt)</b>	<b>Average grade P<sub>2</sub>O<sub>5</sub> (%)</b>
Measured and Indicated	462.6	11.88
Inferred	18,270.3	6.32

The Initial Resource Estimate from portions of three targets (Amaury+Bonfim Hill-PZE+Santiago) using an 8% COG:

<b>TOTAL RESOURCES 8% P<sub>2</sub>O<sub>5</sub> COG (AMAURY + BONFIM HILL-PZE + SANTIAGO)</b>		
<b>Resources</b>	<b>Tonnage (kt)</b>	<b>Average grade P<sub>2</sub>O<sub>5</sub> (%)</b>
Measured and Indicated	316.5	15.09
Inferred	4,101.9	14.42



For more information please refer to the technical reports filed on SEDAR and titled “Bonfim Agro-Mineral Phosphate Project, Technical Report and Initial Resource Estimate Tocantins and Goiás States, Brazil,” filed on March 5, 2014, effective December 31, 2013, and amended on February 6, 2015, and the “DANF Santiago Project, Tocantins, Brazil, Independent Technical Report - Preliminary Economic Assessment”, effective date September 1, 2016, and filed on May 8, 2017. The resource estimate was signed off by Mr. Porfirio Cabaleiro Rodriguez an Associate Consultant of Coffey Consultoria e Serviços Ltda., and was prepared in compliance with the standards of disclosure as set out in NI43-101. The PEA was prepared in compliance with the standards of disclosure as set out in NI43-101 and was signed off by Mr. Porfirio Cabaleiro Rodriguez – BSc (Min Eng), MAIG Mário Conrado Reinhardt – BSc (Geology), MAIG Bernardo Cerqueira Viana – BSc (Geology), and MBA, MAIG Fábio Valério Xavier – BSc (Geology), MAIG of GE21 Consultoria Mineral Ltda. Mr. Rodriguez, Mr. Reinhardt, Mr. Viana and Mr. Xavier are each an “independent qualified person” for the purposes of NI43-101 Standards of Disclosure for Mineral Projects of the Canadian Securities Administrators.

The Company’s decision to produce DANF, its DANF production targets and cash flow projections were not based on a feasibility study of mineral reserves demonstrating economic and technical viability. Without a technical report demonstrating economic and technical viability, there is uncertainty as to whether the Company will be able to economically produce DANF in the long run and as to whether the Company will be confronted with any unforeseen technical impediments. The Company has now completed a preliminary economic assessment.

Note that the DANF PEA is preliminary in nature as it includes inferred mineral resources that are considered too speculative geologically to have the economic considerations applied to them that would enable them to be categorized as mineral reserves. Mineral resources that are not mineral reserves do not have demonstrated economic viability, and as such there is no certainty that the preliminary assessment and economics will be realized.



**Results of Operations – For The Nine and Three Month Periods Ended June 30, 2017  
Compared to The Three Month Period Ended June 30, 2016**

	Three Months Ended		Nine Months Ended	
	2017	June 30 2016	2017	June 30 2016
	\$	\$	\$	\$
<b>Revenue</b>	514,878	308,243	1,600,132	1,489,309
<b>Cost of goods sold</b>	(799,003)	(127,660)	(1,350,113)	(803,221)
<b>Depreciation and depletion</b>	-	(11,744)	(49,124)	(35,232)
	(284,125)	168,839	200,895	650,856
<b>Expenses</b>				
Accounting	142,639	50,219	364,008	139,465
Amortization	25,354	1,903	59,180	16,175
Conference	36,438	-	57,966	14,545
Consulting fees (recovery)	(40,598)	-	122,712	94,877
Directors fees	25,644	-	25,644	-
Lease	-	-	-	35,616
Exploration expenditures	-	10,491	1,442	41,189
Insurance	62,274	12,891	98,691	38,246
Legal fees	45,540	39,937	102,390	261,803
Corporate Services	18,512	61,215	45,345	148,235
Office and miscellaneous	19,619	1,796	500,929	169,218
Rent	25,375	6,075	34,832	25,575
Salaries	205,835	216,456	623,961	514,004
Selling	102,747	-	177,935	405,532
Shareholder communication	14,237	8,297	53,317	30,051
Share-based compensation	6,955	12,804	42,903	99,197
Travel	90,229	256,268	183,156	334,777
	(780,800)	(678,352)	(2,494,411)	(2,368,505)
Loss before other items	(1,064,925)	(509,513)	(2,293,516)	(1,717,649)
<b>Other items</b>				
Finance cost	(173,017)	(117,849)	(410,147)	(396,624)
Foreign exchange	(138,844)	-	(138,844)	(9,039)
Impairment of exploration and evaluation assets	-	-	(75,504)	-
<b>Net loss</b>	(1,376,786)	(627,362)	(2,918,011)	(2,123,312)
<b>Other comprehensive loss</b>				
Items that may be reclassified subsequently to income or loss:				
Currency translation differences of foreign operations	(11,529)	85,377	(61,910)	55,016
<b>Comprehensive loss</b>	(1,388,315)	(541,985)	(2,979,921)	(2,068,296)
Basic and diluted loss per common share	(0.05)	(0.03)	(0.12)	(0.13)
Weighted average number of shares outstanding – basic and diluted	25,097,457	16,436,218	24,508,791	16,436,218



## **Production**

For the three and nine month periods ended June 30, 2017, DuSolo produced 11,933 and 29,816 tonnes (2016 – 3,521, and 5,871 tonnes) of DANF product of varying grades respectively.

## **Revenue**

For the three and nine month periods ended June 30, 2017, DuSolo sold 7,657 and 26,395 tonnes (2016 – 5,615 and 18,513 tonnes) of DANF products of varying grades respectively. This resulted in an average selling price for the three and nine month periods of \$67.24 and \$60.62 (2016 - \$54.90 and \$80.44) respectively. The change of price for the periods ended June 30, 2017 as compared to the periods ended June 30, 2016 is a primarily of result of a strengthening of the Brazilian Real against the Canadian Dollar and variance in the mix of sales between 12% and 15% grade DANF.

During the three-month period ended June 30, 2017, revenue was \$514,878 compared to \$308,243 for the period ended June 30, 2016. The revenue difference is primarily related to the increase in sales and timing of sales and receipt of payment in the two periods. The Company resumed extraction at Santiago in mid-October 2016 and completed extraction of phosphate rock at the end of January 2017. Subsequent to June 30, 2017, mining was resumed. The Santiago DANF Project will be producing a higher proportion of its 15% DANF product to achieve a higher average grade product mix and revenues.

During the nine-month period ended June 30, 2017, revenue was \$1,600,132 compared to \$1,489,309 for the period ended June 30, 2016. The change can be explained by an overall increase in sales volume, in spite of a lower average per tonne sales price.

## **Cost of Sales**

Cost of sales for the three-month period ended June 30, 2017 was \$799,003 compared to \$127,660 for the period ended June 30, 2016. The increase is a result of personnel and operating changes as well as the correction of the classification of various income statement items. Moving forward, the Company will focus on the optimization of production costs, matching the timing of mining and processing to meet sales demand and a trade-off study to re-locate the plant to the Santiago deposit, significantly reducing ROM transport costs.

Cost of sales for the nine-month period ended June 30, 2017 was \$1,350,113 compared to \$803,221 for the period ended June 30, 2016. Overall, the Company has shown an increase in the average cost per tonne sold to \$53.01 during the nine-month period ended June 30, 2017 from \$43.37 during the nine-month period ended June 30, 2016 as a result of personnel and operating changes as well as a fluctuating Brazilian currency.

The Company recognizes a 1% royalty on revenue due to the property owner. During the nine-month period ended June 30, 2017, \$58,807 was recognized in Cost of Sales related to royalties paid compared to \$nil during the nine-month period ended June 30, 2016.



### **Expenses & Other items – 3 month period**

During the three-month period ended June 30, 2017, expenses were \$780,800 compared to \$678,352 for the period ended June 30, 2016. The changes in expenses were largely due to:

- accounting fees of \$142,639 for the three-month period ended June 30, 2017 compared to \$50,219 for the period ended June 30, 2016 increased due to additional corporate administrative and accounting work as a result of the change in auditor, restructuring of the Brazilian administrative team, and late filing of the financial statements for the year ended September 30, 2016.
- recovery of consulting fees of \$40,598 for the three-month period ended June 30, 2017 compared to \$nil for the period ended June 30, 2016 as a result of the reversal of an over accrual of fees to be paid to former officers and directors.
- office and miscellaneous expense of \$19,619 for the three-month period ended June 30, 2017 compared to \$1,796 for the period ended June 30, 2016 increased due to additional Brazilian administrative costs.
- insurance expense of \$62,274 for the three-month period ended June 30, 2017 compared to \$12,891 for the period ended June 30, 2016 increased as a result of amortization of insurance policies expired in previous periods.
- legal fees of \$45,540 for the three-month period ended June 30, 2017 compared to \$39,937 for the period ended June 30, 2016 were relatively stable and primarily related to corporate structuring.
- salaries of \$205,835 for the three-month period ended June 30, 2017 compared to \$216,456 for the period ended June 30, 2016 is considered comparable.
- selling expenses of \$102,747 for the three-month period ended June 30, 2017 compared to \$nil for the period ended June 30, 2016 increased due to changes in sales commission structure.
- share-based compensation of \$6,955 for the three-month period ended June 30, 2017 compared to \$12,804 for the period ended June 30, 2016 decreased due to the timing of options granted and vested during the period.
- travel of \$90,229 for the three-month period ended June 30, 2017 compared to \$256,268 for the period ended June 30, 2016 decreased as a result of reduced travel by management and employees;
- finance expense of \$173,017 for the three-month period ended June 30, 2017 compared to \$117,849 for the period ended June 30, 2016 was a result of additional costs on the renegotiation of the acquisition payment.
- other comprehensive income and loss will fluctuate due to the fluctuation of the Brazilian Reals compared to the Canadian Dollar.



### **Expenses & Other items – 9 month period**

During the nine-month period ended June 30, 2017, expenses were \$2,525,411 compared to \$2,368,505 for the period ended June 30, 2016. The changes in expenses were largely due to:

- accounting fees of \$364,008 for the nine-month period ended June 30, 2017 compared to \$139,465 for the period ended June 30, 2016 increased due to an increase in corporate administrative and accounting work due to the change in auditor, restructuring of the Brazilian administrative team, and late filing of the financial statements for the year ended September 30, 2016.
- consulting fees of \$122,712 for the nine-month period ended June 30, 2017 compared to \$94,877 for the period ended June 30, 2016 increased due to additional consulting services in corporate management, project consulting, product development, and market studies.
- office and miscellaneous expense of \$500,929 for the nine-month period ended June 30, 2017 compared to \$169,218 for the period ended June 30, 2017 increased due to administration and severance payments related to employee termination costs, and fees for the recruitment of directors.
- insurance expense of \$98,691 for the nine-month period ended June 30, 2017 compared to of \$38,246 for the period ended June 30, 2016 increased as a result of amortization of insurance policies expired in previous periods.
- legal fees of \$102,390 for the nine-month period ended June 30, 2017 compared to \$261,803 for the period ended June 30, 2016 decreased as the Company efficiently resolved numerous legal activities in Brazil and Canada and cost savings achieved in changing counsel, including less restructuring in the current period.
- salaries of \$623,9621 for the nine-month period ended June 30, 2017 compared to \$514,004 for the period ended June 30, 2016 increased due to changes in management structure as a result of overlap in hand-over periods during the termination of the previous management.
- selling expenses of \$177,935 for the nine-month period ended June 30, 2017 compared to \$405,532 for the period ended June 30, 2016 decreased due to changes in sales commission structure, improved efficiency and economy of scale with our large customers.
- share-based compensation of \$42,903 for the nine-month period ended June 30, 2017 compared to \$99,197 for the period ended June 30, 2016 decreased due to the timing of options granted and vested during the period.
- travel of \$183,156 for the nine-month period ended June 30, 2017 compared to \$334,777 for the period ended June 30, 2016 decreased as a result of reduced travel by management and employees;
- finance expense of \$410,147 for the nine-month period ended June 30, 2017 compared to \$396,624 for the period ended June 30, 2016 is considered comparable.



- other comprehensive income and loss will fluctuate due to the fluctuation of the Brazilian Reals compared to the Canadian Dollar.

### Cash Flow

	Nine months ended June 30,	
	2017	2016
Cash from operating activities	(2,541,181)	(2,200,941)
Cash from investing activities	(1,128,420)	(102,044)
Cash from financing activities	1,694,617	4,020,698
Net change in cash	(1,959,457)	(1,847,489)
Cash balance	351,526	3,335,499

### Operating Activities

Cash outflow from operating activities was \$2,541,181 for the nine-month period ended June 30, 2017 compared to \$2,200,941 for the period ended June 30, 2016. This was mainly driven by various operating expenditures in excess of net margin.

### Investing Activities

Cash outflow from investing activities was \$1,128,420 for the nine-month period ended June 30, 2017 compared to \$102,044 for the period ended June 30, 2016. The Company made investment in exploration and evaluation assets and payments towards the acquisition payable for the assets. Work included further exploration of the Company's concessions, geological mapping and sampling of the Santiago operations, auger sampling to confirm geological interpretation and preparation of the latest Resource Estimate.

### Financing Activities

Cash inflow from financing activities was \$1,694,617 for the nine-month period ended June 30, 2017 compared to \$4,020,698 for the period ended June 30, 2016. The cash received was primarily related to proceeds on a private placement closed.



## Selected Quarterly Financial Information

The following is a summary of the results from the eight previously completed financial quarters:

	2017			2016				2015
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
Revenues	514,878	356,989	728,265	895,096	308,243	211,769	969,297	777,192
Net loss	(1,388,315)	(911,803)	(629,422)	(1,647,765)	(627,362)	(873,238)	(586,712)	(3,264,011)
Assets	5,485,366	5,907,369	6,336,451	6,915,278	7,789,218	4,726,918	5,462,355	6,933,557
Loss per share (basic and diluted)	(0.05)	(0.04)	(0.03)	(0.07)	(0.03)	(0.04)	(0.04)	(0.21)

*Three months ended June 30, 2017 compared to previous quarters in fiscal 2016 and 2015*

Revenue fluctuated between the quarters due to timing of the sales contracts and the cyclical nature of the agricultural businesses of customers, driven largely by the crop cycles and wet / dry season in differing parts of Brazil.

Net loss was consistent with the average and the comparable period.

Assets were lower than all of its historic quarters due to historic impairment on inventory, exploration and evaluation assets and general operational expenses.

## Financial Position, Liquidity and Capital Resources

The Company has experienced recurring operating losses and has accumulated an operating deficit of \$30,655,518 as at June 30, 2017 (September 30, 2016 - \$27,737,507) and shareholders' equity of \$1,666,031 as of June 30, 2017 (September 30, 2016 - \$2,923,427). As at June 30, 2017, the Company had total assets of \$5,485,366 compared to \$6,915,278 in total assets as of September 30, 2016. This decrease was primarily due to cash used in operating and investing activities. Working capital deficit as at June 30, 2017 was \$1,537,910 compared \$755,169 as at September 30, 2016.

During the period ended June 30, 2017, the Company extended the payment terms of the convertible debenture to December 2017. In addition, the Company is currently working to amend its payment terms on the acquisition payable. The Company has been successful in managing its cash position and delaying or renegotiating payment terms for various accounts payable, however the Company will need to raise additional finance to continue with its objectives over the next 12 months. Further, additional finances will be required to execute on longer-term plans associated with the Bonfim Project. The Company is not aware of any trends, demands, commitments, events or uncertainties that will result in, or that are reasonably likely to result in, its liquidity either materially increasing or decreasing at present or in the foreseeable future. Material increases or decreases in liquidity are substantially determined by the success or failure of the exploration programs.



## Contractual Commitments

The Company has the material contractual commitments as at June 30, 2017:

### Acquisition Payable

At September 30, 2013, the Company owned a 75% interest in P-Tec which owned 100% interest in the Bonfim property. On August 26, 2014, the Company purchased all of the shares of P-Tec held by the former minority shareholder at a cost of R\$5,000,000 to acquire 100% of P-Tec. During the year ended September 30, 2015, the Company made payment of R\$2,000,000 to the former minority shareholder.

On December 1, 2015, the Company entered into an agreement to amend the purchase price payment schedule. During the year ended September 30, 2016, the Company and the former minority shareholder, Quantum Fertilizantes do Tocantins Ltda (“Quantum”), reached an agreement to amend the original payment schedule as follows:

		R\$
Fiscal	2016	515,000 (paid)
	2017	3,420,000
		3,935,000

During the nine months ended June 30, 2017, the Company paid R\$1,500,000 to Quantum pursuant to the liability and signed two amendments, resulting in an increase in the total payable of R\$460,000, bringing the remaining liability owed to Quantum to R\$2,160,000 million. The amendment requires monthly instalments to be paid through to December 2019.

### Convertible Debenture

On October 1, 2015, the Company closed a convertible debenture financing, issuing unsecured convertible debentures of \$750,000. The debenture holder has the right to convert the principal amount together with all interest accrued and establishment fee into common shares and warrants of the Company up to the maturity date of September 30, 2016 (the “Maturity Date”) at a conversion price of \$0.10 per unit. Each unit consists of one common share and one warrant. The debentures were subject to a one time establishment fee of 5% and bear interest at 10% per annum, payable annually in arrears from the date of issue to the Maturity Date.

On December 7, 2016, the Company and the Lender of the convertible debenture entered into an Amendment Agreement of the convertible debenture. Under the terms of the Amendment. The revised loan principal was \$876,267. The loan bears establishment fee of 5% and annual interest rate of 10% and matures on the 6<sup>th</sup> December 2017. The Lender has the right to convert full outstanding balance to a unit for \$0.05 per unit. Each unit includes one common share and one half of share purchase warrant at exercise price of \$0.065.



## Escrow shares

As of June 30, 2017 and date of this report, there were no common share held in escrow.

## Share Capital

### Common shares:

At June 30, 2017 and the date of this report, the Company had unlimited authorized common shares without par value and an aggregate of 32,768,010 common shares were issued and outstanding.

### Share Purchase Warrants

Each whole warrant entitles the holder to purchase one common share of the Company. A summary of the Company's issued and outstanding warrants at June 30, 2017 and date of this report was as follows:

Expiry date	Number of Warrants	Exercise Price
September 28, 2018	1,220,039	\$1.50
September 28, 2018	109,060	\$1.00
November 20, 2017	175,036	\$0.40
June 1, 2019	126,213	\$0.30
Balance, June 30, 2017	1,630,703	

### Stock Options:

A summary of the Company's issued and outstanding warrants at June 30, 2017 and date of this report was as follows:

Expiry date	Number of Options	Exercise Price
February 18, 2018	15,000	\$3.80
May 22, 2018	15,000	\$3.80
January 14, 2019	55,000	\$2.40
August 5, 2019	20,000	\$2.30
February 2, 2020	84,500	\$2.30
October 5, 2020	60,000	\$1.00
May 30, 2021	410,000	\$0.50
November 23, 2021	40,000	\$0.50
March 8, 2022	100,000	\$0.50
July 5, 2022	50,000	\$0.50
Balance, June 30, 2017	849,500	



## **Off Balance Sheet Arrangements**

The Company is not committed to any off-balance sheet arrangements.

## **Proposed Transactions**

There are no proposed transactions that the Company has not previously disclosed.

## **Subsequent Events**

Subsequent to the nine-month period ended June 30, 2017, the Company granted 50,000 stock options to a director of the Company exercisable at a price of \$0.50 per share for a period of five years from the grant date.

## **Critical Accounting Estimates and Accounting Policies**

The preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. Actual results may differ from these estimates.

Reference should be made to the Company's significant accounting policies contained in the Company's consolidated financial statements for the year ended September 30, 2016. These accounting policies can have a significant impact on the financial performance and financial position of the Company.

### *Inventories*

Inventories are valued at the lower of cost and net realizable value. Cost is determined on a standard cost basis and includes all costs incurred, based on normal production capacity, in bringing each product to its present location and condition. Cost of inventories comprises direct labour, materials and contractor expenses, depletion and depreciation on mining properties, plant and equipment, and an allocation of mine site costs.

Net realizable value ("NRV") of mineralized material is determined with reference to relevant market prices less applicable variable selling expenses and costs to bring the inventory into its saleable form. NRV of materials and supplies is generally calculated by reference to salvage or scrap values when it is determined that the supplies are obsolete. NRV provisions are recorded within cost of sales in the consolidated statement of operations, and are reversed to reflect subsequent recoveries where the inventory is still on hand.

### *Revenue recognition*

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Company and the revenue and costs to sell can be reliably measured. Revenue is measured at the fair value of the consideration received, excluding discounts, rebates, and other sales tax or duty.



Revenues in pre-production stage are recognized on the income statement if they do not directly relate to development of the mine. Otherwise, pre-production revenues are recorded as an offset to capitalized development costs.

Prior to the date technical feasibility and commercial viability of a mineral property is demonstrated, concentrate sales incidental to the exploration of mineral properties are recorded net of production costs as a reduction of capitalized exploration and evaluation costs.

#### *Stock-based Payment Transactions*

The fair value of share purchase options granted is recognized as an employee or consultant expense with a corresponding increase in equity.

The fair value of share purchase options granted is determined by the Black-Scholes option pricing model using amounts that are believed to approximate the volatility of the trading price of the Company's stock, the expected lives of awards of share purchase options, the fair value of the Company's shares and the risk-free interest rate. For employees, the fair value of the options is measured at the date of grant. For non-employees, the fair value of the options is measured on the earlier of the date at which the counterparty performance is complete or the date the performance commitment is reached or the date at which the equity instrument are granted if they are fully vested and non-forfeitable. The estimated fair value of awards of share purchase options is recognized in profit or loss over the vesting period, with offsetting amounts to equity settled share-based payments reserve. If the share purchase options are granted for past services, they are recognized in profit or loss immediately. If the share purchase options are forfeited prior to vesting, no amounts are recognized in profit or loss. If share purchase options are exercised then the fair value of the options is reclassified from equity settled share-based payment reserve to share capital.

At each financial position reporting date, the amount recognized as profit or loss is adjusted to reflect the actual number of share purchase options that are expected to vest.

#### *Exploration and Evaluation Asset*

Exploration and evaluation ("E&E") assets include initial acquisition costs, direct exploration and development costs and related option payments, which are recorded when paid. Mineral property acquisition costs include cash and fair market value of common shares, based on the trading price of the shares issued for mineral property interests, pursuant to the terms of the related property agreements.

Exploration and development costs are capitalized on specific properties until properties are sold, are abandoned, or are brought into production, at which time costs are amortized on a unit of production basis over economically recoverable reserves. Option payments and cost recoveries are credited against resource property costs when received. No gain or loss on disposition of a partial interest in a property is recorded until all carrying costs of the interest have been offset by proceeds of sale or option payments are received.

#### *Restoration, Rehabilitation, and Environmental Obligations*



An obligation to incur restoration, rehabilitation and environmental costs arises when environmental disturbance is caused by the exploration or development of a mineral property interest. Such costs arising from the decommissioning of plant and other site preparation work, discounted to their net present value, are provided for and capitalized at the start of each project to the carrying amount of the asset, along with a corresponding liability as soon as the obligation to incur such costs arises. The timing of the actual rehabilitation expenditure is dependent on a number of factors such as the life and nature of the asset, the operating license conditions, and when applicable, the environment in which the mine operates.

Discount rates using a pre-tax rate that reflects the time value of money are used to calculate the net present value. These costs are charged against profit or loss over the economic life of the related asset, through amortization using either the unit-of-production or the straight line method. The corresponding liability is progressively increased as the effect of discounting unwinds creating an expense recognized in profit or loss.

Decommissioning costs are also adjusted for changes in estimates. Those adjustments are accounted for as a change in the corresponding capitalized cost, except where a reduction in costs is greater than the unamortized capitalized cost of the related assets, in which case the capitalized cost is reduced to nil and the remaining adjustment is recognized in profit or loss.

The operations of the Company have been, and may in the future be, affected from time to time in varying degree by changes in environmental regulations, including those for site restoration costs. Both the likelihood of new regulations and their overall effect upon the Company are not predictable. The Company has no material restoration, rehabilitation and environmental obligations as the disturbance to date is immaterial.

#### *Impairment of Financial Assets*

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that assets.

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

All impairment losses are recognized in profit or loss.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognized. For financial assets measured at amortized cost the reversal is recognized in profit or loss.

#### *Impairment of Non-Financial Assets*

The carrying amounts of the Company's non-financial assets, other than E&E assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. E&E assets are assessed for impairment when they are



reclassified to property and equipment, and also if facts and circumstances suggest that the carrying amount exceeds the recoverable amount.

For the purpose of impairment testing, assets, except E&E assets, are group together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the CGU). The recoverable amount of an asset or a CGU is the greater of its value-in-use as its fair value less costs to sell.

In assessing value-in-use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Value-in-use is generally computed by reference to the present value of the future cash flows expected to be derived from production of proven and probable reserves. Fair value less costs to sell is generally estimated by reference to purchase and sale transactions involving assets similar in nature to the assets being considered.

An impairment loss is recognized if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognized in profit or loss. Impairment losses recognized in respect of CGU's are allocated to reduce the carrying amounts of the other assets in the unit or group of units on a pro rata basis.

In respect of other assets, impairment losses recognized in prior years are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depletion and depreciation or amortization, if no impairment loss has been recognized.

## **Financial Instruments**

The Company thoroughly examines the various financial instrument risks to which it is exposed and assesses the impact and likelihood of those risks. These risks may include credit risk, liquidity risk, currency risk, and interest rate risk. Where material, these risks are reviewed and monitored by the Board of Directors

## **Fair Values**

The Company's financial instruments consist of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities, bank loan, obligation under finance lease, and loan payable. The carrying amounts approximate their fair values because of the short-term nature of these instruments.



The following schedule outlines the Company’s financial assets and liabilities as at June 30, 2017 measured at fair value by level within the fair value hierarchy described below. Assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement.

	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
Assets				
Cash and cash equivalents	351,526	-	-	351,526

As at 30<sup>th</sup> September 2016, the Company’s financial instruments measured at fair value were as follows:

	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
Assets				
Cash and cash equivalents	2,310,983	-	-	2,310,983

Level 1 – fair values are based on quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2 – fair values are based on inputs other than quoted prices included in level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices); or

Level 3 – fair values are based on inputs for the asset or liability that are not based on observable market data, which are unobservable inputs.

### Financial Instrument Risk Exposure

Management approves and monitors the risk management processes.

#### a) Credit Risk

Financial instruments that potentially subject the Company to concentrations of credit risk consist of accounts receivable. Credit risk from accounts receivable encompasses the default risk of its customers. The Company manages its exposure to credit risk by only working with reputable companies and by performing on-going credit evaluations of its customers’ financial condition and requires letters of credit or other guarantees whenever deemed appropriate. The maximum exposure to loss arising from accounts receivable is equal to their carrying amounts.

As at June 30, 2017, the Company has accounts receivable of \$593,298 (September 30, 2016 - \$486,526).



b) Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. There can be no assurance that the Company will be able to obtain adequate financing in the future or that the terms of such financing will be favourable.

The Company manages liquidity risk through its management of capital. The Company had cash and cash equivalents at June 30, 2017 in the amount of \$351,526 (September 30, 2016 - \$2,310,983) in order to meet short-term business requirements. At June 30, 2017, the Company had current liabilities of \$3,047,264 (September 30, 2016 - \$3,961,195). Accounts payable have contractual maturities of approximately 30 to 90 days, or are due on demand and are subject to normal trade terms. The current portion of the acquisition payable, the finance lease obligation, and the bank loan are due within 12 months of the consolidated statement of financial position date.

c) Market Risk

Market risk incorporates a range of risks. Movements in risk factors, such as market price risk and currency risk, affect the fair values of financial assets and liabilities. The Company is exposed to these risks as the ability of the Company to develop or market its properties and the future profitability of the Company is related to the market prices of certain minerals.

i) Interest Rate Risk

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. As the Company's convertible note is at a fixed rate, it is not exposed to interest rate risk at this time.

ii) Foreign Currency Exchange Rate Risk

Foreign currency exchange rate risk is the risk that the fair value or future cash flows will fluctuate as a result of changes in foreign exchange rates.



The fair values of the financial assets and liabilities denominated in Brazilian real are as follows:

	June 30, 2017 R\$	September 30, 2016 R\$
Financial Assets		
Cash	619,773	157,581
Accounts Receivable	1,576,219	1,064,410
Financial Liabilities		
Accounts payable	3,794,867	2,892,659
Acquisition payable	2,160,000	3,200,000
Bank loan	-	-
Obligation under finance lease	300,412	58,677

As at June 30, 2017, a fluctuation of the Brazilian Real against the Canadian dollar of 10% would result in a change of \$160,589 (September 30, 2016 - \$198,173) in the Company's net comprehensive loss.

## Capital Management

The Company's objectives when managing capital are: to safeguard the Company's ability to continue as a going concern; to maintain optimal capital structure, while ensuring the Company's strategic objectives are met and to provide an appropriate return to shareholders relative to the risk of the Company's underlying assets.

The capital structure of the Company consists of equity attributable to common shareholders, comprised of issued capital, stock options, contributed surplus and deficit.

The Company maintains and adjusts its capital structure based on changes in economic conditions and the Company's planned requirements. The Company may adjust its capital structure by issuing new equity, selling and/or acquiring assets, and controlling its capital expenditures program.

Management reviews its capital management approach on an ongoing basis. During the nine-month ended June 30, 2017, there has been no change in the Company's management of capital.

## Risks Factors and Uncertainties

The Company's operations and results are subject to a number of different risks at any given time. These factors, include but are not limited to disclosure regarding exploration, additional financing, project delay, titles to properties, price fluctuations and share price volatility, operating hazards, insurable risks and limitations of insurance, management, foreign country and regulatory requirements, currency fluctuations and environmental regulations risks. Exploration for Mineral Resources involves a high degree of risk. The cost of conducting programs may be substantial and the likelihood of success is difficult to assess. A number of the risks and uncertainties are discussed below:

*History of losses:* The Company has historically incurred losses as evidenced by its financial statements for



the year ended September 30, 2016 and 2015. The Company has financed its operations principally through the sale of its equity securities. The Company has earned a contribution towards its costs of operations from the intermittent sale of DANF Product. To date these revenue contributions have been insufficient to allow the Company to remain solvent without referral to financial markets.

*Joint ventures and other partnerships:* The Company may seek joint venture partners to provide funding for further work on any or all of its other properties. Joint ventures may involve significant risks and the Company may lose any investment it makes in a joint venture. Any investments, strategic alliances or related efforts are accompanied by risks such as:

1. the difficulty of identifying appropriate joint venture partners or opportunities;
2. the time the Company's senior management must spend negotiating agreements, and monitoring joint venture activities;
3. the possibility that the Company may not be able to reach agreement on definitive agreements, with potential joint venture partners;
4. potential regulatory issues applicable to the mineral exploration business;
5. the investment of the Company's capital or properties and the loss of control over the return of the Company's capital or assets;
6. the inability of management to capitalize on the growth opportunities presented by joint ventures; and
7. the insolvency of any joint venture partner.

There are no assurances that the Company would be successful in overcoming these risks or any other problems encountered with joint ventures, strategic alliances or related efforts.

*Unexpected delays:* The Company's minerals business will be subject to the risk of unanticipated delays including permitting its contemplated projects. Such delays may be caused by fluctuations in commodity prices, mining risks, difficulty in arranging needed financing, unanticipated permitting requirements or legal obstruction in the permitting process by project opponents. In addition to adding to project capital costs (and possibly operating costs), such delays, if protracted, could result in a write-off of all or a portion of the carrying value of the delayed project.

*Potential conflicts of interest:* Several of the Company's directors are also directors, officers or shareholders of other companies. Such associations may give rise to conflicts of interest from time to time. Such a conflict poses the risk that the Company may enter into a transaction on terms which could place the Company in a worse position than if no conflict existed. The directors of the Company are required by law to act honestly and in good faith with a view to the best interest of the Company and to disclose any interest, which they may have in any project or opportunity of the Company. However, each director has a similar obligation to other companies for which such director serves as an officer or director. The Company has no specific internal policy governing conflicts of interest.

*Competition with larger, better capitalized competitors:* The mining industry is competitive in all of its phases. The Company faces strong competition from other mining companies in connection with the acquisition of properties producing, or capable of producing, base and precious metals. Many of these companies have greater financial resources, operational experience and technical capabilities than the Company. As a result of this competition, the Company may be unable to maintain or acquire attractive



mining properties on terms it considers acceptable or at all. Consequently, the Company's revenues, operations and financial condition could be materially adversely affected.

*The Company does not intend to pay dividends:* The Company has not paid out any cash dividends to date and has no plans to do so in the immediate future. As a result, an investor's return on investment will be solely determined by his or her ability to sell common shares in the secondary market.

*Title Risk:* Although the Company has taken steps to verify title to mineral properties in which it has an interest, these procedures do not guarantee the Company's title. Such properties may be subject to prior agreements or transfers and title may be affected by undetected defects.

*Price Risk:* The Company is exposed to price risk with respect to commodity and equity prices. Equity price risk is defined as the potential adverse impact on the Company's earnings due to movements in individual equity prices or general movements in the level of the stock market. Commodity price risk is defined as the potential adverse impact on earnings and economic value due to commodity price movements and volatilities. The Company's property has exposure to predominantly gold and silver. The prices of these metals, especially gold and silver, greatly affect the value of the Company and the potential value of its property and investments.

*Financial Markets:* The Company is dependent on the equity markets as its sole source of operating working capital and the Company's capital resources are largely determined by the strength of the junior resource markets and by the status of the Company's projects in relation to these markets, and its ability to compete for the investor support of its projects.

*Political Risk:* Exploration is presently carried out in the Brazil and is currently being reviewed worldwide. This exposes the Company to risks that may not otherwise be experienced if all operations were domestic. Political risks may adversely affect the Company's potential projects and operations. Real and perceived political risk in some countries may also affect the Company's ability to finance exploration programs and attract joint venture partners, and future mine development opportunities.

*Credit Risk:* Credit risk is the risk of an unexpected loss of a third party to a financial instrument fails to meet its contractual obligations. The Company is subject to credit risk on the cash. The Company's limits its exposure to credit risk by placing its cash with major financial institutions.

*Liquidity Risk:* Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they are due. The Company ensures that there is sufficient capital in order to meet short-term business requirements, after taking into account the Company's holdings of cash. The Company raises capital through equity issues and its ability to do so is dependent on a number of factors including market acceptance, stock price and exploration results. The Company's cash is invested in bank accounts.

*Interest Risk:* The Company's bank accounts earn no interest income. The fair value of cash and short term investments approximates its carrying values due to the immediate or short-term maturity of this financial instrument.

*Currency Risk:* Business is transacted by the Company in a number of currencies. Fluctuations in exchange rates may have a significant effect on the cash flows of the Company. Future changes in exchange rates



could materially affect the Company's results in either a positive or negative direction.

*Community Risk:* The Company has negotiated with the local communities on its mineral property concessions for access to facilitate the completion of geological studies and exploration work programs. The Company's operations could be significantly disrupted or suspended by activities such as protests or blockades that may be undertaken by such certain groups or individuals within the community.

*Environmental Risk:* The Company seeks to operate within environmental protection standards that meet or exceed existing requirements in the countries in which the Company operates. Present or future laws and regulations, however, may affect the Company's operations. Future environmental costs may increase due to changing requirements or costs associated with exploration and the developing, operating and closing of mines. Programs may also be delayed or prohibited in some areas. Although minimal at this time, site restoration costs are a component of exploration expenses.

*Exploration Risk:* The potential quantities and grades disclosed in the discussion of "exploration potential" in the aforementioned drilling targets are conceptual in nature and there has been insufficient exploration to define a mineral resource for the additional "exploration potential" targets disclosed therein. It is uncertain if further exploration will result in this additional "exploration potential" yielding a Mineral Resource. The basis for estimating the target ranges of the additional "exploration potential" is based on block modeling, drilling, detailed mapping, and surface sampling.

*Production Risk:* The Company did not base its original decision to begin production of DANF on a feasibility study of Ore Reserves demonstrating economic and technical viability. Without a technical report demonstrating economic and technical viability, there was increased uncertainty as to whether DuSolo would be able to economically produce DANF products and as to whether DuSolo would have been confronted with any unforeseen technical impediments. The Company has only recently completed a preliminary economic assessment after having made the initial production and project expansion decisions.

## **Disclosure Controls and Procedures and Internal Control over Financial Reporting**

On 23<sup>rd</sup> November 2007, the British Columbia Securities Commission exempted Venture Issuers from the requirement to certify disclosure controls and procedures, as well as, Internal Controls over Financial Reporting as of December 31, 2007, and thereafter. The Company is a Venture Issuer; therefore it files the venture issuer basic certificates. The Company makes no assessment relating to establishment and maintenance of disclosure controls and procedures as defined under National Instrument 52-109 as at June 30, 2017.



## **FORWARD LOOKING STATEMENTS**

*Certain information contained in this MD&A constitutes “forward-looking information”, within the meaning of Canadian legislation. Generally, these forward-looking statements can be identified by the use of forward-looking terminology such as “plans”, “expects” or “does not expect”, “is expected”, “budget”, “scheduled”, “estimates”, “forecasts”, “intends”, “anticipates” or “does not anticipate”, or “believes”, or variations of such words and phrases or statements that certain actions, events or results “may”, “could”, “would”, “might” or “will be taken”, “occur”, “be achieved” or “has the potential to”. Forward looking statements contained in this MD&A may include statements regarding the future operating or financial performance of DuSolo which involve known and unknown risks and uncertainties which may not prove to be accurate. Actual results and outcomes may differ materially from what is expressed or forecasted in these forward-looking statements. Such statements are qualified in their entirety by the inherent risks and uncertainties surrounding future expectations. Among those factors which could cause actual results to differ materially are the following: market conditions and other risk factors listed from time to time in our reports filed with Canadian securities regulators on SEDAR at [www.sedar.com](http://www.sedar.com), including the risk factors identified in “Risks Factors and Uncertainties” commencing on page 26 of this MD&A and elsewhere in this MD&A. The forward-looking statements included in this MD&A are made as of the date of this MD&A and DuSolo disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as expressly required by applicable securities legislation.*

*For more information please refer to the technical reports filed on SEDAR and titled “Bonfim Agro-Mineral Phosphate Project, Technical Report and Initial Resource Estimate Tocantins and Goiás States, Brazil,” filed on March 5, 2014, effective December 31, 2013, and amended on February 6, 2015, and the “DANF Santiago Project, Tocantins, Brazil, Independent Technical Report - Preliminary Economic Assessment”, effective date September 1, 2016, and filed on May 8, 2017. The resource estimate was signed off by Mr. Porfirio Cabaleiro Rodriguez an Associate Consultant of Coffey Consultoria e Serviços Ltda., and was prepared in compliance with the standards of disclosure as set out in NI43-101. The PEA was prepared in compliance with the standards of disclosure as set out in NI43-101 and was signed off by Mr. Porfirio Cabaleiro Rodriguez – BSc (Min Eng), MAIG Mário Conrado Reinhardt – BSc (Geology), MAIG Bernardo Cerqueira Viana – BSc (Geology), and MBA, MAIG Fábio Valério Xavier – BSc (Geology), MAIG of GE21 Consultoria Mineral Ltda. Mr. Rodriguez, Mr. Reinhardt, Mr. Viana and Mr. Xavier are each an “independent qualified person” for the purposes of NI43-101 Standards of Disclosure for Mineral Projects of the Canadian Securities Administrators.*

*The Company’s decision to produce DANF, its DANF production targets and cash flow projections were not based on a feasibility study of mineral reserves demonstrating economic and technical viability. Without a technical report demonstrating economic and technical viability, there is uncertainty as to whether the Company will be able to economically produce DANF in the long run and as to whether the Company will be confronted with any unforeseen technical impediments. The Company has now completed a preliminary economic assessment.*



*Note that the DANF PEA is preliminary in nature as it includes inferred mineral resources that are considered too speculative geologically to have the economic considerations applied to them that would enable them to be categorized as mineral reserves. Mineral resources that are not mineral reserves do not have demonstrated economic viability, and as such there is no certainty that the preliminary assessment and economics will be realized.*

### **Additional Information**

Additional information about the Company can be found on [www.sedar.com](http://www.sedar.com)