



(“Fengro Industries” or “the Company”)

MANAGEMENT’S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED SEPTEMBER 30, 2018

Introduction

This Management’s Discussion and Analysis (“**MD&A**”) of Fengro Industries Corp. (incorporated in the Province of British Columbia) is the responsibility of management and covers the year ended September 30, 2018. The MD&A takes into account information available up to and including December 21, 2018 and should be read together with the audited consolidated financial statements for the year ended September 30, 2018 and related notes thereto, which are available on the SEDAR website at www.sedar.com.

Throughout this document the terms *we*, *us*, *our*, *the Company* and *Fengro* refer to Fengro Industries Corp. All financial information in this document is derived from the financial statements of the Company, which have been prepared in accordance with International Financial Reporting Standards (“**IFRS**”) and is presented in Canadian dollars, unless otherwise indicated.

Additional information related to the Company is available for view on SEDAR and on the Company’s website at www.fengro.com.

This document contains forward-looking statements. Please refer to “Note Regarding Forward-Looking Statements.”

Recent Events and 2019 Outlook

The Company continued to follow its strategy of product development and expansion of its market in Brazil. In September 2018 the Company received the registration of its Direct Application Natural Fertilizer (“**DANF**”) products from the Ministry of Agriculture, Livestock and Supply (“**MAPA**”) as organic phosphate fertilizers. MAPA registration greatly expands the potential market for DANF. It also allows the Company to market a MAPA approved product, promote more broadly the benefits of DANF and to sell through additional sales channels without independent verification of DANF’s properties. The registration has taken 18 months, working with MAPA and other agencies to demonstrate the qualities and performance of DANF.

The Company continues to look at growth opportunities in Brazil and to assess potential transactions including joint ventures or other corporate transactions with fertilizer and agricultural businesses in Brazil to allow continued funding and development of its products and expansion of its market and sales volume. In addition, the Company and its management team are reviewing and assessing business development opportunities in other sectors in Brazil.

In 2018, the Company continued to expand its marketing and sales team to support projected production to achieve at least 100,000 tonnes per annum, in line with the 2017 DANF PEA. The sales team has continued to expand the range of customers and also to develop the markets closer to the Company's operations, reducing logistics requirements for customers.

Increased production and sales are key to making the Company profitable at all levels, and management efforts are focused on the expansion of the Santiago operation, as well as assessing other opportunities to add producing assets to the Company's portfolio.

During May and June 2018, significant disruption to the Brazilian freight market was caused by a unilateral increase in the price of diesel compared to world market prices by the Government of Brazil, resulting in a nationwide strike by truck drivers. The Government's solution to the strike was to adjust the formula for pricing freight costs, passing significant extra charges onto customers. The relevant impact to Fengro has been disruption in the agricultural sector, which is heavily reliant on the road freight system for delivering crops and obtaining fertilizers and other consumables for planting.

The impact has been such that whilst the Company's deliveries were on budget to June 30, 2018, activity in July was significantly reduced. The market has been returning to normal and deliveries in August plus the sales forecast have enabled the Company to approve the restart of mining at the Santiago operations. In total, 25,000 tonnes were extracted, processed and sold. Total sales for the calendar 2018 were impacted by the increased freight rates and disruption to the soy bean and sugarcane markets in July-September, with a negative impact on sales and deliveries for the Company.

Company highlights during and subsequent to the year ended September 30, 2018 are summarized below:

- On December 12, 2018, the Company signed a letter agreement amending the maturity of its convertible debenture to March 12, 2019 which had previously been extended to December 12, 2018 pursuant to an agreement dated September 12, 2018.
- On October 24, 2018, the Company signed an agreement with Quantum Fertilizantes Do Tocantins Ltda. ("Quantum"), whereby the Company agreed to relinquish its claims to the Amaury concession in exchange for the settlement of the remaining R\$1,730,000 payable to Quantum, included in the Company's balance of acquisition payable at September 30, 2018. This is a significant reduction in the Company's liabilities, for the return of a concession that had limited economic potential for our Santiago Project.
- On August 24, 2018, the Company closed the second and final tranche of a non-brokered private placement by issuing 3,041,071 common shares at a price of \$0.14 per share for gross proceeds of \$425,750. The Company incurred costs of \$6,861 in connection with the closing of the two tranches.
- On August 23, 2018, the Company closed the first tranche of a non-brokered private placement by issuing 6,316,072 common shares at a price of \$0.14 per share for gross proceeds of \$884,250.
- On June 12, 2018, the Company and the Lender of the convertible debenture entered into a second amending agreement of the convertible debenture. Under the terms of the second amendment, the revised loan principal was \$1,079,876. The loan bears an annual interest rate of 12% and matures on September 15, 2018. The Lender has the right to convert the full outstanding balance to a unit for \$0.24 per unit. Each unit includes one common share and one half of share purchase warrant at exercise price of \$0.32.

- On May 15, 2018, the Company signed a letter agreement amending the maturity of its convertible debenture to May 29, 2018 which had previously been extended to March 31, 2018 pursuant to an agreement dated December 15, 2017 and was later amended on June 12, 2018.
- On May 4, 2018, the Company closed the second and final tranche of a private placement by issuing 645,832 units at a price of \$0.24 per unit for gross proceeds of \$155,000. Each unit consisted of one common share and one-half common share purchase warrant, with each full warrant exercisable at a price of \$0.32 for a period of eighteen months. The proceeds of \$155,000 were allocated to common shares and equity reserve at \$129,166 and \$25,834 respectively, based on their fair value on the date of issuance of the units. The Company incurred additional costs of \$10,262 in connection with the closing of the two tranches.
- On March 29, 2018, the Company closed the first tranche of a private placement by issuing 7,281,000 units at a price of \$0.24 per unit for gross proceeds of \$1,747,400. Each unit consisted of one common share and one-half common share purchase warrant, with each full warrant exercisable at a price of \$0.32 for a period of eighteen months. The proceeds of \$1,747,440 were allocated to common shares and equity reserve at \$1,456,200 and \$291,240 respectively, based on their fair value on the date of issuance of the units. In connection with the private placement, the Company paid finder's fees totaling \$14,846 and granted 61,860 finders' warrants with a Black-Scholes valuation of \$6,485. Each finders' warrant is exercisable at a price of \$0.24 for a period of eighteen months.
- On January 14, 2018, the Company granted to certain directors, officers, and consultants a total of 2,450,000 incentive stock options. All options are exercisable for a period of five years at a price of \$0.30 and vest one third on grant, and one third on each of the following two anniversaries.
- On December 18, 2017, the Company changed its name from DuSolo Fertilizers Inc. to Fengro Industries Corp. This change reflects the completion of the Company's restructuring and intention to pursue additional business opportunities given the strength of the management team, board and advisors.

Company Overview and Going Concern

Fengro Industries Corp. is a publicly listed company trading on the TSX Venture Exchange under the trading symbol "FGR". 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 containing sedimentary phosphate rock (P₂O₅) 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's border in Goias State. The Company produces a DANF sold to local farmers and large agricultural companies such as 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. 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.

Marketing and sales are an essential part of the development of the Company's business, and can be broken down into three (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 September 30, 2018 the Company had concluded contracts for c.27,500 tonnes of DANF, with negotiations on an additional 18,000 tonnes ongoing. As at the date of this MD&A, the Company in calendar 2018 concluded contracts for 42,039 tonnes of DANF, and to date delivered 38,092 tonnes of those sales.

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 and partial granulation of the existing DANF product, 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 control and completed the consolidation of its new management and technical team in the Belo Horizonte office. As at September 30, 2018, the Company had \$559,448 in cash as it continues to work on the development of its Bonfim Project in Brazil.

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. Fengro 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, Fengro's objective is to be well positioned to capitalize on the needs of a growing industry and create value for its shareholders.

The Company's consolidated financial statements have been prepared on a going concern basis which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business for the foreseeable future. The Company has a working capital deficiency of \$2,224,616 and accumulated losses of \$34,833,728. At its current expenditure rate, the Company will not be able to sustain operations for the upcoming fiscal year without raising additional cash. While 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 Campos Belos plant and processing facility to the planned capacity. It is not possible to predict whether future financing efforts will be successful. The Company has never generated positive cash flows from operations and until October 1, 2014 had never generated revenues. All of these factors indicate the existence of a material uncertainty that may cast significant doubt on the Company's ability to continue as a going concern.

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 ("P₂O₅") 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% P₂O₅ at the Campos Belos Plant.

DANF PEA Highlights

- Indicated Resources of 1.16mt at 8.23% P₂O₅, including 0.29mt at 14.78% P₂O₅
- Inferred Resources of 2.70mt at 8.58% P₂O₅, including 0.82mt at 14.72% P₂O₅
- 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 finished product phosphate material at the Campos Belos plant in August 2018, and given existing sales contracts and customer demand, re-started extraction operations at the Santiago Project in late August 2018. This material will provide DANF for customer deliveries in Q4 2018 and Q1 2019. Mining will now match delivery demand more closely, minimizing the working capital requirement. In addition the Company has been negotiating improved sales terms, with faster payments and reduced working capital needs. The Company has also been able to sell its low grade stockpiles of 8-10% material.

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% P₂O₅. 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 P₂O₅ 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.

Table 1
Mineral Resources Table – Phosphate
Indicated and Inferred Resources

Resource	Type	Tonnes (Mt)	P ₂ O ₅ %	CaO%	MgO%	SiO ₂ %	Al ₂ O ₃ %	LOI%
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
Total Indicated		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
Total Inferred		2.70	8.58	11.82	1.32	53.59	9.88	4.37
<ul style="list-style-type: none"> • High Grade Mineralization (HG): P₂O₅ ≥ 10%, Low Grade Mineralization (LG): P₂O₅ ≥ 3% and < 10 % • Mineral Resources are based on dry tonnes. 								

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 P₂O₅.

Table 2
Summary of Production

Material		Mass wet basis (kt) ¹	P ₂ O ₅ (%)
Mining products	Type	P ₂ O ₅ 12%	543
		P ₂ O ₅ 15%	635
	Total		1,178
Waste Rock		865	n/a
Material Stockpiled for Potential Future Beneficiation		1,080	7.15
Strip Ratio ²	1.56		
Strip Ratio ³	0.37		

¹Wet tonnes contain 12% moisture, both as ROM and as product;

²Considers the material stockpiled for Potential Future Beneficiation as waste rock;

³Considers 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 in the 2017 DANF PEA 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.

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

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.

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 per annum of phosphate mineralization by 30 May, 2018 (previously 100,000 tonnes per annum);
- Final Exploration Report approved – paving the way for the Company to complete the application for its permanent mining and environmental licences; and
- 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.

As the Company's development of new products progresses, additional applications may 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% P₂O₅ and 15% P₂O₅ 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 has shown the benefit of DANF, particularly in second crop performance and the research has been extended. EMBRAPA testwork measured the agronomic efficiency for different particle size distribution of the acid granulated 13% DANF and for the 15% granulated DANF (greenhouse only), as well as the non-acidified. Results to date indicate that the benefit of partial acidulation are not sufficient to justify the cost of adding sulphuric acid; and

COMIGO – a large co-operative of farms and plantations based in the Rio Verde region. Tests include straight DANF and DANF with other fertilizers and in total will result in a three year trial (3 harvests) of Soy Bean. The results of the first harvest and performance are expected were successful and the trial has entered its second year.

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

At the date of this MD&A, the Company now holds 13,252 hectares, reduced from 20,807 hectares in the Bonfim Project area since 2017. This rationalization focuses the Company's efforts to the high-grade Santiago and Bonfim concessions, 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 Goias States, Brazil" on the 22nd January 2014. The report was dated and effective as of December 21, 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"):

TOTAL RESOURCES 3% P₂O₅ COG (AMAURY + BONFIM HILL-PZE + SANTIAGO)		
Resources	Tonnage (kt)	Average grade P₂O₅ (%)
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:

TOTAL RESOURCES 8% P₂O₅ COG (AMAURY + BONFIM HILL-PZE + SANTIAGO)		
Resources	Tonnage (kt)	Average grade P₂O₅ (%)
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 - Selected Annual Information

For the Years Ended September 30,	2018	2017	2016
Revenue	\$ 2,299,475	\$ 2,901,425	\$ 2,394,405
Cost of goods sold	(1,806,775)	(2,313,640)	(1,213,409)
	492,700	587,785	1,180,996
Expenses			
Accounting	206,457	407,543	185,953
Bad debt expense	9,257	11,479	38,581
Consulting fees	11,406	47,835	42,978
Depreciation	53,216	52,449	40,341
Director fees	100,000	50,630	-
Exploration expenditures	-	-	91,055
Insurance	42,711	78,061	103,572
Legal fees	141,462	218,966	340,473
Management fees	136,904	96,970	114,877
General and administration ⁽¹⁾	548,319	598,226	1,176,380
Salaries	854,388	1,256,376	852,237
Selling	237,460	285,981	410,999
Share-based compensation	245,039	48,110	90,115
Travel	202,193	272,234	226,482
	2,788,812	3,424,860	3,714,043
Loss before other items	(2,296,112)	(2,837,075)	(2,533,047)
Other items			
Finance cost	(538,865)	(482,610)	(688,567)
Foreign exchange	(143,365)	(187,325)	(9,040)
Impairment of inventory	-	-	(311,863)
Impairment of E&E assets	(44,554)	(566,315)	(529,231)
Net loss	(3,022,896)	(4,073,325)	(4,071,748)
Other comprehensive loss	(463,190)	(75,411)	402,606
Comprehensive loss	\$ (3,486,086)	\$ (4,148,736)	\$ (3,669,142)
Basic and diluted loss per common share	\$ (0.08)	\$ (0.16)	\$ (0.20)
Weighted average number of shares outstanding – basic and diluted	37,687,858	26,590,566	18,576,368
Total assets	\$ 4,833,948	\$ 5,142,658	\$ 6,915,278
Total non-current financial liabilities	\$ 206,791	\$ 552,074	\$ 30,656

(1) General and administration expense includes – conference, office and miscellaneous, rent, transfer agent & filing fees, and shareholder communication.

Production

For the year ended September 30, 2018, DuSolo produced 48,586 tonnes (September 30, 2017 – 46,459 tonnes) of DANF product of varying grades respectively.

Production of DANF product for the periods ended September 30, 2018 was comprised of the following:

	2018 (tonnes)	2017 (tonnes)
9% DANF	7,620	-
12% DANF	26,300	31,780
15% DANF	14,666	14,679
Total	48,586	46,459

The Company's increased level of production was largely in line with the prior year. In addition to its opening balance of inventory production efforts were to meet sales of 49,741 tonnes for the year ended September 30, 2018, as compared to 42,294 tonnes in the prior year. As in the prior year the Company noted a higher demand for the lower grade DANF than the 15% during the year ended September 30, 2018, and accordingly managed its production strategy to meet these sales.

Sales

Sales for the year ended September 30, 2018 were comprised of the following:

	2018 (tonnes)	2017 (tonnes)
9% DANF	5,509	-
12% DANF	29,275	27,803
15% DANF	14,957	14,491
Total	49,741	42,294

The average overall sales price was \$46.23 for the year ended September 30, 2018 as compared to \$68.60 in the prior year. The lower average selling price is primarily related to a variance in a mix of sales between 9%, 12% and 15% DANF. During the year ended September 30, 2018, the Company sold 5,509 tonnes of 9% DANF at reduced prices to offload some of its aged lower grade stockpiles. Additionally, the Company noted a reduction of the average price of the Brazilian Real by approximately 10% during the year ended September 30, 2018 as compared to the prior year, which had a negative impact on reported revenues.

The Company saw an increase in overall tonnes sold, consistent with its objectives of increasing the scope of its operations, however, a higher demand was noted for its 12% DANF than the higher-grade products. Management has placed an emphasis on developing its sales team and marketing strategy with the goals of selling a higher proportion of its 15% DANF product.

Cost of Sales

Cost of sales for the year ended September 30, 2018 was \$1,806,775 compared to \$2,313,640 for the year ended September 30, 2017. The per tonne cost of sales for September 30, 2018 was \$36.32 compared \$54.70 for the year ended September 30, 2017. The decrease in overall production costs was a result of decrease staffing and overhead costs as management continues to focus on the optimization of production costs, matching the timing of mining and processing to meet sales demand, with the objectives of reducing cost per tonne as the Company increases annual output. Further, as with the above, the decrease in the average price of the Brazilian Real by approximately 10% had the effect of reducing reported costs.

Expenses

During the year ended September 30, 2018, expenses were \$2,788,812 compared to \$3,424,860 for the year ended September 30, 2017. The changes in expenses were largely due to:

- accounting fees of \$206,457 for the year ended September 30, 2018 compared to \$407,543 for the year ended September 30, 2017, which decreased to a normal level, due to significant accounting and audit work in the comparable year resulting from the transition of the management team and auditors;
- consulting fees of \$11,406 for the year ended September 30, 2018 compared to \$47,835 for the year ended September 30, 2017, which decreased as the Company utilized internal resources in its efforts to reduce expenditures;
- directors' fees of \$100,000 for the year ended September 30, 2018 compared to \$50,630 for the year ended September 30, 2017, which increased as the Company entered into an agreement to pay its five non-executive directors a quarterly fee starting in the third quarter of the year ended September 30, 2017;
- general and administration expense of \$548,319 for the year ended September 30, 2018 compared to \$598,226 for the year ended September 30, 2017, which decreased as a result of prior period mining administration and severance payments related to employee termination costs and an effort in the current period to manage working capital and reduce expenditures;
- management fees of \$136,904 year ended September 30, 2018 compared to \$96,970 for the year ended September 30, 2017, which increased as the Company has entered into a management agreement with its current CFO, whereas, its former CFO was a salaried employee;
- salaries of \$854,388 for the year ended September 30, 2018 compared to \$1,256,376 for the year ended September 30, 2017, which decreased due to reduction in staffing levels and the reversal in combination with a reduction to previously recognized provision related to labour obligations in Brazil;
- selling expenses of \$237,460 for the year ended September 30, 2018 compared to \$285,981 for the year ended September 30, 2017, which decreased as a result of changes to the sales team along with lower commissions paid resulting from lower overall sales volume;
- share-based compensation of \$245,039 for the year ended September 30, 2018 compared to \$48,110 for the year ended September 30, 2017, which increased due to options granted and vested during the period;
- travel expense of \$202,193 for the year ended September 30, 2018 compared to \$272,234 for the year ended September 30, 2017, which decreased because of management efforts to reduce expenditures;
- finance expense of \$538,865 for the year ended September 30, 2018 compared to \$482,610 for the year ended September 30, 2017, which relates to recognition accretion and interest on the Company's convertible note and acquisition payable, and regulatory charges on foreign transactions. During the comparative year, the Company recognized a gain of \$145,289 on the modification of its acquisition payable and did not have a similar transaction in the current year; and
- foreign exchange expense and other comprehensive income and loss, which will vary due to the fluctuation of the Brazilian Real compared to the Canadian Dollar.

Cash Flow

	Year ended September 30,	
	2018	2017
Cash outflows from operating activities	(2,064,492)	(3,138,567)
Cash outflow from investing activities	(630,155)	(734,101)
Cash inflows from financing activities	3,006,614	1,837,870
Effect of foreign exchange on cash	(27,638)	(1,066)
Net change in cash	284,329	(2,035,864)
Cash balance	559,448	275,119

Operating Activities

Cash outflow from operating activities was \$2,064,492 for the year ended September 30, 2018 compared to \$3,138,567 for the 2017 year. The cash outflow is primarily related to the loss for the year, offset by non-cash items and net changes in non-cash working capital items.

Investing Activities

Cash outflow from investing activities was \$630,155 for the year ended September 30, 2018 compared to outflow of \$734,101 for the 2017 year. The decrease in investing outflows is primarily a result of the Company's cessation of further exploration and evaluation expenditures on the Company's Bonfim project in the third quarter of the year ended September 30, 2018. During the current year, the Company incurred expenditures of \$622,138 in exploration and evaluation, as compared to \$715,856 in the comparable year.

Financing Activities

Cash inflow from financing activities was \$3,006,614 for the year ended September 30, 2018 compared to inflow of \$1,837,870 for the 2017 year. The Company issued common shares for proceeds of \$3,180,471 (2017 - \$2,528,200), made payments of \$128,660 (2017 - \$647,721) on its acquisition payable, and made lease payments of \$ 45,197 (2017 - \$42,609).

Selected Quarterly Financial Information

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

	September 30, 2018	June 30, 2018	March 31, 2018	December 31, 2017
Revenue	\$ 511,470	\$ 126,249	\$ 291,277	\$ 1,370,479
Net loss	(678,085)	(818,049)	(1,080,849)	(445,913)
Assets	4,833,948	4,624,858	5,869,726	5,036,976
Basic and diluted loss per share	(0.02)	(0.02)	(0.03)	(0.02)
	September 30, 2017	June 30, 2017	March 31, 2017	December 31 31, 2016
Revenue	\$ 1,301,293	\$ 514,878	\$ 356,989	\$ 728,265
Net loss	(1,143,785)	(1,388,315)	(911,803)	(629,422)
Assets	5,142,658	5,485,366	5,907,369	6,336,451
Basic and diluted loss per share	(0.04)	(0.05)	(0.04)	(0.03)

Three months ended September 30, 2018 compared to previous quarters

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. During the three-month period ended September 30, 2018, the Company experienced a temporary delay in production and sales resulting from a Brazilian freight strike which caused transportation disruption throughout the agricultural industry. During the three-month period ended September 30, 2018, the Company saw a significant decrease in costs as compared to the prior year resulting in a reduction in net loss. Primary reasons for the decrease in costs include management optimization of costs and a reduction in labour force. Further, the comparative three-month period included a significant impairment of E&E assets on the disposals of certain mineral concessions of \$566,315 compared to impairment in the current period of \$44,554.

Financial Position, Liquidity and Capital Resources

The Company has experienced recurring operating losses and has accumulated an operating deficit of \$34,833,728 as at September 30, 2018 (2017 - \$31,810,832) and shareholders' equity of \$1,332,031 as of September 30, 2018 (2017 - \$1,369,342). As at September 30, 2018, the Company had total assets of \$4,833,948 compared to \$5,142,658 in total assets as of September 30, 2017. Working capital as at September 30, 2018 was in a deficiency position of \$2,224,616 compared to a deficiency of \$1,791,694 as at September 30, 2017.

During the year ended September 30, 2018, the Company extended the payment terms of the convertible debenture to December 2018, and subsequently extended it to March 12, 2019. Subsequent to the year ended September 30, 2018, the Company successfully negotiated the settlement of its acquisition payable of R\$1,730,000 by relinquishing a certain mineral concession that management did not believe of strategic importance to the success of the Company.

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 following material contractual commitments as at September 30, 2018:

As at September 30, 2018, the Company has financing leases for vehicles. At September 30, 2018, the obligation outstanding was \$66,628 (September 30, 2017 - \$109,267). During the year ended September 30, 2018, the Company made lease payments of \$45,197 (September 30, 2017 – \$42,609).

The following schedule summarizes the future minimum lease payments under these finance leases:

Fiscal year	Payment
2019	\$ 32,498
2020	32,498
2021	10,832
Amount representing future interest	(9,200)
Less: current portion	\$ (27,570)
Non-current portion	\$ 39,058

Escrow Shares

As of September 30, 2018, and date of this report, there were no common shares held in escrow.

Share Capital*Common shares*

At September 30, 2018 and the date of this report, the Company had unlimited authorized common shares without par value and an aggregate of 50,051,985 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 the date of this report was as follows:

Expiry Date	Exercise Price \$	Number Outstanding
June 1, 2019	0.30	126,213
September 29, 2019	0.32	3,640,500
September 29, 2019	0.24	61,860
November 4, 2019	0.32	322,916
Total	0.32	4,151,489

Stock Options

A summary of the Company's issued and outstanding options at the date of this report was as follows:

Expiry Date	Exercise Price \$	Number Outstanding	Number Exercisable
January 13, 2019	2.40	20,000	20,000
August 4, 2019	2.30	20,000	20,000
February 2, 2020	2.30	54,500	54,500
October 5, 2020	1.00	60,000	60,000
May 31, 2021	0.50	335,000	335,000
November 23, 2021	0.50	40,000	26,666
March 8, 2022	0.50	100,000	66,667
July 4, 2022	0.50	50,000	33,333
January 14, 2023	0.30	2,450,000	816,667
		3,129,500	1,432,833

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.

Related Party Transactions

A number of key management personnel, consisting of the directors, CEO, CFO, or their related parties, hold positions in other entities. All related party transactions are recorded at the exchange amount that is the amount agreed to by the Company and the related party.

The aggregate value of transactions with related parties was as follows:

An entity with significant influence and a director in common loaned \$750,000 to the Company in 2016 which has been extended in 2018 and 2017.

As at September 30, 2018, \$12,138 (September 30, 2017 - \$14,659) was owed to key management personnel of the Company and is included in accounts payable and accrued liabilities. The amount payable to related parties is due on demand, unsecured and is non-interest bearing.

Key Management Personnel Compensation

Year ended September 30, 2018

Compensation	Salaries	Management fees	Director fees	Share-based payments	Total
Chief Executive Officer	\$ 343,200	\$ -	\$ -	\$ 47,461	\$ 390,661
Chief Financial Officer	-	106,904	-	20,970	127,874
Directors	-	-	100,000	128,191	228,191
Total	\$ 343,200	\$ 106,904	\$ 100,000	\$ 196,622	\$ 746,726

Year ended September 30, 2017

Compensation	Salaries	Management fees	Director fees	Share-based payments	Total
Chief Executive Officer	\$ 364,200	\$ -	\$ -	\$ 4,774	\$ 368,974
Chief Financial Officer	-	44,125	-	-	44,125
Former Chief Financial Officer	79,466	-	-	5,176	84,642
Directors	-	-	50,630	20,385	71,015
Total	\$ 443,666	\$ 44,125	\$ 50,630	\$ 30,335	\$ 568,756

Subsequent Events

Subsequent to the year ended September 30, 2018, the Company:

- Settled the remaining balance of the acquisition payable of R\$1,730,000 with Quantum by relinquishing its Amaury concession of the Bonfim project; and
- extended the maturity of its convertible debenture maturing December 12, 2018 to March 12, 2019 without changing the terms and conditions of the loan.

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, 2018. 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 instruments 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 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.

Changes in Accounting Policies

No new standards were adopted for the year ended September 30, 2018.

Certain new standards, interpretations and amendments to existing standards have been issued by the International Accounting Standards Board ("IASB") or the International Financial Reporting Interpretations Committee ("IFRIC") that are mandatory for the Company's accounting periods beginning after October 1, 2018, or later periods. Some updates that are not applicable or are not consequential to the Company may have been excluded from the list below.

IFRS 9 Financial Instruments (revised)

IFRS 9, Financial Instruments is part of the IASB's wider project to replace IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 retains but simplifies the mixed measurement model and establishes two primary measurement categories for financial assets: amortized cost and fair value. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. The standard is effective for annual years beginning on or after January 1, 2018. The Company anticipates that application of this standard will not have a material impact on the results and financial position of the Company.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 is a new standard to establish principles for reporting the nature, amount, timing, and uncertainty of revenue and cash flows arising from an entity's contracts with customers. It provides a single model in order to depict the transfer of promised goods or services to customers. IFRS 15 supersedes IAS 11, Construction Contracts, IAS 18, Revenue, IFRIC 13, Customer Loyalty Programs, IFRIC 15, Agreements for the Construction of Real Estate, IFRIC 18, Transfers of Assets from Customers, and SIC-31, Revenue – Barter Transactions involving Advertising Service. IFRS 15 is effective for annual years beginning on or after January 1, 2018. The Company anticipates that application of this standard will not have a material impact on the results and financial position of the Company.

IFRS 16 Leases

IFRS 16 is a new standard that sets out the principles for recognition, measurement, presentation and disclosure of leases, including guidance for both parties to a contract, the lessee and the lessor. The new standard eliminates the classification of leases as either operating or finance leases, as is required by IAS 17 Leases, and instead introduces a single lessee accounting model. IFRS 16 is effective for annual periods beginning on or after January 1, 2019. The Company is currently evaluating the impact of adopting these amendments on its financial statements.

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, restricted cash, accounts payable, obligation under finance lease, convertible debenture, and acquisition payable. The carrying amounts approximate their fair values because of the short-term nature of these instruments or because the instruments were recorded at FV during the year. The following schedule outlines the Company's financial instruments at September 30, 2018 measured at fair value on a recurring basis by level within the fair value hierarchy described below

	Level 1	Level 2	Level 3	Total
	\$	\$	\$	\$
Assets				
Cash and cash equivalents	559,448	-	-	559,448

As at September 30, 2017, the Company's financial instruments measured at fair value were as follows:

	Level 1	Level 2	Level 3	Total
	\$	\$	\$	\$
Assets				
Cash and cash equivalents	275,119	-	-	275,119

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 and goods and services tax receivable. Credit risk from accounts receivable and goods and services taxes receivable encompasses the default risk of its customers and governments. 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. The Company's accounts receivable includes Brazilian tax receivables, which require that the Company meet certain corporate taxation thresholds or engage in a lengthy filing process. While the Company has reasonable assurance of collection, the timing of receipt is not expected in the near term and accordingly these have been recognized as non-current assets.

As at September 30, 2018, the Company has accounts receivable of \$620,774 (2017 - \$619,704).

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 as outlined in Note 19 to the consolidated financial statements. The Company had cash and cash equivalents at September 30, 2018 in the amount of \$559,448 (September 30, 2017 - \$275,119) in order to meet short-term business requirements. At September 30, 2018, the Company had current liabilities of \$3,295,126 (September 30, 2017 - \$3,221,242). 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, and the finance lease obligation 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.

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 debenture is at a fixed rate, it is not exposed to interest rate risk at this time.

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

	September 30, 2018 R\$	September 30, 2017 R\$
Financial Assets		
Cash	481,471	232,083
Accounts receivable	1,927,871	1,580,514
Financial Liabilities		
Accounts payable	4,138,622	4,379,038
Acquisition payable	1,730,000*	2,080,000*
Obligation under finance lease	206,920	278,670

*At September 30, 2018, the fair value of this instrument was R\$1,525,116 (September 30, 2017 - R\$1,582,098)

As at September 30, 2018, a fluctuation of the Brazilian Real against the Canadian dollar of 10% would result in a change of \$118,052 (September 30, 2017 - \$193,108) 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 share capital, equity reserves, accumulated other comprehensive loss 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 year ended September 30, 2018, there has been no change in the Company's management of capital. The Company is not subject to any externally imposed capital requirements.

Risk 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, 2018 and 2017. 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 Fengro would be able to economically produce DANF products and as to whether Fengro 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 23rd 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 September 30, 2018.

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 Fengro 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, including the risk factors identified in "Risks Factors and Uncertainties" commencing on page 24 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 Fengro 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.

Additional Information

Additional information about the Company can be found on www.sedar.com