



(Formerly Dusolo Fertilizers Inc.)

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(Presented in Canadian Dollars)

FOR THE QUARTER ENDED JUNE 30, 2018 and 2017

**NOTICE OF NO AUDITOR REVIEW OF
CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

In accordance with National Instrument 51-102 Part 4, subsection 4.3(3)(a), if an auditor has not performed a review of these condensed consolidated interim financial statements they must be accompanied by a notice indicating that these condensed consolidated interim financial statements have not been reviewed by an auditor.

The accompanying unaudited condensed consolidated interim financial statements of the Company have been prepared by and are the responsibility of the Company's management.

The Company's independent auditor has not performed a review of these condensed consolidated interim financial statements in accordance with standards established by the Canadian Institute of Chartered Professional Accountants for a review of interim financial statements by an entity's auditor.

FENGRO INDUSTRIES CORP.
(formerly DuSolo Fertilizers Inc.)
CONDENSED CONSOLIDATED INTERIM STATEMENTS OF FINANCIAL POSITION
(Presented in Canadian Dollars) – unaudited

AS AT	June 30, 2018	September 30, 2017
ASSETS		
Current		
Cash and cash equivalents	\$ 114,844	\$ 275,119
Accounts receivables (Note 3)	424,601	619,704
GST receivable	4,111	43,773
Inventory (Note 4)	279,210	396,503
Prepaid expenses and deposits	<u>55,179</u>	<u>94,449</u>
	877,945	1,429,548
Restricted cash (Note 5)	28,750	28,750
Property, equipment and mining properties (Note 6)	954,166	1,173,276
Exploration and evaluation assets (Note 7)	<u>2,763,997</u>	<u>2,511,084</u>
	<u>\$ 4,624,858</u>	<u>\$ 5,142,658</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Accounts payable and accrued liabilities (Note 8)	\$ 2,115,412	\$ 2,018,296
Current portion of finance lease obligation (Note 10)	28,475	35,756
Convertible debenture (Note 11)	1,067,327	972,549
Deferred revenue	44,358	33,429
Current portion of acquisition payable (Note 9)	<u>312,671</u>	<u>161,212</u>
	3,568,243	3,221,242
Acquisition payable (Note 9)	182,248	459,113
Asset retirement obligation (Note 12)	20,688	19,450
Finance lease obligation (Note 10)	<u>47,459</u>	<u>73,511</u>
	3,818,638	3,773,316
Shareholders' equity		
Share capital (Note 13)	32,214,777	30,661,004
Equity reserve	4,159,329	3,610,840
Accumulated other comprehensive loss	(1,412,243)	(1,091,670)
Deficit	<u>(34,155,643)</u>	<u>(31,810,832)</u>
	<u>806,220</u>	<u>1,369,342</u>
	<u>\$ 4,624,858</u>	<u>\$ 5,142,658</u>

Nature of business and going concern (Note 1)

Subsequent events (Note 19)

The Board of Directors approved and authorized these financial statements on August 29, 2018 and are signed on its behalf by:

“Duane Lo”

Director

“Peter Ruxton”

Director

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

FENGRO INDUSTRIES CORP.
(formerly DuSolo Fertilizers Inc.)

CONDENSED CONSOLIDATED INTERIM STATEMENTS OF LOSS AND COMPREHENSIVE LOSS
(Presented in Canadian Dollars) – unaudited

	Three Months Ended		Nine Months Ended	
	June 30		June 30	
	2018	2017	2018	2017
	\$	\$	\$	\$
Revenue	126,249	514,878	1,788,005	1,600,132
Cost of goods sold	(152,311)	(799,003)	(1,344,566)	(1,350,113)
Depreciation and depletion (Note 6)	(7,715)	-	(38,941)	(49,124)
	(33,777)	(284,125)	404,498	200,895
Expenses				
Accounting	12,847	142,639	181,712	364,008
Bad debt expense	7,596	-	7,596	-
Conference	371	36,438	792	57,966
Consulting fees	3,841	(40,598)	11,324	122,712
Depreciation (Note 6)	14,314	25,354	45,422	59,180
Director fees	25,000	25,644	75,000	25,644
Exploration expenditures	-	-	-	1,442
Insurance	8,632	62,274	34,126	98,691
Legal fees	48,657	45,540	108,211	102,390
Management fees	30,000	18,512	103,904	45,345
Office and miscellaneous	47,182	19,619	205,869	500,929
Rent	23,668	25,375	69,372	34,832
Salaries	273,814	205,835	807,821	623,961
Selling	21,590	102,747	181,257	177,935
Shareholder communication	15,553	14,237	89,033	53,317
Share-based compensation (Note 13)	44,978	6,955	201,665	42,903
Transfer agent & filing fees	4,945	-	16,931	-
Travel	54,833	90,229	138,334	183,156
	(637,821)	(780,800)	(2,278,369)	(2,494,411)
Loss before other items	(671,598)	(1,064,925)	(1,873,871)	(2,293,516)
Other items				
Finance cost (Note 15)	(111,990)	(173,017)	(376,615)	(410,147)
Foreign exchange	(34,461)	(138,844)	(94,325)	(138,844)
Impairment of exploration and evaluation assets	-	-	-	(75,504)
Net loss	(818,049)	(1,376,786)	(2,344,811)	(2,918,011)
Other comprehensive loss				
Items that may be reclassified subsequently to income or loss				
Currency translation differences of foreign operations	(307,694)	(11,529)	(320,573)	(61,910)
Comprehensive loss	(1,125,743)	(1,388,315)	(2,665,384)	(2,979,921)
Basic and diluted loss per common share	(0.02)	(0.05)	(0.07)	(0.12)
Weighted average number of shares outstanding – basic and diluted	40,458,035	25,097,457	35,383,195	24,508,791

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

FENGRO INDUSTRIES CORP.
(formerly DuSolo Fertilizers Inc.)
CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CASH FLOWS
(Presented in Canadian Dollars) - unaudited

For the nine months ended	June 30, 2018	June 30, 2017
CASH FROM OPERATING ACTIVITIES		
Loss for the period	\$ (2,344,811)	\$ (2,918,011)
Items not affecting cash:		
Finance cost – asset retirement obligation	4,177	2,941
Finance cost – convertible debenture	118,044	87,589
Finance cost – interest on finance lease	15,723	-
Finance cost – acquisition payable	82,688	190,744
Impairment – exploration and evaluation assets	-	75,504
Depreciation and depletion	84,363	112,292
Share-based compensation	201,665	42,903
Bad debt expense	7,596	-
Foreign exchange and other	-	36,338
Changes in non-cash working capital items:		
Accounts receivable	159,951	(159,075)
Prepaid expenses and deposits	36,726	50,740
Inventories	73,436	(188,458)
Deferred revenue	16,971	23,994
Accounts payable	<u>339,474</u>	<u>101,318</u>
Net cash used in operating activities	<u>(1,203,997)</u>	<u>(2,541,181)</u>
CASH FROM INVESTING ACTIVITIES		
Exploration and evaluation expenditures	(642,814)	(433,801)
Additions to property, equipment and mining properties	<u>(8,283)</u>	<u>(72,629)</u>
Net cash used in investing activities	<u>(651,097)</u>	<u>(506,430)</u>
CASH FROM FINANCING ACTIVITIES		
Repayment of lease obligation	(37,116)	-
Proceeds from issuance of shares, net of share issuance costs	1,877,331	1,679,622
Release of deposit from bank	-	14,995
Payments made for acquisition	<u>(132,937)</u>	<u>(621,990)</u>
Net cash provided by financing activities	<u>1,707,278</u>	<u>1,072,627</u>
Change in cash and cash equivalents during the period	(147,816)	(1,974,984)
Effect of foreign exchange on cash	(12,459)	15,527
Cash and cash equivalents, beginning of period	<u>275,119</u>	<u>2,310,983</u>
Cash and cash equivalents, end of period	<u>\$ 114,844</u>	<u>\$ 351,526</u>

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FENGRO INDUSTRIES CORP.
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CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(Presented in Canadian Dollars) - unaudited

	Number of shares	Share Capital \$	Equity Reserve \$	Subscriptions Receivable \$	Deficit \$	Accumulated Other Comprehensive Income \$	Shareholders' Equity \$
Balance, September 30, 2016	24,214,460	28,180,320	3,496,873	-	(27,737,507)	(1,016,259)	2,923,427
Issuance of common shares for cash, net of costs (Note 13)	8,553,550	2,514,620	-	(834,998)	-	-	1,679,622
Warrants issued to brokers (Note 13)	-	(22,406)	22,406	-	-	-	-
Share-based compensation (Note 13)	-	-	42,903	-	-	-	42,903
Net loss for the period	-	-	-	-	(2,918,011)	-	(2,918,011)
Currency translation differences of foreign operations	-	-	-	-	-	(61,910)	(61,910)
Balance, June 30, 2017	32,768,010	30,672,534	3,562,182	(834,998)	(30,655,518)	(1,078,169)	1,666,031
Share issuance costs, cash (Note 13)	-	(11,530)	-	-	-	-	(11,530)
Share Receivable (Note 13)	-	-	-	834,998	-	-	834,998
Share-based compensation (Note 13)	-	-	5,207	-	-	-	5,207
Reissuance of convertible note (Note 11)	-	-	43,451	-	-	-	43,451
Net loss for the period	-	-	-	-	(1,155,314)	-	(1,155,314)
Currency translation differences of foreign operations	-	-	-	-	-	(13,501)	(13,501)
Balance, September 30, 2017	32,768,010	30,661,004	3,610,840	-	(31,810,832)	(1,091,670)	1,369,342
Issuance of common shares for cash, net of costs (Note 13)	7,926,832	1,560,257	317,074	-	-	-	1,877,331
Warrants issued to brokers (Note 13)	-	(6,484)	6,484	-	-	-	-
Share-based compensation (Note 13)	-	-	201,665	-	-	-	201,665
Reissuance of convertible note (Note 11)	-	-	23,266	-	-	-	23,266
Net loss for the period	-	-	-	-	(2,344,811)	-	(2,344,811)
Currency translation differences of foreign operations	-	-	-	-	-	(320,573)	(320,573)
Balance, June 30, 2018	40,694,842	32,214,777	4,159,329	-	(34,155,643)	(1,412,243)	806,220

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

FENGRO INDUSTRIES CORP.
(formerly DuSolo Fertilizers Inc.)

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

June 30, 2018

(Presented in Canadian Dollars) - unaudited

1. NATURE OF BUSINESS AND GOING CONCERN

Fengro Industries Corp. (formerly DuSolo Fertilizers Inc.) (the “Company”) was incorporated on March 11, 2004 under the laws of the Province of British Columbia. The Company is engaged in the production of phosphate fertilizers, and acquiring, exploring and evaluating mineral properties in Brazil. The Company’s shares are publicly traded on the TSX Venture Exchange under the symbol FGR. The address of the Company’s corporate office is Suite 1100, 1111 Melville Street, Vancouver, British Columbia, Canada. The Company changed its name to Fengro Industries Corp. on December 18, 2017.

On October 1, 2014, the Company commenced production of Direct Application Natural Fertilizer (“DANF”) phosphate rock products on the Santiago claim of the Bonfim Project located in the state of Tocantins, Brazil. The Company has not yet determined whether its other mineral properties contain economically recoverable reserves. The recoverability of the amounts shown for mineral properties is dependent upon the confirmation of economically recoverable reserves, the Company’s ability to obtain adequate financing to develop the reserves, and its ability to commence profitable operations in the future.

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 have been retroactively restated.

These condensed interim 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 \$2,690,298 (September 30, 2017 - \$1,791,694) and accumulated losses of \$34,155,643 (September 30, 2017 - \$31,810,832). 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 investment in exploration, development of new products, technical reports to support the new products and corporate costs. 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.

These condensed interim consolidated financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts and classification of liabilities that might be necessary should the Company be unable to continue as a going concern.

2. BASIS OF PREPARATION

Statement of Compliance

These condensed consolidated interim financial statements, including comparatives, have been prepared in accordance with International Accounting Standards (“IAS”) 34 ‘Interim Financial Reporting’ (“IAS 34”) using accounting policies consistent with the International Financial Reporting Standards (“IFRS”) issued by the International Accounting Standards Board (“IASB”) and Interpretations of the International Financial Reporting Interpretations Committee (“IFRIC”).

These condensed consolidated interim financial statements have been approved and authorized by the Board of Directors on August 29, 2018.

FENGRO INDUSTRIES CORP.
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NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

June 30, 2018

(Presented in Canadian Dollars) - unaudited

2. BASIS OF PREPARATION (cont'd...)

Basis of Presentation

The condensed consolidated interim financial statements have been prepared on a historical cost basis except for certain financial assets measured at fair value. In addition, these condensed consolidated interim financial statements have been prepared using the accrual basis of accounting, except for cash flow information. The condensed consolidated interim financial statements of the Company are presented in Canadian dollars, which is the functional currency of the parent company and its subsidiaries.

New Standards Not Yet Adopted

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, 2017, 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 is currently evaluating the impact of adopting these amendments on its financial statements.

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 is currently evaluating the impact of adopting these amendments on its financial statements.

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.

IAS 7 Statement of Cash Flows

This amendment requires that an entity provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes from cash flows and non-cash changes. The latest date of mandatory implementation of IAS 7 is January 1, 2017. The Company will provide additional disclosures to the financial statements as a result of adopting this standard

FENGRO INDUSTRIES CORP.
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NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

June 30, 2018

(Presented in Canadian Dollars) - unaudited

3. ACCOUNTS RECEIVABLE

	June 30, 2018	September 30, 2017
Trade receivables	\$ 145,466	\$ 417,532
Brazilian VAT receivable	279,135	202,172
Total	\$ 424,601	\$ 619,704

4. INVENTORY

	June 30, 2018	September 30, 2017
Finished products	\$ 212,237	\$ 160,177
Process material stockpiles	66,973	236,326
Total	\$ 279,210	\$ 396,503

5. RESTRICTED CASH

Restricted cash consists of a term deposit of \$28,750 (September 30, 2017 - \$28,750) held as a security for corporate credit cards.

FENGRO INDUSTRIES CORP.
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NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

June 30, 2018

(Presented in Canadian Dollars) - unaudited

6. PROPERTY, PLANT AND EQUIPMENT

	Leasehold Improvement	Office furniture and equipment	Processing and field equipment	Computer equipment and software	Vehicles under finance lease	Mining properties	Total
Cost							
Balance, September 30, 2016	\$ 9,318	\$ 68,980	\$ 374,920	\$ 27,263	\$ 162,273	\$ 881,400	\$ 1,524,154
Current period additions	-	4,251	13,192	13,298	135,370	-	166,111
Reallocation between classes	1,628	-	(11,561)	9,933	-	-	-
Movement in foreign exchange	(379)	(462)	(31,597)	(1,650)	(12,127)	(26,619)	(72,834)
Balance, September 30, 2017	10,567	72,769	344,954	48,844	285,516	854,781	1,617,431
Current period additions	-	-	7,247	1,036	-	-	8,283
Movement in foreign exchange	(1,005)	(1,061)	(45,355)	(4,308)	(36,934)	(110,573)	(199,236)
Balance, June 30, 2018	9,562	71,708	306,846	45,572	248,582	744,208	1,426,478
Accumulated Depreciation							
Balance, September 30, 2016	\$ 9,318	\$ 48,999	\$ 83,456	\$ 23,116	\$ 99,293	\$ 36,266	\$ 300,448
Depreciation expense	-	5,985	37,564	5,929	40,536	57,796	147,810
Reallocation between classes	1,628	5,837	(13,396)	-	20,085	-	14,154
Movement in foreign exchange	(379)	(2,238)	(4,925)	(1,411)	(5,691)	(3,613)	(18,257)
Balance, September 30, 2017	10,567	58,583	102,699	27,634	154,223	90,449	444,155
Depreciation expense	-	3,688	25,545	5,146	36,588	13,396	84,363
Movement in foreign exchange	(1,005)	(225)	(15,871)	(2,394)	(23,654)	(13,057)	(56,206)
Balance, June 30, 2018	9,562	62,046	112,373	30,386	167,157	90,788	472,312
Carrying value, September 30, 2017	\$ -	\$ 14,186	\$ 242,255	\$ 21,210	\$ 131,293	\$ 764,332	\$ 1,173,276
Carrying value, June 30, 2018	\$ -	\$ 9,662	\$ 194,473	\$ 15,186	\$ 81,425	\$ 653,420	\$ 954,166

FENGRO INDUSTRIES CORP.
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NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

June 30, 2018

(Presented in Canadian Dollars) - unaudited

7. EXPLORATION AND EVALUATION ASSETS

The schedule below summarizes the carrying costs of acquisition costs and all deferred exploration costs incurred to date for the Bonfim mineral property interest that the Company is continuing to explore as at June 30, 2018:

	June 30, 2018	September 30,2017
Balance, opening	\$ 2,511,084	\$ 2,441,801
Camp and supplies	2,068	4,028
Drilling	117,359	-
Environmental	3,418	3,689
Geological consulting	121,989	220,701
Governmental fees and licenses	22,335	18,193
Laboratory analysis	18,779	20,042
Salaries	273,123	343,402
Topography	42,252	32,886
Travel	19,813	6,838
Vehicle	21,678	66,077
Current period additions	642,814	715,856
Total exploration and evaluation expenditures	3,153,898	3,157,657
Movement in foreign exchange	(389,901)	(80,258)
Impairment write-down	-	(566,315)
Balance, closing	\$ 2,763,997	\$ 2,511,084

Bonfim Property

During the year ended September 30, 2012, the Company entered into an investment agreement (“Investment Agreement”) to acquire mineral claims in an area located in the state of Tocantins, Brazil (“Bonfim property” or “Bonfim”)

The terms of the Investment Agreement required the Company to form P-Tec Agro Mineracao SPE Ltda (“P-Tec”) with the Vendor in which the Company would own a 75% equity interest. P-Tec was formed in fiscal 2013 and owns a 100% interest in Bonfim and the Company had the option to acquire the remaining 25% interest in P-Tec by fulfilling the following commitments:

- Make an initial cash payment in the amount of \$24,250 (R\$50,000) to the Vendor within (10) business days upon project approval by the TSX Venture Exchange (Paid).
- Make two payments of \$92,660 (R\$200,000) in cash at the end of the first and second phases of exploration respectively, for a total of \$185,320 (R\$400,000), assuming positive results and interest by the Company in the continuity of the project, following each phase.

FENGRO INDUSTRIES CORP.
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NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

June 30, 2018

(Presented in Canadian Dollars) - unaudited

7. EXPLORATION AND EVALUATION ASSETS (continued)

- Upon completion of a NI 43-101 proven resource report, and assuming the resource calculation returns a minimum of 20 million tonnes at an average grade of no less than 4% P₂O₅, the Company would have the option to purchase the remaining 25% interest from the Vendor by making a payment in cash or shares based on the quantity of proven reserves determined in the NI 43-101 report. The purchase price of the remaining 25% interest was to be determined as follows:
 - a) one real (R\$1.00) (\$0.46) per ton for proven reserves up to 20 million tons;
 - b) seventy-five centavos (R\$0.75) (\$0.35) per ton for proven reserves from 20 to 25 million tons;
 - c) fifty centavos (R\$0.50) (\$0.23) per ton for proven reserves from 25 to 35 million tons;
 - d) forty centavos (R\$0.40) (\$0.19) per ton for proven reserves from 35 to 50 million tons; and
 - e) twenty-five centavos (R\$0.25) (\$0.12) per ton for proven reserves above 50 million tons.

During the year ended September 30, 2014, one mineral claim on the Bonfim property was deemed technically feasible and commercially viable as supported by a full technical report, with financing arranged. In addition, the Company obtained regulatory approval from the Brazilian government to start commercial production at a processing facility which the Company leased during the year. As a result, this claim was considered by the Company to be in the development stage and all exploration and evaluation costs associated with the claim were reclassified to property, equipment and mining properties.

During the year ended September 30, 2014, the Company acquired the Vendor's 25% interest in P-Tec by entering into a purchase agreement in place of the Investment Agreement discussed above.

During the years ended September 30, 2016 and 2017, the Company entered into amendments of the purchase agreement above. The terms of the new agreements are discussed in Note 9.

During the year ended September 30, 2017, the Company dropped certain concessions deemed to have no exploration potential at the Bonfim Project. The Company wrote-off \$566,315 (2016 - \$529,231) representing the capitalized costs relating to those concessions. The Company did not drop any concessions during the period ended June 30, 2018.

8. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	June 30, 2018	September 30, 2017
Trade payables	\$ 731,080	\$ 612,297
Payroll liabilities	656,452	751,168
Financing and goods and services taxes	727,880	654,831
Total	\$ 2,115,412	\$ 2,018,296

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NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

June 30, 2018

(Presented in Canadian Dollars) - unaudited

9. ACQUISITION OF NON-CONTROLLING INTEREST

At September 30, 2013, the Company owned a 75% interest in P-Tec which owned 100% interest in the Bonfim Project. On August 26, 2014, the Company purchased all of the shares of P-Tec held by the minority shareholder at a cost of R\$5,000,000 to acquire 100% of P-Tec. In connection with this transaction, the minority shareholder agreed to waive the payment of \$92,660 (R\$200,000) due at the second phase of exploration as described in the original Investment Agreement for the Bonfim property in Note 7.

The purchase price is to be paid according to the payment schedule below:

Fiscal year	R\$
2015	3,000,000
2016	1,000,000
2017	1,000,000
	5,000,000

In connection with the purchase agreement, the Company repurchased 575,000 common shares from the minority shareholder for \$132,250 (R\$290,950), of which \$88,166 (R\$202,400) was paid during 2014 and \$44,084 (R\$88,550) was paid as at September 30, 2015.

During the year ended September 30, 2015, the Company made a partial payment of R\$2,000,000. The remaining 2015 payment of R\$1,000,000 was due in April 2015 and was not paid as at September 30, 2016. 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:

Fiscal year	R\$
2016	515,000
2017	3,200,000
	3,715,000

During the year ended September 30, 2017, the Company paid R\$1,580,000 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\$2,080,000 million. The amendment requires monthly instalments to be paid through to December 2019 in accordance with the following schedule:

Fiscal year	R\$
2018	470,000
2019	1,022,500
2020	587,500
	2,080,000

The latter amendment resulted in a deemed extinguishment of the previous payable and a reissuance according to the new payment schedule resulting in a recognized gain of \$145,289 during the year ended September 30, 2017. The fair value of the amended and restated payable was valued at \$827,331 using the discounted cash flow model with an interest rate of 21%.

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9. ACQUISITION OF NON-CONTROLLING INTEREST (continued)

During the period ended June 30, 2018, the Company made payments of R\$350,000. The movement during the period is as follows:

	June 30, 2018	September 30, 2017
Balance at the beginning of the period	\$ 620,325	\$ 1,293,760
Payments	(132,937)	(647,721)
Accretion and interest	82,688	129,751
Gain on extinguishment of instrument	-	(145,289)
Foreign exchange impact	(75,157)	(10,176)
	494,919	620,325
Less: current portion	\$ 312,671	\$ 161,212
Non-current portion	\$ 182,248	\$ 459,113

10. LEASES

As at June 30, 2018, the Company has financing leases for vehicles. The leases are repayable in monthly instalments at annual interest rates of 19%. At June 30, 2018, the obligation outstanding was \$75,934 (September 30, 2017 - \$109,267). During the period ended June 30, 2018, the Company made lease payments of \$37,116 (September 30, 2017 - \$42,609).

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

Fiscal year	Payment
2018	\$ 5,742
2019	34,453
2020	34,453
2021	14,357
Amount representing future interest	(13,071)
	75,934
Less: current portion	\$ (28,475)
Non-current portion	\$ 47,459

11. 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, 2015 (the "Maturity Date") at a conversion price of \$0.10 per unit. Each unit consists of one common share and one warrant. The debenture bear interest at 10% per annum and establishment fee of 5%, payable annually in arrears from the date of issue to the Maturity Date.

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11. CONVERTIBLE DEBENTURE (continued)

The proceeds of the debentures were allocated between equity and liability components by determining the estimated fair value of the liability component and applying the residual balance to the equity component. The fair value interest rate was estimated at 21% (for a liability without the conversion feature) and resulted in an initial fair value of the liability component of \$712,810 and a residual value of \$37,190 assigned to the equity component which was recorded in equity reserve.

After initial recognition the liability component is carried on an amortized cost basis and will be accreted to its face amount over the term to maturity of the convertible debenture at an effective interest rate of 21%.

On September 29, 2016, the Company and the lender agreed to extend the maturity of the convertible debenture to October 31, 2016. On October 28, 2016, the Company and the Lender of the convertible debenture agreed to extend the maturity of the convertible debenture to November 30, 2016. On November 30, 2016, the Company and the Lender agreed to further extend the maturity of the convertible debenture to December 15, 2016. In each case, all of the key terms and conditions remained unchanged.

On December 7, 2016, the Company and the Lender of the convertible debenture entered into an amending agreement of the convertible debenture. Under the terms of the amendment, the revised loan principal was \$876,267. The loan bears an establishment fee of 5% and annual interest rate of 10% and matured on December 6, 2017. The Lender has the right to convert the full outstanding balance to a unit for \$0.50 per unit. Each unit includes one common share and one half of share purchase warrant at exercise price of \$0.65. The amendment resulted in an extinguishment of the original instrument and the recognition of a new amended and restated promissory note valued using an effective interest rate of 21%.

On December 7, 2017 the Company and the Lender entered into an agreement to extend the maturity of the convertible debenture to March 31, 2018. The instrument will maintain its 10% interest rate and the Company will incur an additional establishment of 2% on the balance at the time of extension of \$1,006,267. During the period ended June 30, 2018, the Company negotiated a series of extensions to the convertible debenture, extending the maturity to May 29, 2018 without changing the terms and conditions of the loan.

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 12, 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. The amendment resulted in an extinguishment of the original instrument and the recognition of a new amended and restated promissory note valued using an effective interest rate of 21%.

The movement in the note during the period is as follows:

	June 30, 2018	September 30, 2017
Balance, opening	\$ 972,549	\$ 862,500
Accretion and interest	118,043	153,500
Changes to equity component	(23,265)	(43,451)
Balance, closing	\$ 1,067,327	\$ 972,549

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12. ASSET RETIREMENT OBLIGATION

Management's estimate of the asset retirement obligation at June 30, 2018 is \$20,688 (September 30, 2017 - \$19,450). The present value of the obligation was calculated using a risk-free interest rate of 10% (2017 - 10%). Reclamation activities are estimated to begin in 2019.

	June 30, 2018	September 30, 2017
Balance, opening	\$ 19,450	\$ 30,656
Accretion of assessed obligation	4,177	3,108
Reduction of assessed obligation	-	(13,857)
Foreign Exchange	(2,939)	(457)
Balance, closing	\$ 20,688	\$ 19,450

13. SHARE CAPITAL

Authorized

The Company's authorized share capital consists of an unlimited number of common shares without par value.

Share activities

During the period June 30, 2018, the Company:

- a) 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 \$6,484. Each finders' warrant is exercisable at a price of \$0.24 for a period of eighteen months; and
- b) 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.

During the year ended September 30, 2017, the Company completed a private placement of 8,553,550 common shares at a price of \$0.30 per share for gross proceeds of \$2,566,065. The Company paid finder's fees totaling \$37,865 and granted 126,213 finder's warrants with a Black-Scholes valuation of \$22,406. Each finders' warrant is exercisable at \$0.30 until June 1, 2019. The Company incurred additional costs of \$25,110 in connection with the financing.

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13. SHARE CAPITAL (continued)

Warrants

Finders' warrants issued as finders' fees during the period ended June 30, 2018 had a grant date fair value of \$6,484. The fair value was estimated using the Black-Scholes option pricing model using the following assumptions:

	June 30, 2018	September 30, 2017
Risk-free interest rate	1.77%	0.69%
Expected volatility	125.77%	134.43%
Expected dividends	Nil	Nil
Expected life	1.50 years	1.50 years
Grant date market price	\$0.20	\$0.30

Each whole Warrant entitles the holder to purchase one common share of the Company. A summary of warrant activity during the period ended June 30, 2018 is as follows:

	Number of Warrants	Weighted Average Exercise Price \$
Balance, September 30, 2016	1,504,490	1.34
Issued	126,213	0.30
Balance, September 30, 2017	1,630,703	1.26
Issued	4,025,276	0.32
Expired	(175,036)	0.40
Balance, June 30, 2018	5,480,943	0.61

As at June 30, 2018, the weighted average remaining contractual life of the outstanding warrants is 1.00 year.

Expiry Date	Exercise Price \$	Number Outstanding
September 28, 2018	1.50	1,220,394
September 28, 2018	1.00	109,060
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	0.24	322,916
Total	0.59*	5,480,943

*Weighted average exercise price

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13. SHARE CAPITAL (continued)

Stock Options

The Company has a stock option plan under which it is authorized to grant options for the acquisition of its common shares to directors, employees and consultants up to a maximum of 10% of the issued and outstanding common shares of the Company at the time the plan was adopted. The exercise price shall not be less than the market price of the Company's shares as at the grant date. The options may be granted for a maximum term of five years. Options granted to directors, employees and consultants, other than consultants engaged in investor relations activities, will vest fully upon the expiry of the hold period of four months from the grant date unless otherwise determined by the board of directors. Options granted to consultants engaged in investor relations activities will vest in stages over a minimum period of twelve months.

The Company granted 2,450,000 stock options during the period ended June 30, 2018. The weighted average fair value of the options granted during the period ended June 30, 2018 was approximately \$0.14 per option. The fair value was estimated using the Black-Scholes option pricing model using the following assumptions:

	June 30, 2018	September 30, 2017
Weighted average risk-free interest rate	1.81%	0.72% - 1.21%
Expected volatility	126.64%	66.9%-120.9%
Expected dividends	Nil	Nil
Expected life	3 years	2.8 years
Grant date share price	0.20	\$0.25 - \$0.50

For the period ended June 30, 2018, the Company recognized \$201,665 (2017 - \$42,903) as share-based compensation expense on the condensed interim consolidated statements of comprehensive loss and will recognize the remaining expenses of \$148,106 over the remaining vesting period.

Stock option activity for the period ended June 30, 2018 is as follows:

	Number of Stock Options	Weighted Average Exercise Price \$
Balance, September 30, 2016	769,000	1.23
Granted	190,000	0.50
Forfeited	(229,500)	1.55
Balance, September 30, 2017	729,500	0.93
Granted	2,450,000	0.30
Expired	(15,000)	3.80
Balance, June 30, 2018	3,164,500	0.43
Exercisable, June 30, 2018	1,451,167	0.57

The weighted average remaining contractual life of the outstanding options was 4.14 years.

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13. SHARE CAPITAL (continued)

Stock Options (continued)

Details of stock options outstanding is as follows:

Expiry Date	Exercise Price \$	Number Outstanding	Number Exercisable
January 13, 2019	2.40	40,000	40,000
August 4, 2019	2.30	20,000	20,000
February 2, 2020	2.30	69,500	69,500
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	16,667
January 14, 2023	0.30	2,450,000	816,667
		3,164,500	1,451,167

14. 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 (Note 11).

As at June 30, 2018, \$60,375 (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

Period ended June 30, 2018

Compensation	Salaries	Management fees	Share-based payments	Total
Chief Executive Officer	\$ 257,400	\$ -	\$ 38,926	\$ 296,326
Chief Financial Officer	-	81,404	17,129	98,533
Directors	-	75,000	105,806	180,806
Total	\$ 257,400	\$ 156,404	\$ 161,861	\$ 575,665

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14. RELATED PARTY TRANSACTIONS (continued)

Period ended June 30, 2017

Compensation	Salaries	Management fees	Share-based payments	Total
Chief Executive Officer	\$ 201,250	\$ -	\$ 4,627	\$ 205,877
Chief Financial Officer	-	25,563	-	25,563
Former Chief Financial Officer	60,000	-	5,066	65,066
Directors	-	25,644	15,538	41,182
Total	\$ 261,250	\$ 51,207	\$ 25,231	\$ 337,688

15. FINANCE COST

	June 30, 2018	June 30, 2017
Accretion and interest on convertible debt (Note 11)	\$ 118,044	\$ 87,589
Accretion on acquisition payable (Note 9)	82,688	190,744
Interest on finance lease obligations (Note 10)	15,723	-
Accretion on ARO (Note 12)	4,177	2,941
Regulatory fees and interest	155,983	128,873
	\$ 376,615	\$ 410,147

16. FINANCIAL INSTRUMENTS

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 period. The following schedule outlines the Company's financial instruments at June 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	114,844	-	-	114,844

As at September 30, 2017, the Company had financial instruments 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	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

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16. FINANCIAL INSTRUMENTS (continued)

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.

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, 2018, the Company has accounts receivable of \$424,601 (September 30, 2017 - \$619,704).

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 17 to the condensed interim consolidated financial statements. The Company had cash and cash equivalents at June 30, 2018, in the amount of \$114,844 (September 30, 2017 - \$275,119) in order to meet short-term business requirements. At June 30, 2018, the Company had current liabilities of \$3,568,243 (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.

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 note 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.

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16. FINANCIAL INSTRUMENTS (continued)

Foreign Currency Exchange Rate Risk (continued)

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

	June 30, 2018 R\$	September 30, 2017 R\$
Financial Assets		
Cash	250,698	232,083
Accounts receivable	1,243,814	1,580,514
Financial Liabilities		
Accounts payable	4,905,786	4,379,038
Acquisition payable	1,730,000*	2,080,000*
Obligation under finance lease	260,727	278,670

*At June 30, 2018, the fair value of this instrument was R\$1,449,800 (September 30, 2017 - R\$1,582,098)

As at June 30, 2018, a fluctuation of the Brazilian Real against the Canadian dollar of 10% would result in a change of \$184,408 (September 30, 2017 - \$193,108) in the Company's net comprehensive loss.

17. 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 period ended June 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.

18. SEGMENTED INFORMATION

The Company's revenues of \$1,788,005 (2017 - \$1,600,132) are all attributable to Brazil where sales are recorded from shipments of DANF products from the Bonfim Project. For the period ended June 30, 2018, the Company's top three customers accounted for approximately 16%, 13%, and 11% (2017 - the Company's top customers accounted for approximately 19%, 18%, and 14%) of revenues.

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18. SEGMENTED INFORMATION (continued)

Geographical information relating to the Company's non-current assets (other than financial instruments) is as follows:

	Canada	Brazil	Total
	\$	\$	\$
As at June 30, 2018			
Total assets	108,563	4,516,295	4,624,858
Total liabilities	1,508,051	2,310,587	3,818,638
Revenue	-	1,788,005	1,788,005
Gross profit	-	404,498	404,498
Net loss	(1,161,074)	(1,183,737)	(2,344,811)
As at September 30, 2017			
Total assets	338,191	4,804,467	5,142,658
Total liabilities	1,273,868	2,499,448	3,773,316
Revenue	-	2,901,425	2,901,425
Gross profit	-	587,785	587,785
Net loss	(1,781,817)	(2,291,508)	(4,073,325)

19. SUBSEQUENT EVENTS

Subsequent to the period ended June 30, 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 common shares for gross proceeds of \$884,250; and
- 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 common share for gross proceeds of \$425,750.