



(“Fengro Industries” or “the Company”)

**MANAGEMENT’S DISCUSSION AND ANALYSIS
FOR THE THREE MONTHS ENDED DECEMBER 31, 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 period ended December 31, 2018. The MD&A takes into account information available up to and including February 15, 2019 and should be read together with the unaudited condensed consolidated interim financial statements for the period ended December 31, 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 and its management team are reviewing and assessing business development opportunities in other sectors in Brazil. The Company is currently in discussions with several parties to meet on-going working capital requirements and capital funding for the expansion of its fertilizer business. Potential transactions include joint venture or corporate transactions including part or full sale of the fertilizer business.

In 2018, the Company expanded and restructured its marketing and sales team and strategy to increase production to achieve at least 100,000 tonnes per annum or more. The sales team has continued to expand the range of customers both in terms of crops and geographical regions, and also to develop the markets closer to the Company's operations, reducing logistics requirements for customers. The Company has had success already in 2019 in generating new business in the Bahia region to the east of our operations.

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 period ended December 31, 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.

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 (P_2O_5) deposits, and the Company also owns and operates the Santiago Project, located in Tocantins State, with a crushing / milling / screening plant located near the town of Campos Belos, just south of the Tocantins'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 December 31, 2018 the Company had concluded contracts for c.14,500 tonnes of DANF, with negotiations on an additional 20,000 tonnes ongoing. As at the date of this MD&A, the Company in calendar 2019 concluded contracts for 30,694 tonnes of DANF, and to date delivered 3,151 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 December 31, 2018, the Company had \$217,548 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.

These condensed consolidated interim 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 \$2,689,550 and accumulated losses of \$35,586,114. 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.

Results of Operations

As at three months ended December 31,	2018	2017
Revenue	\$ 425,183	\$ 1,370,479
Cost of goods sold	(376,348)	(983,751)
	48,835	386,728
Expenses		
Accounting	89,509	80,612
Bad debt expense	13,686	-
Consulting fees	24,882	3,406
Depreciation	7,748	15,720
Director fees	25,000	20,000
Insurance	8,604	12,837
Legal fees	17,700	9,443
Management fees	33,000	39,063
General and administration ⁽¹⁾	100,140	133,469
Salaries	255,177	243,538
Selling	57,504	107,066
Share-based compensation	43,678	6,503
Travel	44,135	14,043
	(720,763)	(685,700)
Loss before other items	(671,928)	(298,972)
Other items		
Finance cost	(88,272)	(146,749)
Foreign exchange	7,814	(192)
Net loss	(752,386)	(445,913)
Other comprehensive loss	202,247	(74,348)
Comprehensive loss	\$ (550,139)	\$ (520,261)
Basic and diluted loss per common share	\$ (0.02)	\$ (0.02)
Weighted average number of shares outstanding – basic and diluted	37,687,858	32,768,008

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

Production

For the period ended December 31, 2018, Fengro produced 12,716 tonnes (December 31, 2017 – 23,465 tonnes) of DANF product of varying grades respectively.

Production of DANF product for the period ended December 31, 2018 was comprised of the following:

	2018 (tonnes)	2017 (tonnes)
9% DANF	518	-
12% DANF	6,401	14,412
15% DANF	5,797	6,652
Total	12,716	21,064

The Company's decreased level of production was largely to match its production schedules with customer orders. In addition to its opening balance of inventory production efforts were to meet sales of 11,464 tonnes for the period ended December 31, 2018, as compared to 23,465 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 period ended December 31, 2018, and accordingly managed its production strategy to meet these sales.

Sales

Sales for the period ended December 31, 2018 were comprised of the following:

	2018 (tonnes)	2017 (tonnes)
9% DANF	1,534	-
12% DANF	5,129	15,967
15% DANF	4,801	7,498
Total	11,464	23,465

The average overall sales price was \$37.09 for the period ended December 31, 2018 as compared to \$58.40 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 period ended December 31, 2018, the Company sold 1,534 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 11% during the period ended December 31, 2018 as compared to the prior year, which had a negative impact on reported revenues.

The Company saw a decrease in overall tonnes sold, primarily as a result of increased competition. 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 period ended December 31, 2018 was \$376,348 compared to \$983,751 for the period ended December 31, 2017. The per tonne cost of sales for December 31, 2018 was \$32.83 compared \$41.92 for the period ended December 31, 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 period ended December 31, 2018, expenses were \$720,763 compared to \$685,700 for the period ended December 31, 2017. The changes in expenses were largely due to:

- accounting fees of \$89,509 for the period ended December 31, 2018 compared to \$80,612 for the period ended December 31, 2017, which increased as the Company's audit was completed prior to month end and was therefore fully billed by the period end;
- consulting fees of \$24,882 for the period ended December 31, 2018 compared to \$3,406 for the period ended December 31, 2017, which increased as the Company incurred consultant fees identifying potential acquisition targets;
- directors' fees of \$25,000 for the period ended December 31, 2018 compared to \$20,000 for the period ended December 31, 2017 were for directors' fees owing to the five non-executive directors;
- general and administration expense of \$100,140 for the period ended December 31, 2018 compared to \$133,469 for the period ended December 31, 2017, which decreased as a result of cost cutting measures by the Company's team in Brazil;
- management fees of \$33,000 for the period ended December 31, 2018 compared to \$39,063 for the period ended December 31, 2017, which were related to Chief Financial Officer and Corporate Secretary fees and were considered reasonable year on year;
- salaries of \$255,177 for the period ended December 31, 2018 compared to \$243,538 for the period ended December 31, 2017, which increased due to severance costs as the Company reduced its staffing during the period;
- selling expenses of \$57,504 for the period ended December 31, 2018 compared to \$107,066 for the period ended December 31, 2017, which decreased as a result of lower commissions paid resulting from lower overall sales volume;
- share-based compensation of \$43,678 for the period ended December 31, 2018 compared to \$6,503 for the period ended December 31, 2017, which increased due to the fair value of options vested during the period;
- travel expense of \$44,135 for the period ended December 31, 2018 compared to \$14,043 for the period ended December 31, 2017, which increased due to officer and director travel related to the identification of potential acquisition targets;
- finance expense of \$88,272 for the period ended December 31, 2018 compared to \$146,749 for period ended December 31, 2017, which relates to recognition accretion and interest on the Company's convertible note and acquisition payable, and regulatory charges on foreign transactions. The decrease is primarily related to the settlement of the Company's acquisition payable in October 2018; 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

	Period ended December 31,	
	2018	2017
Cash outflows from operating activities	(346,893)	37,440
Cash outflow from investing activities	(2,020)	(218,317)
Cash inflows from financing activities	(5,835)	(34,145)
Effect of foreign exchange on cash	12,848	(1,960)
Net change in cash	(341,900)	(216,982)
Cash balance	217,548	58,137

Operating Activities

Cash outflow from operating activities was \$346,893 for the period ended December 31, 2018 compared to \$37,440 generated for the period ended December 31, 2017. The cash outflow is primarily related to the loss for the period, offset by non-cash items and net changes in non-cash working capital items.

Investing Activities

Cash outflow from investing activities was \$2,020 for the period ended December 31, 2018 compared to outflow of \$218,317 for the period ended December 31, 2017. 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 from the third quarter of the year ended September 30, 2018. During the current period, the Company incurred expenditures of \$2,020 on the acquisition of property and equipment.

Financing Activities

Cash outflow from financing activities was \$5,835 for the period ended December 31, 2018 compared to \$34,145 for the period ended December 31, 2017. Outflows included \$5,835 in lease payments (2017 - \$18,492). In the comparable period, the Company made payments of \$15,653 towards its acquisition payable, which was settled through the relinquishment of certain mineral property claims during the period ended December 31, 2018.

Selected Quarterly Financial Information

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

	December 31, 2018	September 30, 2018	June 30, 2018	March 31, 2018
Revenue	\$ 425,183	\$ 511,470	\$ 126,249	\$ 291,277
Net loss	(752,386)	(678,085)	(818,049)	(1,080,849)
Assets	4,141,627	4,833,948	4,624,858	5,869,726
Basic and diluted loss per share	(0.02)	(0.02)	(0.02)	(0.03)
	December 31, 2017	September 30, 2017	June 30, 2017	March 31, 2017
Revenue	\$ 1,370,479	\$ 1,301,293	\$ 514,878	\$ 356,989
Net loss	(445,913)	(1,143,785)	(1,388,315)	(911,803)
Assets	5,036,976	5,142,658	5,485,366	5,907,369
Basic and diluted loss per share	(0.02)	(0.04)	(0.05)	(0.04)

Three months ended December 31, 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 December 31, 2018, the Company's operations were largely in line with the most recently completed period.

Financial Position, Liquidity and Capital Resources

The Company has experienced recurring operating losses and has accumulated an operating deficit of \$35,586,114 as at December 31, 2018 (September 30, 2018 - \$34,833,728) and shareholders' equity of \$825,570 as of December 31, 2018 (September 30, 2018 - \$1,332,031). As at December 31, 2018, the Company had total assets of \$4,141,627 compared to \$4,833,948 in total assets as of September 30, 2018. Working capital as at December 31, 2018 was in a deficiency position of \$2,689,550 compared to a deficiency of \$2,224,616 as at September 30, 2018.

During the period ended December 31, 2018, the Company extended the payment terms of the convertible debenture to March 12, 2019. During the period ended December 31, 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 December 31, 2018:

As at December 31, 2018, the Company has financing leases for vehicles. At December 31, 2018, the obligation outstanding was \$69,987 (September 30, 2018 - \$66,628). During the period ended December 31, 2018, the Company made lease payments of \$5,835 (year ended September 30, 2018 – \$45,197).

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

Fiscal year	Payment
2019	\$ 29,563
2020	35,476
2021	11,825
Amount representing future interest	(6,877)
	69,987
Less: current portion	\$ (32,302)
Non-current portion	\$ 37,685

Escrow Shares

As of December 31, 2018, and date of this report, there were no common shares held in escrow.

Share Capital*Common shares*

At December 31, 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
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	40,000
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	1,633,334
		3,109,500	2,242,834

Off Balance Sheet Arrangements

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

Proposed Transactions

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

Subsequent Events

There were no subsequent events for the period ended December 31, 2018.

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 period ended December 31, 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

The Company's revenues consist of sales of DANF products. The Company recognizes revenue from these sales when control of the product has transferred to the customer as specified by the contract delivery terms agreed with the customer. The control of the product has transferred to the customer when the customer has legal title to and the risk and rewards of ownership of the product and the customer is able to direct the use of and obtain substantially all of the remaining benefits from the product. Revenue is measured at the transaction price agreed under the contract.

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

New standards, interpretations and amendments adopted

Except for the adoption of IFRS 15 and IFRS 9, the accounting policies applied in these condensed consolidated interim financial statements are the same as those applied in the most recent audited annual consolidated financial statements as at and for the year ended September 30, 2018 and reflect all the adjustments necessary for fair presentation in accordance with IAS 34.

IFRS 9 Financial Instruments

IFRS 9 sets out requirements for recognizing and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. This standard replaces IAS 39 Financial Instruments: Recognition and Measurement ("IAS 39").

The Company has adopted IFRS 9 retrospectively as of October 1, 2018. Changes in accounting policies resulting from the adoption of IFRS 9 do not have a material impact on the Company's consolidated financial statements.

Classification and measurement of financial assets and financial liabilities

IFRS 9 replaces the guidance in IAS 39, on the classification and measurement of financial assets. IFRS 9 eliminates the existing IAS 39 categories of held-to-maturity, available-for-sale and loans and receivable. Financial assets will be classified into one of two categories on initial recognition:

- Financial assets measured at amortized cost; or
- Financial assets measured at fair value.

The classification of financial assets under IFRS 9 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. A financial asset (unless it is a trade receivable without a significant financing component that is initially measured at the transaction price) is initially measured at fair value plus, for an item not at fair value through profit or loss, transaction costs that are directly attributable to its acquisition. For financial assets measured at amortized cost, these assets are subsequently measured at amortized cost using the effective interest method. The amortized cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognized in profit or loss. Any gain or loss on derecognition is recognized in profit or loss.

The Company's financial assets previously carried as loans and receivables are now classified as amortized cost without material impact to carrying values.

Impairment of financial assets

IFRS 9 replaces the 'incurred loss' model in IAS 39 with an expected credit loss ("ECL") model. Using the simplified approach for trade receivables, the Company will measure loss allowances for trade and other receivables at an amount equal to lifetime ECLs. ECLs are a probability-weighted estimate of credit losses.

Loss allowances for financial assets measured at amortized cost are deducted from the gross carrying amount of the assets. Impairment losses on trade and other receivables are presented as bad debts expense in the statement of loss and comprehensive loss, similar to the presentation under IAS 39.

The Company has determined that the application of IFRS 9's impairment requirements as at October 1, 2018 does not result in any additional impairment allowances.

IFRS 15 – Revenue from contracts with customers

IFRS 15 addresses revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers.

The Company adopted IFRS 15 retrospectively as of October 1, 2018. Changes in accounting policies resulting from the adoption of IFRS 15 do not have a material impact on the Company's consolidated financial statements.

New standards not yet adopted

Certain pronouncements were issued by the IASB or IFRIC that are mandatory for accounting periods beginning after January 1, 2019. They have not been early adopted in these condensed interim financial statements. In all cases the Company intends to apply these standards from application date as indicated below:

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 December 31, 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	217,548	-	-	217,548

As at September 30, 2018, the Company's financial instruments measured at fair value were as follows:

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

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.

The Company applies the simplified approach to providing for expected credit losses prescribed by IFRS 9, which permits the use of the lifetime expected loss provision for all trade receivables. To measure the expected credit losses, trade receivables are assessed primarily based on days past due. The Company has estimated expected credit losses at December 31, 2018 of \$32,561 (September 30, 2018 - \$17,124).

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 17 to the condensed consolidated interim financial statements. The Company had cash at December 31, 2018 in the amount of \$217,548 (September 30, 2018 - \$559,448) in order to meet short-term business requirements. At December 31, 2018, the Company had current liabilities of \$3,254,872 (September 30, 2018 - \$3,295,126). 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:

	December 31, 2018 R\$	September 30, 2018 R\$
Financial Assets		
Cash	178,723	481,471
Accounts receivable	1,337,218	1,927,871
Financial Liabilities		
Accounts payable	4,483,647	4,138,622
Acquisition payable	-	1,730,000*
Obligation under finance lease	199,110	206,920

*At September 30, 2018, the fair value of this instrument was R\$1,525,116.

As at December 31, 2018, a fluctuation of the Brazilian Real against the Canadian dollar of 10% would result in a change of \$111,314 (September 30, 2018 - \$118,052) 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 period ended December 31, 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, 2017 and 2016. The Company has financed its operations principally through the sale of its equity securities. The Company does not anticipate that it will earn any revenue from its operations until its properties are placed into production, if ever. If the Company is unable to place its

properties into production, the Company may never realize revenues from operations, will continue to incur losses and you may lose the value of your investment.

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 is not basing its decision to begin production of DANF on a feasibility study of mineral reserves demonstrating economic and technical viability. Without a technical report demonstrating economic and technical viability, there is increased uncertainty as to whether Fengro will be able to economically produce DANF products and as to whether Fengro will be confronted with any unforeseen technical impediments. Similarly, the Company has not completed a preliminary economic assessment before making production and project expansion decisions.

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