



CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(Presented in Canadian Dollars)

FOR THE QUARTER ENDED DECEMBER 31, 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.**CONDENSED CONSOLIDATED INTERIM STATEMENTS OF COMPREHENSIVE LOSS**

(Presented in Canadian Dollars) - unaudited

For the three months ended December 31,	2018	2017
Revenue	\$ 425,183	\$ 1,370,479
Cost of goods sold	(360,214)	(961,219)
Depreciation and depletion (Note 6)	(16,134)	(22,532)
	48,835	386,728
Expenses		
Accounting	89,509	80,612
Bad debt expense	13,686	-
Conference	226	-
Consulting fees	24,882	3,406
Depreciation (Note 6)	7,748	15,720
Director fees (Note 14)	25,000	20,000
Insurance	8,604	12,837
Legal fees	17,700	9,443
Management fees (Note 14)	33,000	39,063
Office and miscellaneous	71,424	64,497
Rent	21,856	16,032
Salaries (Note 14)	255,177	243,538
Selling	57,504	107,066
Shareholder communication	6,000	50,400
Share-based compensation (Note 13)	43,678	6,503
Transfer agent & filing fees	634	2,540
Travel	44,135	14,043
	(720,763)	(685,700)
Loss before other items	(671,928)	(298,972)
Other items		
Finance cost (Note 15)	(88,272)	(146,749)
Gain (loss) on foreign exchange	7,814	(192)
Net loss	(752,386)	(445,913)
Other comprehensive loss		
Items that may be reclassified subsequent to income or loss		
Currency translation differences of foreign operations	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	50,051,985	32,768,008

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

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

For the three months ended December 31,	2018	2017
CASH FROM OPERATING ACTIVITIES		
Loss for the period	\$ (752,386)	\$ (445,913)
Items not affecting cash:		
Finance cost – asset retirement obligation accretion	1,026	3,002
Finance cost – convertible debenture	32,469	44,571
Finance cost – finance lease obligations	3,086	4,534
Finance cost – acquisition payable	6,527	31,145
Depreciation and depletion	23,882	38,252
Share-based compensation	43,678	6,503
Changes in non-cash working capital items:		
Accounts receivable	206,482	22,721
Prepaid expenses and deposits	(13,226)	(2,965)
Inventories	(25,179)	15,143
Deferred revenue	(90,403)	5,941
Accounts payable	217,151	314,506
Net cash (used in) provided by operating activities	(346,893)	37,440
CASH FROM INVESTING ACTIVITIES		
Exploration on evaluation expenditures	-	(209,783)
Acquisition of property and equipment	(2,020)	(8,534)
Net cash used in investing activities	(2,020)	(218,317)
CASH FROM FINANCING ACTIVITIES		
Acquisition of non-controlling interest	-	(15,653)
Repayment of lease obligations	(5,835)	(18,492)
Net cash used in financing activities	(5,835)	(34,145)
Change in cash during the period	(354,748)	(215,022)
Effect of foreign exchange on cash	12,848	(1,960)
Cash, beginning of period	559,448	275,119
Cash, end of period	217,548	58,137

See Note 19 for supplemental cash flow information

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

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

(Presented in Canadian Dollars)

	Number of shares	Share Capital	Equity Reserve	Deficit	Accumulated Other Comprehensive Loss	Shareholders' Equity
Balance, September 30, 2017	32,768,010	\$ 30,661,004	\$ 3,610,840	\$ (31,810,832)	\$ (1,091,670)	\$ 1,369,342
Share-based compensation (Note 13)	-	-	6,503	-	-	6,503
Net loss for the period	-	-	-	(445,913)	-	(445,913)
Currency translation differences of foreign operations	-	-	-	-	(74,348)	(74,348)
Balance, December 31, 2017	32,768,010	30,661,004	3,617,343	(32,256,745)	(1,166,018)	855,584
Issuance of common shares for cash, net of costs (Note 13)	17,283,975	2,863,397	317,074	-	-	3,180,471
Warrants issued to brokers (Note 13)	-	(6,484)	6,484	-	-	-
Share-based compensation (Note 13)	-	-	238,536	-	-	238,536
Reissuance of convertible note (Note 11)	-	-	23,265	-	-	23,265
Net loss for the period	-	-	-	(2,576,983)	-	(2,576,983)
Currency translation differences of foreign operations	-	-	-	-	(388,842)	(388,842)
Balance, September 30, 2018	50,051,985	33,517,917	4,202,702	(34,833,728)	(1,554,860)	1,332,031
Share-based compensation (Note 13)	-	-	43,678	-	-	43,678
Net loss for the period	-	-	-	(752,386)	-	(752,386)
Currency translation differences of foreign operations	-	-	-	-	202,247	202,247
Balance, December 31, 2018	50,051,985	\$ 33,517,917	\$ 4,246,380	\$ (35,586,114)	\$ (1,352,613)	\$ 825,570

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

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

For the period ended December 31, 2018

(Presented in Canadian Dollars) - unaudited

1. NATURE OF BUSINESS AND GOING CONCERN

Fengro Industries Corp. (the “Company”) was incorporated on March 11, 2004 under the laws of the Province of British Columbia. The Company is engaged in 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.

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.

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.

These condensed consolidated interim 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. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PREPERATION**Statement of Compliance**

These condensed consolidated interim financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) and Interpretations of the International Financial Reporting Interpretations Committee (“IFRIC”). These consolidated financial statements were authorized for issue by the Board of Directors on February 15, 2019.

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, 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.

FENGRO INDUSTRIES CORP.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the period ended December 31, 2018

(Presented in Canadian Dollars) - unaudited

2. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PREPERATION (continued)

New standards, interpretations and amendments adopted (continued)

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.

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

For the period ended December 31, 2018

(Presented in Canadian Dollars) - unaudited

2. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PREPERATION (continued)**New standards, interpretations and amendments adopted (continued)***Revenues from Sale of Goods*

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.

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.

3. ACCOUNTS RECEIVABLE

	December 31, 2018	September 30, 2018
Trade receivables	\$ 96,614	\$ 320,556
Brazilian tax receivable	373,418	300,218
	470,032	620,774
Non-current portion	(354,281)	(291,729)
Total	\$ 115,751	\$ 329,045

4. INVENTORY

	December 31, 2018	September 30, 2018
Finished products	\$ 96,028	\$ 78,564
Process material stockpiles	53,674	35,202
Total	\$ 149,702	\$ 113,766

5. RESTRICTED CASH

Restricted cash consists of a term deposit of \$28,750 (September 30, 2018 - \$28,750) held as a security for corporate credit cards.

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

For the period ended December 31, 2018

(Presented in Canadian Dollars) - unaudited

6. PROPERTY, EQUIPMENT, AND MINING PROPERTIES

	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, 2017	\$ 10,567	\$ 72,769	\$ 344,954	\$ 48,844	\$ 285,516	\$ 854,781	\$ 1,617,431
Current period additions	-	-	7,014	1,003	-	-	8,017
Disposals	(2,801)	(59,852)	-	(16,100)	-	-	(78,753)
Movement in foreign exchange	(1,389)	(1,467)	(62,533)	(5,781)	(51,039)	(152,801)	(275,010)
Balance, September 30, 2018	6,377	11,450	289,435	27,966	234,477	701,980	1,271,685
Current period additions	-	2,020	-	-	-	-	2,020
Movement in foreign exchange	585	645	26,516	2,693	21,482	64,312	116,233
Balance, December 31, 2018	6,962	14,115	315,951	30,659	255,959	766,292	1,389,938
Accumulated Depreciation							
Balance, September 30, 2017	10,567	58,583	102,699	27,634	154,223	90,449	444,155
Depreciation expense	-	7,810	32,983	6,598	38,808	24,223	110,422
Disposals	(2,801)	(59,852)	-	(16,100)	-	-	(78,753)
Movement in foreign exchange	(1,389)	(323)	(22,450)	(3,242)	(32,383)	(19,173)	(78,960)
Balance, September 30, 2018	6,377	6,218	113,232	14,890	160,648	95,499	396,864
Depreciation expense	-	446	7,795	1,574	5,728	8,339	23,882
Movement in foreign exchange	585	160	10,480	1,767	14,793	8,859	36,644
Balance, December 31, 2018	6,962	6,824	131,507	18,231	181,169	112,697	457,390
Carrying value, September 30, 2018	\$ -	\$ 5,232	\$ 176,203	\$ 13,076	\$ 73,829	\$ 606,481	\$ 874,821
Carrying value, December 31, 2018	\$ -	\$ 7,291	\$ 184,444	\$ 12,428	\$ 74,790	\$ 653,595	\$ 932,548

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

For the period ended December 31, 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 Company's mineral property interest that the Company is continuing to explore as at December 31, 2018:

	December 31, 2018	September 30, 2018
Balance, opening	\$ 2,568,138	\$ 2,511,084
Camp and supplies	-	2,002
Drilling	-	113,583
Environmental	-	3,308
Geological consulting	-	118,064
Governmental fees and licenses	-	21,617
Laboratory analysis	-	18,178
Salaries	-	264,336
Topography	-	40,893
Travel	-	19,176
Vehicle	-	20,981
Current period additions	-	622,138
Total exploration and evaluation expenditures	2,568,138	3,133,222
Movement in foreign exchange	228,177	(520,530)
Disposals	(535,589)	
Impairment write-down	-	(44,554)
Balance, closing	\$ 2,260,726	\$ 2,568,138

Bonfim Property

During the year ended September 30, 2012, the Company entered into an investment agreement to acquire mineral claims in an area located in the state of Tocantins, Brazil ("Bonfim property" or "Bonfim"). Under the agreement, the Company acquired a 75% interest in P-Tec, which held a 100% interest in Bonfim, through payments of \$116,910 (R\$250,000). During the year ended September 30, 2014, upon deeming technical feasibility of one of the mineral claims and obtaining regulatory approval from the Brazilian government to commence commercial production, the Company acquired the remaining 25% of P-Tec by entering into a new purchase agreement and recognizing the acquisition payable (Note 9).

During the period ended December 31, 2018, the Company entered into an amending agreement with the vendor, whereby the Company relinquished to the vendor one concession deemed to have limited further exploration potential, valued at \$535,589, in exchange for the settlement of the remaining balance of the acquisition payable (Note 9). During the year ended September 30, 2018, the Company wrote-off \$44,554 relating to the excess carrying amount of the subsequently disposed of concession.

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

For the period ended December 31, 2018

(Presented in Canadian Dollars) - unaudited

8. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	December 31, 2018	September 30, 2018
Trade payables	\$ 644,253	\$ 475,571
Payroll liabilities	443,397	392,016
Financing and goods and services taxes	869,395	748,631
Total	\$ 1,957,045	\$ 1,616,218

9. ACQUISITION PAYABLE

At September 30, 2013, the Company owned a 75% interest in P-Tec which owned a 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, Quantum Fertilizantes Do Tocantins Ltda. (“Quantum”), at a cost of R\$5,000,000 to acquire 100% of P-Tec payable over three years. As at September 30, 2016, the Company had made payments of R\$2,515,000 and had entered into an amendment deferring the remaining payment and resulting in an increase in the total payable of R\$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. The amendment required 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 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%. During the year ended September 30, 2018, the Company made total payments of \$128,660 (R\$350,000).

During the period ended December 31, 2018, the Company settled the remaining amount payable, with a carrying value of \$535,589, through the issuance of one exploration concession (Note7). The movement during the period was:

	December 31, 2018	September 30, 2018
Balance at the beginning of the period	\$ 491,088	\$ 620,325
Payments	-	(128,660)
Accretion and interest	6,527	107,713
Settlement	(535,589)	-
Foreign exchange impact	37,974	(108,290)
Balance at the end of the period	-	491,088
Less: current portion	-	(343,930)
Non-current portion	\$ -	\$ 147,158

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

For the period ended December 31, 2018

(Presented in Canadian Dollars) - unaudited

10. FINANCE LEASE OBLIGATION

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)
Less: current portion	69,987 (32,302)
Non-current portion	\$ 37,685

The following is reconciliation of the changes in the finance lease obligations to financing cash flows:

	December 31, 2018	September 30, 2018
Balance, beginning of the period	\$ 66,628	\$ 109,267
Payments made for lease obligation under finance lease	(5,835)	(45,197)
Finance cost – lease interest	3,086	18,818
Foreign exchange	63,879	82,888
Balance, end of the period	\$ 6,108	(16,260)
	\$ 69,987	\$ 66,628

11. CONVERTIBLE DEBENTURE

On October 1, 2015, the Company closed a convertible debenture financing, issuing unsecured convertible debentures of \$750,000. The debenture holder had the right to convert the principal amount together with all interest accrued and establishment fee into common shares and warrants of the Company up to the maturity date of September 30, 2016 (the “Maturity Date”) at a conversion price of \$1.00 per unit. Each unit consists of one common share and one-half warrant. The debentures were subject to a one-time establishment fee of 5% and bear interest at 10% per annum, payable annually in arrears from the date of issue to the Maturity Date.

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%.

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

For the period ended December 31, 2018

(Presented in Canadian Dollars) - unaudited

11. CONVERTIBLE DEBENTURE (continued)

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 Amendment Agreement of the convertible debenture. Under the terms of the Amendment, the revised loan principal was \$876,267. The loan bears establishment fee of 5% and annual interest rate of 10% and matures on December 6, 2017. The lender has the right to convert the full outstanding balance into a unit for \$0.50 per unit. Each unit includes one common share and one half of one share purchase warrant at an 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 fee of 2% on the balance at the time of extension of \$1,006,267. The Company subsequently negotiated a series of extensions to the convertible debenture, extending the maturity to June 12, 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 into a unit for \$0.24 per unit. Each unit includes one common share and one half of one share purchase warrant at an 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%. On September 12, 2018, the Company and the lender agreed to further extend the maturity of the convertible debenture to December 12, 2018 without changing the terms and conditions of the loan. On December 12, 2018 this was further extended to March 12, 2019.

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

	December 31, 2018	September 30, 2018
Balance, opening	\$ 1,119,122	\$ 972,549
Accretion and interest	32,469	169,838
Changes to equity component	-	(23,265)
Balance, closing	\$ 1,151,591	\$ 1,119,122

12. ASSET RETIREMENT OBLIGATION

Management's estimate of the asset retirement obligation at December 31, 2018 is \$23,500 (September 30, 2018 - \$20,575). The present value of the obligation was calculated using a risk-free interest rate of 10% (2018 - 10%), an expected remaining life of 12 years, and an inflation rate of 4.1% (2018 - 4.1%). Reclamation activities are estimated to begin in 2020.

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

For the period ended December 31, 2018

(Presented in Canadian Dollars) - unaudited

12. ASSET RETIREMENT OBLIGATION (continued)

	December 31, 2018	September 30, 2018
Balance, opening	\$ 20,575	\$ 19,450
Accretion of assessed obligation	1,026	5,254
Foreign Exchange	1,899	(4,129)
Balance, closing	\$ 23,500	\$ 20,575

13. SHARE CAPITAL**Authorized**

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

Share activities

There were no share activities during the period ended December 31, 2018.

During the year ended September 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 \$1,747,440. 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 using the residual value approach. 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.
- c) closed the first tranche of a private placement by issuing 6,316,072 common shares at a price of \$0.14 per common share for gross proceeds of \$884,250.
- d) closed the second and final tranche of a private placement by issuing 3,041,071 common shares at a price of \$0.14 per common share for gross proceeds of \$425,750. The Company incurred costs of \$6,861 in connection with the closing of the two tranches.

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13. SHARE CAPITAL (continued)**Warrants**

There were no warrants issued during the period ended December 31, 2018. The 61,860 brokers' warrants ("Warrant") issued as finders' fees during the year ended September 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:

	December 31, 2018	September 30, 2018
Risk-free interest rate	-	1.77%
Expected volatility	-	125.77%
Expected dividends	-	Nil
Expected life	-	1.50 years
Grant date market price	-	\$0.20

Each whole Warrant entitles the holder to purchase one common share of the Company. A summary of warrant activity during the period ended December 31, 2018 is as follows:

	Number of Warrants	Weighted Average Exercise Price \$
Balance, September 30, 2017	1,630,703	1.26
Issued	4,025,276	0.32
Expired	(1,504,490)	1.34
Balance, September 30, 2018 and December 31, 2018	4,151,489	0.31

As at December 31, 2018, the weighted average remaining contractual life of the outstanding warrants is 0.74 years.

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	0.31*	4,151,489

*Weighted average exercise price

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.

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13. SHARE CAPITAL (continued)**Stock Options**

The Company did not grant stock options during the period ended December 31, 2018 (September 2018 – 2,450,000). The weighted average fair value of the options granted during the year ended September 30, 2018 was approximately \$0.14 per option. The fair value was estimated using the Black-Scholes option pricing model using the following assumptions:

	December 31, 2018	September 30, 2018
Weighted average risk-free interest rate	-	1.81%
Expected volatility	-	126.64%
Expected dividends	-	Nil
Expected life	-	3 years
Grant date share price	-	0.20

For the period ended December 31, 2018, the Company recognized \$43,678 (2017 - \$6,503) as share-based compensation expense on the consolidated statements of comprehensive loss for options granted and vested and will recognize the remaining expenses of \$61,668 over the vesting period.

Stock option activity for the period ended December 31, 2018 is as follows:

	Number of Stock Options	Weighted Average Exercise Price \$
Balance, September 30, 2017	729,500	0.93
Granted	2,450,000	0.30
Expired / forfeited	(50,000)	2.79
Balance, September 30, 2018 and December 31, 2018	3,129,500	0.41
Exercisable, December 31, 2018	1,446,167	0.53

The weighted average remaining contractual life of the outstanding options was 3.67 years. Details of stock options outstanding is as follows:

Expiry Date	Exercise Price \$	Number Outstanding	Number Exercisable
January 13, 2019 ⁽¹⁾	2.40	20,000	20,000
August 4, 2019	2.30	20,000	20,000
February 2, 2020	2.30	54,500	54,500
October 5, 2020	1.00	60,000	60,000
May 31, 2021	0.50	335,000	335,000
November 23, 2021	0.50	40,000	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	816,667
		3,129,500	1,446,167

(1) Subsequent to the period ended December 31, 2018, these options expired unexercised.

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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 2015 which has been extended in 2018 and 2017 (Note 11).

As at December 31, 2018, \$43,900 (September 30, 2018 - \$12,138) 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 December 31, 2018**

Compensation	Salaries	Management fees	Director fees	Share-based payments	Total
Chief Executive Officer	\$ 85,800	\$ -	\$ -	\$ 8,534	\$ 94,334
Chief Financial Officer	-	25,500	-	3,841	29,341
Directors	-	-	25,000	22,996	47,996
Total	\$ 85,800	\$ 25,500	\$ 25,000	\$ 35,371	\$ 171,671

Period ended December 31, 2017

Compensation	Salaries	Management fees	Director fees	Share-based payments	Total
Chief Executive Officer	\$ 85,800	\$ -	\$ -	\$ -	\$ 85,800
Chief Financial Officer	-	31,563	-	-	31,563
Directors	-	-	20,000	5,637	25,637
Total	\$ 85,800	\$ 31,563	\$ 20,000	\$ 5,637	\$ 143,000

15. FINANCE COST

	December 31, 2018	December 31, 2017
Accretion and interest on convertible debt (Note 11)	\$ 32,469	\$ 44,571
Finance cost - acquisition payable accretion (Note 9)	6,527	31,145
Finance cost – lease interest (Note 10)	3,086	4,534
Accretion on ARO (Note 12)	1,026	3,002
Regulatory fees and interest	45,164	63,497
	\$ 88,272	\$ 146,749

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16. FINANCIAL INSTRUMENTS

The Company 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, accounts receivable, goods and services tax receivable, restricted cash, accounts payable and accrued liabilities, 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 fair value 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	217,548	-	-	217,548

As at September 30, 2018, 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	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.

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16. FINANCIAL INSTRUMENTS (continued)**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.

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

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16. FINANCIAL INSTRUMENTS (continued)**c) Market Risk (continued)**

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.

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 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.

18. SEGMENTED INFORMATION

The Company's revenues of \$425,183 (2017 - \$1,370,479) are all attributable to Brazil where sales are recorded from shipments of DANF products from the Bonfim Project. For the period ended December 31, 2018, the Company's top three customers accounted for approximately 18.35%, 8.20%, and 7.47% (2017 - 32.4%, 13.6%, and 13.2%) 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 December 31, 2018			
Total assets	223,209	3,918,418	4,141,627
Total liabilities	1,532,634	1,783,423	3,316,057
Revenue	-	425,183	425,183
Gross profit	-	48,835	48,835
Net loss	(324,077)	(428,309)	(752,386)
As at September 30, 2018			
Total assets	480,625	4,353,323	4,833,948
Total liabilities	1,402,704	2,099,213	3,501,917
Revenue	-	2,299,475	2,299,475
Gross profit	-	492,700	492,700
Net loss	(1,531,872)	(1,491,024)	(3,022,896)

19. SUPPLEMENTAL CASH FLOW INFORMATION

The Company had the following non-cash transactions:

	December 31, 2018	December 31, 2017
Exploration and evaluation costs included in accounts payable	\$ -	\$ 136,359
Acquisition payable settled with exploration and evaluation assets	\$ 535,589	\$ -