FERONIA

# FERONIA INC.
# INTERIM MANAGEMENT'S DISCUSSION AND ANALYSIS
# QUARTERLY HIGHLIGHTS
# FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2019

**August 29, 2019**

This Management's Discussion and Analysis ("MD&A") has been prepared in compliance with section 2.2.1 of Form 51-102F1, in accordance with National Instrument 51-102 – Continuous Disclosure Obligations. This MD&A should be read in conjunction with the unaudited consolidated interim financial statements and accompanying notes for the three and six months ended June 30, 2019 of Feronia Inc. ("Feronia" or the "Company").

Throughout this MD&A, unless otherwise specified, "Feronia", the "Company", "we", "us" or "our" refer to Feronia Inc. and its subsidiaries. All amounts are expressed in U.S. dollars ($) unless otherwise stated and have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board.

The Company now reports EBITDA (earnings before deducting interest, taxes, depreciation and amortization) and EBITDA per share as, whilst both are non-GAAP measures, the Company believes that EBITDA is useful additional information to management, the Board and investors as it provides an indication of the operational results generated by its business activities prior to taking into consideration how those activities are financed and taxed and also prior to taking into consideration asset depreciation and amortization and it excludes items that could affect the comparability of our operational results and could potentially alter the trends analysis in business performance. Excluding these items does not necessarily imply they are nonrecurring, infrequent or unusual. EBITDA is also used by some investors and analysts for the purpose of valuing a company. Investors are cautioned that EBITDA should not be construed as an alternative to operating earnings or net earnings determined in accordance with IFRS as an indicator of the Company's financial performance or as a measure of the Company's liquidity and cash flows. EBITDA does not take into account the impact of working capital changes, capital expenditures, debt principal reductions and other sources and uses of cash, which are disclosed in the consolidated statements of cash flows.

Additional information relating to the Company may be found at www.sedar.com.

## *BUSINESS OVERVIEW*

Feronia is an agribusiness operating in the Democratic Republic of the Congo (the "DRC").

At the heart of Feronia lies a long established palm oil business, Plantations et Huileries du Congo S.A ("PHC"), a company incorporated under the laws of the DRC, which has three remotely located plantations in Lokutu, Yaligimba and Boteka. Feronia acquired its interest in PHC from Unilever in 2009 and currently owns 83.37% of PHC's shares, with the remaining 16.63% owned by the DRC government through its Ministry of Portfolio.

Since acquiring PHC, Feronia has been focussed on rebuilding the business and creating a profitable and financially sustainable business which will provide a secure future for the thousands of people it directly and indirectly employs. This process has included the rehabilitation of palm oil mills at the Lokutu and Boteka plantations, the construction of a new palm oil mill at the Yaligimba plantation, the installation of new fibre boilers at all three mills and extensive replanting.

Feronia's plantations produce crude palm oil ("CPO") and palm kernel oil ("PKO"). CPO is part of the staple and traditional diet of the Congolese and, with Feronia's products being sold locally in the DRC, the Company is well placed to help decrease reliance on imports and increase food security and quality in the DRC.

Feronia prides itself on being the guardian of its palm oil business which was established more than 100 years ago, as well as its employees, communities, and environment. It has made a long term commitment to improve the living and working environment of its employees and their communities and is committed to sustainable agriculture, environmental protection and community inclusion. Feronia has in place a sustainability strategy which is focused on implementing environmental and social best practice and improving social infrastructure.

Feronia is implementing IFC/World Bank standards for environmental and social sustainability. Feronia's oil palm replanting programme is brownfield in nature – replacing old palms with new – and has no reliance on deforestation.

Feronia previously had an arable farming operation which grew and processed rice. The Company has discontinued the arable farming operations and is in the process of disposing of the related assets.

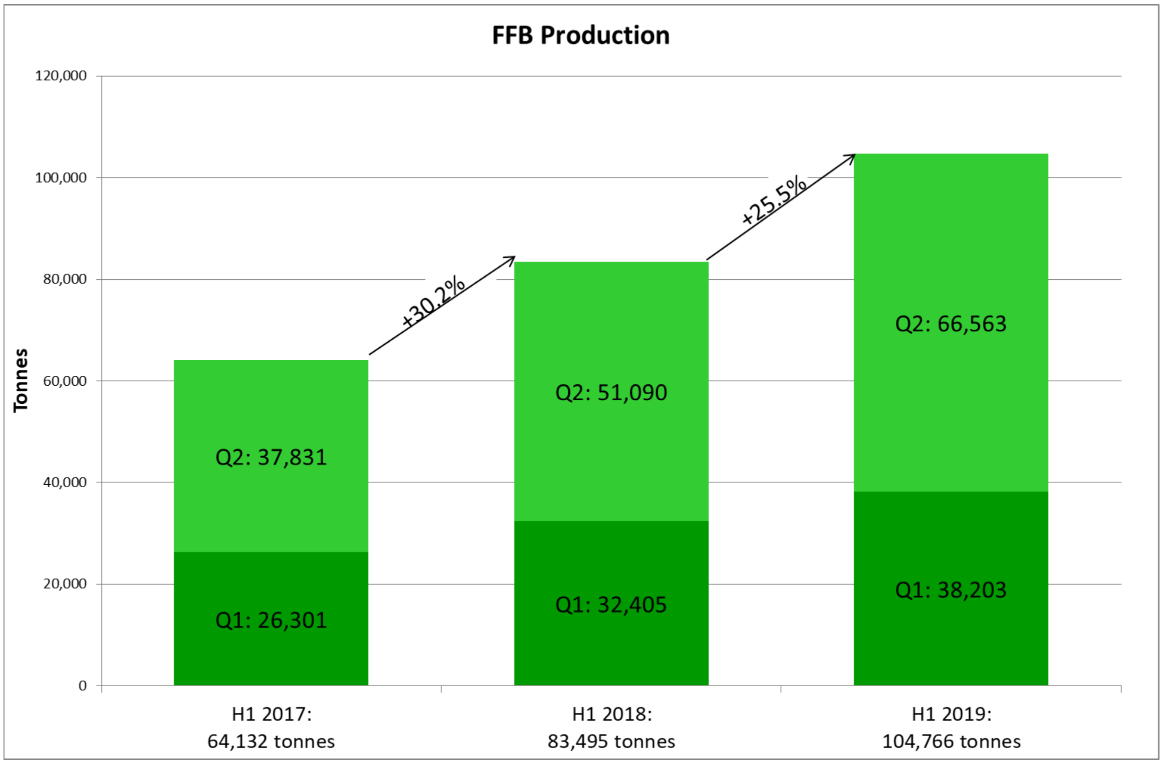
## OPERATIONS - BUSINESS PERFORMANCE

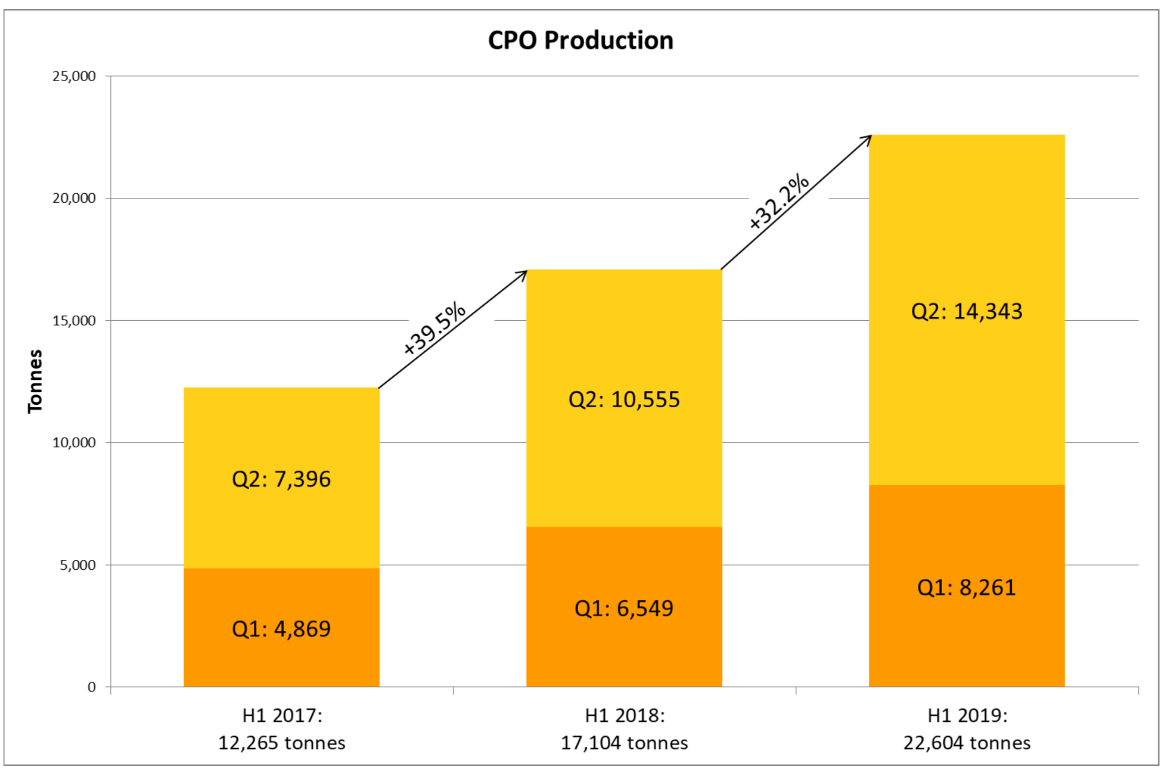
### *Q2 and H1 2019 Performance and Recent Developments*

For the three months ended June 30, 2019 ("Q2 2019"), the Company processed 66,563 tonnes of fresh fruit bunches ("FFB") and produced 14,343 tonnes of CPO, representing increases in production as compared to the three months ended June 30, 2018 ("Q2 2018") of 30.3% and 35.9%, respectively.

For the six months ended June 30, 2019 ("H1 2019"), the Company processed 104,766 tonnes of FFB and produced 22,604 tonnes of CPO, representing increases in production as compared to the six months ended June 30, 2018 ("H1 2018") of 25.5% and 32.2%, respectively.

The following charts show key data relating to PHC's operations for Q2 2019 and H1 2019:



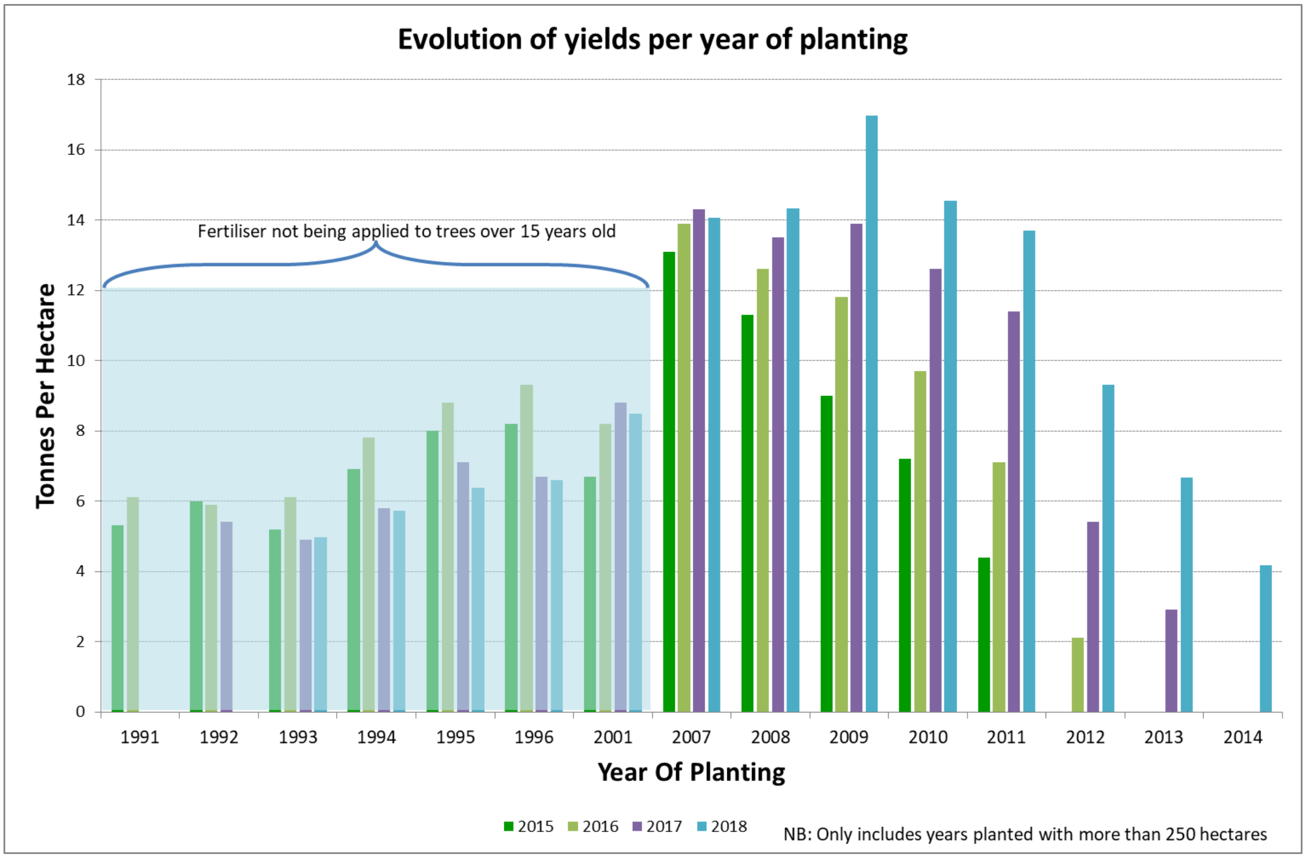

The year-on-year increase in FFB production for both Q2 2019 and H1 2019 is largely the result of the maturing of oil palms planted by the Company since 2010, with yields increasing as a consequence, along with improved plantation management. The increase in CPO production for both Q2 2019 and H1 2019 is the result of an increase in the amount of FFB processed during the quarter and improved oil extraction rate ("OER") being achieved following the commissioning of new fibre boilers at Lokutu and Yaligimba in 2017 and at Boteka in July 2018. The OER for Q2 2019 was 21.5% (Q2 2018: 20.7%) and for H1 2019 was 21.6% (H1 2018: 20.5%).

Installation of the new fibre boiler and turbine at Boteka was completed in July 2018 and we are currently completing the capacity expansion plan at that site. At Lokutu, technical issues with the boiler and turbine have largely been addressed and the Company is progressing with the construction of a second palm oil mill at its Lokutu plantation which is being built on the site of a long closed palm oil mill at Lukomete and is expected to be fully operational in early 2020. Subject to ongoing improvements in operational practices being implemented, the Company expects to achieve an OER similar to those achieved through best practices in Africa in the medium term.

The following table shows PHC's plantation profile as at June 30:

| | **Total as at June 30** | | |
|---|---|---|---|
| | 2017 | 2018 | **2019** |
| **Plantations (Hectares)** | | | |
| Immature | | | |
| Year 0 | - | **-** | **-** |
| Year 1 | - | **-** | **80** |
| Year 2 | 3,763 | **-** | **-** |
| Year 3 | 3,739 | **3,763** | **-** |
| | 7,502 | **3,763** | **80** |
| Producing | | | |
| New mature (4-5 years) | 6,799 | **6,614** | **7,502** |
| Young mature (6-9 years) | 5,293 | **7,774** | **9,936** |
| Mature (10-19 years) | 1,362 | **2,805** | **3,488** |
| Old (20-25 years) | 3,227 | **2,546** | **1,430** |
| | 16,681 | **19,739** | **22,356** |
| Total Planted | 24,183 | **23,502** | **22,436** |

The net year-on-year increase in producing hectares between Q2 2018 and Q2 2019 of 2,617 ha is the result of 3,763 ha of young oil palms coming into production in Q1 2019 and 1,146 ha of old oil palms being removed from production.




With production largely driven by the yields achieved by our producing hectares, regular fertilizer application facilitated by the DFI Debt Facility (as defined below) has generated year-on-year yield increases, especially among young mature oil palms, as illustrated in the chart above. With the full effect of fertilizer not typically materializing for up to 36 months after application, and with yields expected to increase as young mature oil palms grow and move into their prime mature production stage at between 8 and 18 years old, we expect production levels and FFB yield per hectare to continue to increase on a year-on-year basis over the coming years.

As yield per hectare figures are calculated using the volume of FFB processed and are not an indication of the volume of FFB produced by oil palms, any inability to harvest or processing restrictions may have an adverse impact on reported average FFB calculations.

Average yields per hectare are also further skewed by:

1. 17,428 ha of oil palms, representing 78% of producing hectares, being low yielding, new mature and young mature oil palms in the age range of 4 to 9 years old; and

2. nutrient deficiencies at Boteka where fertilizer and ground limestone have been applied to correct the deficiencies and, combined with a normal course of fertilizer and soil maintenance regime, are anticipated to result in yield improvements in the medium term.

As young oil palms mature over the short term, average yields per hectare are expected to increase accordingly and move towards those achieved elsewhere in Africa.

### *Sustainability*

Feronia is the largest agro-industrial employer in the DRC with more than 10,000 permanent and temporary employees on a full time equivalent basis, all in regions of the country with few other significant sources of formal employment and 41 employees in Kinshasa. When the families of these workers are taken into account, Feronia directly supports the livelihoods of an estimated 50,000-70,000 people.

Environmental, Social and Governance ("ESG") are a central pillar of Feronia's operations. Its ESG activities are subject to considerable and regular internal and external review, audit and scrutiny and are undertaken in accordance with globally recognised social and environmental performance standards. Feronia has a stated commitment to transparency and engagement and is ready and willing to engage with any party seeking to learn more about it and the value it adds to the DRC economy directly through the employment it provides, the taxes that it pays, and the investment it is making in infrastructure in the regions where it operates.

More information on Feronia's approach to sustainability can be found on the Company's website at www.feronia.com/sustainability.

### *FINANCIAL PERFORMANCE – Three and six months ended June 30, 2019*

### *Operating Profit (Loss)*

| *Expressed in thousands of US dollars* | Three months ended June 30 | | | Six months ended June 30 | | |
|---|---|---|---|---|---|---|
| | **2019** | 2018 | % Change | **2019** | 2018 | % Change |
| **Revenue** | **8,613** | 7,565 | 14% | **15,946** | 12,989 | 23% |
| Cost of sales | **(5,178)** | (5,358) | (3%) | **(10,550)** | (8,675) | 22% |
| **Gross income** | **3,436** | 2,207 | 56% | **5,396** | 4,313 | 25% |
| **Expenses** | | | | | | |
| Selling, general and administrative | **(3,151)** | (2,867) | 10% | **(5,696)** | (6,351) | (10%) |
| Other income/(losses) | **(738)** | 137 | (638%) | **(704)** | 361 | (295%) |
| Gain/(loss) on biological assets | **(152)** | 94 | (262%) | **180** | 338 | (47%) |
| **Operating (loss)** | **(605)** | (428) | 41% | **(824)** | (1,339) | (39%) |
| **EBITDA** | **802** | 500 | 60% | **1,889** | 485 | 290% |

The following table reconciles operating profit (loss) to EBITDA for the three and six months ended June 30, 2019 and 2018:

| *Expressed in thousands of US dollars* | **Three months ended June 30,** | | **Six months ended June 30,** | |
|---|---|---|---|---|
| | **2019** | 2018 | **2019** | **2018** |
| **Net (loss)** | **(859)** | **(2,849)** | **(2,210)** | **(2,291)** |
| Income taxes | **33** | **114** | **227** | **258** |
| Depreciation and amortization | **1,407** | **928** | **2,713** | **1,824** |
| Finance costs and gain on derivatives | **221** | **2,307** | **1,159** | **694** |
| **EBITDA** | **802** | **500** | **1,889** | **485** |

**Revenues for Q2 2019** were $8,613,000, an increase of $1,048,000 or 14% on revenues for Q2 2018 of $7,565,000. The increase in revenue can largely be attributed to:

- CPO sales of $7,760,000, an increase of $879,000 or 13% on CPO sales for Q2 2018 (Q2 2018: $6,881,000), made up of:
  - 11,177 tonnes of CPO sold in Q2 2019, being a 27% increase on the volume sold in Q2 2018 (Q2 2018: 8,780 tonnes); partially offset by
  - an 11% decrease in the average CPO price achieved in the quarter of $694 per tonne compared to $784 per tonne in Q2 2018.
- A 13% decrease in PKO sales in Q2 2019 to $515,000 (Q2 2018: $593,000).

**Total revenues for H1 2019** were $15,946,000, an increase of $2,957,000 or 23% on revenues for H1 2018 of $12,989,000. The increase in revenue can largely be attributed to:

- CPO sales of $14,342,000, an increase of $2,361,000 or 20% on CPO sales for H1 2018 (H1 2018: $11,981,000), made up of:
  - 20,449 tonnes of CPO sold in H1 2018, being a 33% increase on the volume sold in H1 2018 (H1 2018: 15,351 tonnes); partially offset by
  - an 10% decrease in the average CPO price achieved in the period of $701 per tonne compared to $780 per tonne in H1 2018.
- a 42% increase in PKO sales to $1,129,000 in H1 2019 (H1 2018: $795,000).

**Cost of sales for Q2 2019** was $5,178,000 (Q2 2018: $5,358,000), a decrease of $180,000 or 3% despite a 27% increase in the volume of CPO sold. The decrease was largely due to:

- a 24% decrease in the cost of production per tonne of CPO resulting from less fertilizer and consumables used, along with economies of scale generated by the growing volume of production; offset by
- a $350,000 reduction in costs being capitalised as "Bearer Assets" in Q2 2019 when compared with Q2 2018.

**Cost of sales for H1 2019** was $10,550,000 (H1 2018: $8,675,000), an increase of $1,874,000 or 22%. The increase was largely due to:

- a 33% increase in volumes of CPO sold; and
- a $983,000 reduction in costs being capitalised as "Bearer Assets" in H1 2019 when compared with H1 2018; partially offset by
- a 9% decrease in the cost of production per tonne of CPO resulting from less fertilizer and consumables used, along with economies of scale generated by the growing volume of production.

**Selling, general and administrative costs for Q2 2019** of $3,151,000 were $284,000, or 10% higher than in Q2 2018 (Q2 2018: $2,867,000). This was largely due to:

- a $127,000 increase in travel and associated costs;
- a $210,000 increase in government related taxes and fees;
- a $411,000 increase in consultancy and professional fees; partially offset by
- a $199,000 year-on-year reduction in the charge for deferred share units as a result of units lapsing; and
- a reduction in salary costs due to a change in overtime policy, reduction in staff numbers and allocation of costs to cost of sales

**Selling, general and administrative costs for H1 2019** of $5,696,000 were $655,000, or 10% lower than in H1 2018 (H1 2018: $6,351,000). This was largely due to:

- a $892,000 year-on-year reduction in the charge for deferred share units as a result of units lapsing; and
- a reduction in salary costs due to a change in overtime policy, reduction in staff numbers and allocation of costs to Cost of Sales; partially offset by
- a $406,000 increase in professional and consultancy fees.

**Other income/(losses)** are largely a result of foreign exchange gains and losses which arose from movements in exchange rates between the U.S. dollar, Congolese Franc and British Pound. In Q2 2019, other losses was $738,000 (Q2 2018 other income: $137,000). In H1 2019, other losses was $704,000 (H1 2018 other income: $361,000).

***Gain (Loss) on Biological Assets and Planting Costs***

The quantity of the fruit on the oil palms is estimated to equate to one week's harvest based on the production of the preceding three months. This is then converted to CPO using the current OER and the value is then calculated by multiplying the quantity of CPO by the average selling price less costs of production.

Loss on biological assets for Q2 2019 was $152,000 (Q2 2018 gain: $94,000) and for H1 2019 the gain was $180,000 (H1 2018 gain: $338,000). This relates to the change in the value of the CPO contained in the estimated ripe FFB on the oil palms as at June 30, 2019 and which would be harvestable in the first week of July 2019.

While the young age profile of oil palms across the plantations means that yields are currently low, with economies of scale now starting to be achieved, the cost of production has begun to reduce and is lower than the achieved selling price for CPO. As a result, the first time a value was attributable to the fruit on the oil palms was at December 31, 2017.

**Operating loss for Q2 2019** was $605,000, an increase of $177,000 or 41% on the operating loss for Q2 2018 of $428,000.

**Operating loss for H1 2019** was $824,000, a decrease of $515,000 or 39% on the operating loss for H1 2018 of $1,339,000.

The Company has replanted 17,518 ha of new oil palms since 2010 of which 17,438 ha, or 99%, were producing in Q2 2019. These oil palms are currently low yielding, new mature and young mature oil palms in the age range of 4 – 9 years.

Young oil palms have a negative contribution to operating results, impact all key operating metrics, including cost of goods sold, and are a key factor in the current low margins. However, the portfolio of immature and young palms replanted since 2010 is the Company's core asset and the losses, which are in line with Company expectations, are expected to reverse as the oil palms mature and their yields increase.

Over time the Company's cost of production on a per tonne basis is expected to decline substantially. Achieving this remains a key objective of the Company.

### *Finance Income and Costs*

| *(Expressed in thousands of US dollars)* | Three months ended June 30 | | | Six months ended June 30 | | |
|---|---|---|---|---|---|---|
| | **2019** | **2018** | **% Change** | **2019** | **2018** | **% Change** |
| Finance Costs | **(1,032)** | (2,085) | (51%) | **(3,160)** | (3,260) | (3%) |
| Finance Income/(Cost) | **812** | (222) | 466% | **2,000** | 2,566 | (22%) |

Finance costs relate to the interest on debentures and the DFI Debt Facility. The decrease in costs in Q2 2019 compared to the same period in the prior year is due to more borrowing costs relating to capital projects being capitalised in Q2 2019 compared to Q2 2018.

Finance income/(cost) relate to gains and losses on the revaluation of derivatives embedded in convertible debentures.

### *Net Income/(Loss)*

| *(Expressed in thousands of US dollars)* | Three months ended June 30 | | | Six months ended June 30 | | |
|---|---|---|---|---|---|---|
| | **2019** | **2018** | **% change** | **2019** | **2018** | **% change** |
| Net loss | **(859)** | (2,849) | (70%) | **(2,210)** | (2,291) | (4%) |

Net losses for Q2 2019 were $859,000, a decrease of $1,989,000 or 70% compared to the loss in Q2 2018 of $2,849,000. This is the result of an increase in operating losses of $177,000, partially offset by a decrease in finance costs of $1,052,000, an increase in gains on derivatives of $1,033,000 and a decrease in income tax expense of $81,000.

Net losses for H1 2019 were $2,210,000, a decrease of $80,000 or 4% compared to net losses in H1 2018 of $2,291,000. This is largely the result of a decrease in operating losses of $515,000 and a decrease in gains on derivatives of $566,000, partially offset by a decrease in finance costs of $101,000 and a decrease in income tax expenses of $30,000.

### *Net Loss Attributable to Owners of the Parent*

The net loss attributable to the Company for Q2 2019 was $777,000 (Q2 2018: $2,329,000) which is equivalent to $0.001 per share (Q2 2018 loss per share: $0.005).

The net loss attributable to the Company for H1 2019 was $1,341,000 (H1 2018: $1,433,000) which is equivalent to $0.002 per share (H1 2018 loss per share: $0.003).

### *Net Loss Attributable to Non-controlling Interests*

The net loss attributable to non-controlling interests for Q2 2019 was $83,000 (Q2 2018: $520,000) which represent the share of losses attributable to the 16.63% and 20% holdings in PHC and Feronia's arable business respectively.

The net loss attributable to non-controlling interests for H1 2019 was $869,000 (H1 2018: $858,000) which represent the share of losses attributable to the 16.63% and 20% holdings in PHC and Feronia's arable business respectively.

## *COMPARISON OF FINANCIAL CONDITION*

The following table provides a comparison of the Company's financial condition as at June 30, 2019 compared to December 31, 2018:

| *(Expressed in thousands of US dollars)* | **June 30 2019** | **December 31 2018** | % Change |
|---|---|---|---|
| Total current assets | **18,841** | **14,982** | 26% |
| Total current liabilities | **19,673** | **65,918** | (70%) |
| Net current liabilities | **(832)** | **(50,936)** | (98%) |
| Total shareholder's equity | **48,579** | **31,840** | 53% |

The changes in financial condition largely reflect funds received pursuant to the Short Term Loan Facilities (as defined below), Private Placement (as defined below) and reclassification of the DFI Debt Facility (all described below under "Liquidity and Capital Resources").

## *CASHFLOWS AND LIQUIDITY*

The cash balance net of overdraft facility as at June 30, 2019 was $7,626,000 compared to $2,139,000 as at December 31, 2018. The increase in the cash balance of $5,488,000 was a result of net cash inflows from financing activities of $19,830,000 and foreign exchange gains on currency translations of $333,000, partially offset by an increase in working capital of $2,220,000, a net cash loss from operations (excluding non-cash items) of $1,614,000, and capital expenditures of $10,842,000.

The net cash inflows from financing activities relate to a $690,000 overdraft facility and $19,140,000 received pursuant to the Private Placement, which closed on May 31, 2019 (described below under "Liquidity and Capital Resources").

The increase in working capital during H1 2019 of $2,220,000 (increase in H1 2018: $3,244,000) represents an increase in accounts receivable of $46,000, a decrease in inventory of $408,000, a decrease in accounts payable and accrued liabilities of $3,568,000 and a decrease in prepayments of $986,000.

Investing activities in H1 2019 resulted in cash outflows of $10,842,000 (Q2 2018: $8,937,000).

## *LIQUIDITY AND CAPITAL RESOURCES*

The Company recorded net cash outflows in operations and investing activities for Q2 2019.

On December 21, 2015, PHC entered into a secured term facility (the "DFI Debt Facility") for up to $49,000,000 with a syndicate of European Development Finance Institutions. The amount advanced under the DFI Debt Facility is to be repaid semi-annually over a six year period commencing September 2019. The DFI Debt Facility is subject to covenants, pledges and charges typical of a loan facility of this nature and is secured by way of a first ranking security against the assets of PHC and by way of a pledge of the shares of PHC by a Belgian subsidiary of Feronia.

The purpose of the DFI Debt Facility is to finance investment into equipment, replanting, fertilizer and ESG expenditures required as part of the rehabilitation of PHC's three palm oil plantations in the DRC. The entirety of the $49,000,000 DFI Debt Facility was drawn down in 2016 and 2017.

On July 19, 2017, the Company obtained the consent by extraordinary resolution of the holders of its debentures (the "2012 Debentures") to certain amendments to the trust indenture entered into between the Company and TSX Trust dated July 24, 2012, as amended and supplemented from time to time. The amendments include reducing the conversion price of the 2012 Debentures from CDN$1.75 per share to CDN$0.275 per share and extending the maturity date from July 24, 2017 to July 24, 2022.

On September 25, 2017, the Company entered into a subscription agreement with Straight KKM 2 Limited ("KKM") pursuant to which the Company agreed to complete a private placement of common shares of the Company. The Company closed the first $9,000,000 tranche of the private placement on October 16, 2017 and the second $8,500,000 tranche on January 19, 2018. Based on a fixed exchange rate of CDN$1.253 per $1.00 as set out in the applicable subscription agreement, the Company issued a total of 121,819,444 common shares of the Company to KKM. A $4,000,000 bridge loan advanced to the Company by the majority shareholder of KKM was applied towards the subscription amount for the first tranche.

On June 21, 2018, the Company entered into a loan facility (the "New ESG Loan") with CDC Group plc ("CDC"), the UK Government's development finance institution, in the principal amount of $5,141,182. The proceeds from the New ESG Loan were used to repay all obligations of the Company under an existing loan which was first provided to the Company in November 2013 by CDC, as lender, to support the implementation of an environmental and social action plan designed to strengthen the Company's environmental and social standards and to enhance community facilities.

The New ESG Loan is an unsecured non-revolving term loan at an annual interest rate of 12% maturing July 24, 2022 and is convertible into common shares of the Company at a conversion price of CDN$0.275 per share.

At December 31, 2018 and March 31, 2019, the Company classified the DFI Debt Facility of $47,600,000 (December 31, 2017: $47,500,000) as a current liability, as a result of a covenant breach under the DFI Debt Facility relating to the equity solvency ratio which was largely due to the decrease in value of Congolese Franc towards the end of 2016. The Company has undertaken a revaluation of the assets in PHC for reporting under local OHADA regulations and, as a result, the Company is no longer in breach of the DFI Debt Facility covenant. As a result, as at June 30, 2019, the DFI Debt Facility was reclassified as a long term liability.

On December 20, 2018, March 14, 2019 and May 21, 2019, the Company entered into unsecured subordinated short term loan facilities (the "Short Term Loan Facilities") for up to $3,000,000, $8,000,000 and $1,500,000, respectively. As at March 31, 2019, an aggregate of $9,500,000 had been advanced to the Company under the Short Term Loan Facilities by

CDC and KN Agri LLC ("KN Agri"), the agricultural and food investment vehicle owned by funds that are managed by Kuramo Capital Management, LLC and Nile Capital Management, LLC. On May 21, 2019, CDC advanced a further $1,500,000 to the Company bringing the total advanced under the Short Term Loan Facilities to $11,000,000. KN Agri subsequently assigned its interest in the Short Term Loan Facilities to KKM. The Short Term Loan Facilities bore interest at a rate of 12% per annum and matured on May 31, 2019, subject to acceleration in certain circumstances.

On May 31, 2019 the Company completed a private placement (the "Private Placement") for US$19,311,507 of common shares of the Company issued to existing shareholders CDC, KKM and Golden Oil Holdings Limited ("GOHL") at an issuance price of CAD$0.075 per share.

Based on a fixed exchange rate of CAD$1.344:US$1.00 as set out in the applicable subscription agreements, the Company issued an aggregate of 346,062,202 common shares pursuant to the Private Placement, including 202,702,203 common shares issued in settlement of the Short Term Loan Facilities provided by KKM and CDC in the aggregate amount of approximately US$11,311,507 million. The balance of the cash proceeds from the Private Placement are being used for working capital purposes and to complete the construction of a new palm oil mill at Lokumete, which is expected to be completed at a remaining cost of approximately US$11 million by early 2020.

It is management's view that current resources including funds drawn down to date from its various debt facilities and proceeds from its equity financings will not be sufficient to see the Group through to meet its ongoing operations. With the aim of remedying the Group's financial resources, management is reviewing various financial alternatives.

These conditions indicate material uncertainty that may cast significant doubt as to the ability of the Group to meet its obligations as they come due and, accordingly, the ultimate appropriateness of the use of accounting principles applicable to a going concern.

## *OUTSTANDING SHARE DATA*

As at June 30, 2019 and the date of this MD&A, the Company has 829,778,671 common shares issued and outstanding on a non-diluted basis.

As at June 30, 2019 and the date of this MD&A, the Company has issued and outstanding options exercisable into an aggregate of 531,761 common shares and deferred share units exercisable into an aggregate of 18,514,714 common shares.

Assuming the exercise or conversion of all of the outstanding debentures, options, deferred share units and principal amount and interest under the New ESG Loan Facility, an aggregate of 895,132,026 common shares of the Company would be issued and outstanding on a fully diluted basis.

## *RELATED PARTY TRANSACTIONS*

During the three months ended June 30, 2019, the Company paid $108,949 in board fees to non-executive directors of the Company. During the six months ended June 30, 2019, the Company paid $224,574 in board fees to non-executive directors of the Company.

During the three months ended June 30, 2019, compensation paid or payable to key management for employee services totalled $264,368. During the six months ended June 30, 2019, compensation paid or payable to key management for employee services totalled $431,755. Key management includes the Chief Executive Officer, the Chief Financial Officer, the Chief Operating Officer and the directors of the Company.

During the three and six months ended June 30, 2019, the Company entered into the Short Term Loan Facilities with CDC and KKM and completed the Private Placement with CDC, KKM and GOHL (described above under "Liquidity and Capital Resources"). As at the date of this MD&A, each of CDC, KKM and GOHL beneficially own, or control or direct, directly or indirectly, voting securities of the Company carrying 10% or more of the voting rights attached to the common shares.

***OUTLOOK***

With production largely driven by the yields achieved by our producing hectares, regular fertilizer application facilitated through the DFI Debt Facility is already generating year-on-year yield increases, especially among young mature oil palms in the 4 – 9 year age range which have been planted since 2010. With the full effect of fertilizer not typically materializing for up to 36 months after application, and with yields expected to increase as young mature oil palms grow and move into their prime mature production stage at between 10 and 19 years old, we expect production levels to continue to increase on a year-on-year basis over the coming years.

Securing the DFI Debt Facility and satisfying the conditions to draw down the full facility were important developments for the Company. The DFI Debt Facility is in place to finance investment into equipment, replanting, fertilizer and ESG expenditures and, as such, is enabling the Company to drive value creation through the yield gains achieved through the application of fertilizer and an increase in capacity and efficiency in its production process through on-going improvements and investments, such as its new fibre boilers.

As at June 30, 2019 and the date of this MD&A, the Company was no longer in breach of the DFI Debt Facility's equity solvency ratio, having cured the breach following the completion of the revaluation of the assets in PHC for reporting under local OHADA regulations.

With the aim of improving the Company's financial resources, management continues to have on-going discussions with its major shareholders and debt providers and is reviewing various financial alternatives.

The Company's key objectives for the remainder of 2019 are:

- to secure additional financial resources;
- to continue improving operational performance and realize efficiencies through the continued implementation of best practices, application of fertilizer and appropriate capital investments; and
- to progress the construction of a second palm oil mill at its Lokutu plantation.

***RISKS AND UNCERTAINTIES***

The Company is subject to various business, financial and operational risks that could materially adversely affect the Company's future business, operations and financial condition and could cause such future business, operations and financial condition to differ materially from the forward-looking statements and information contained in this MD&A. For a more comprehensive discussion of the risks faced by the Company, please refer to the Company's annual management's discussion and analysis for the year ended December 31, 2018, available at www.sedar.com

## *FORWARD-LOOKING STATEMENTS*

Certain statements contained in this MD&A constitute "forward-looking statements". All statements other than statements of historical fact contained in this MD&A, including, without limitation, those regarding the Company's future financial position and results of operations, strategy, plans, objectives, goals and targets, future developments in the markets where the Company participates or is seeking to participate and any statements preceded by, followed by or that include the words "believe", "expect", "aim", "intend", "plan", "continue", "will", "may", "would", "anticipate", "estimate", "forecast", "predict", "project", "seek", "should" or similar expressions or the negative thereof, are forward-looking statements. These statements are not historical facts but instead represent only the Company's expectations, estimates and projections regarding future events. These statements are not guarantees of future performance and involve assumptions, risks and uncertainties that are difficult to predict. Therefore, actual results may differ materially from what is expressed, implied or forecasted in such forward-looking statements.

Additional factors that could cause actual results, performance or achievements to differ materially include, but are not limited to, the risk factors discussed herein under the section heading "Risks and Uncertainties". Management provides forward-looking statements because it believes they provide useful information to readers when considering their investment objectives and cautions readers that the information may not be appropriate for other purposes. Consequently, all of the forward-looking statements made in this MD&A are qualified by these cautionary statements and other cautionary statements or factors contained herein, and there can be no assurance that the actual results or developments will be realized or, even if substantially realized, that they will have the expected consequences to, or effects on, the Company. These forward-looking statements are made as of the date of this MD&A and the Company assumes no obligation to update or revise them to reflect subsequent information, events or circumstances or otherwise, except as required by law.

The forward-looking statements in this MD&A are based on numerous assumptions regarding the Company's present and future business strategies and the environment in which the Company will operate in the future, including assumptions regarding expected crop yields, commodity prices, business and operating strategies, and the Company's ability to operate its production facilities and plantations on a profitable basis.

Some of the risks which could affect future results and would cause results to differ materially from those expressed in the forward-looking statements contained herein include: risks related to foreign operations (including various political, economic and other risks and uncertainties), the interpretation and implementation of the Agriculture Law, termination or non-renewal of concession rights or expropriation of property rights, political instability and bureaucracy, limited operating history, lack of profitability, lack of national infrastructure in the DRC, high inflation rates, limited availability of debt financing in the DRC, fluctuations in currency exchange rates, competition from other businesses, reliance on various factors (including local labour, importation of machinery and other key items and business relationships), the Company's reliance on two major customers, lower productivity at the Company's plantations, risks related to the agricultural industry (including adverse weather conditions, shifting weather patterns, and crop failure due to infestations), a shift in commodity trends and demands, vulnerability to fluctuations in the world market, the lack of availability of qualified management personnel and stock market volatility.