

FERONIA INC.

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(Unaudited)

For the three months ended March 31, 2014 and 2013

(Expressed in United States Dollars – except where otherwise noted)

Notice of No Auditor Review of condensed Interim Consolidated Financial Statements

Under part 4, subsection 4.3(3) (a) National Instrument 51-102, if an auditor has not performed a review of the interim financial statements they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor. The accompanying unaudited condensed interim consolidated financial statements of the Company have been prepared by management and approved by the audit committee and board of directors of the Company. The Company's independent auditor has not performed a review of these financial statements in accordance with the standards established by CPA Canada for a review of the interim financial statements by an entity's auditor.

FERONIA INC.

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(Unaudited)

For the three-months ended March 31, 2014 and 2013

(Expressed in United States Dollars – except where otherwise noted)

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Condensed consolidated interim statements of financial position
Expressed in United States Dollars
(unaudited)

	Notes	March 31, 2014	December 31, 2013
Assets			
Current assets			
Cash		13,477,668	18,252,307
Receivables		267,403	108,699
Inventories		6,044,426	4,056,629
Prepaid expenses and other current assets		<u>1,325,330</u>	<u>1,486,632</u>
		21,114,827	23,904,267
Non-current assets			
Non-current biological assets	5	18,844,254	20,170,686
Property plant and equipment	4	<u>26,511,138</u>	<u>27,096,878</u>
		45,355,392	47,267,564
Total assets		<u><u>66,470,219</u></u>	<u><u>71,171,831</u></u>
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities	8	5,293,984	4,614,651
Provisions	18	370,441	370,441
Other financial liabilities	10	<u>665,988</u>	<u>584,208</u>
		6,330,413	5,569,300
Long-term Liabilities			
Borrowings	9	4,175,411	4,122,277
Other long-term financial liabilities	10	6,140,521	6,406,324
Deferred tax liabilities		<u>4,967,876</u>	<u>5,752,019</u>
		15,283,808	16,280,620
Total liabilities		<u><u>21,614,221</u></u>	<u><u>21,849,920</u></u>
Shareholder's equity			
Share capital	6	91,420,003	91,420,003
Warrant reserve	7	36,322	36,322
Share-based payment reserve	7	2,826,413	2,818,984
Accumulated other comprehensive income		612,312	691,473
Deficit		<u>(42,837,398)</u>	<u>(39,296,722)</u>
Owners of the parent		52,057,652	55,670,060
Non-controlling interest	11	<u>(7,201,654)</u>	<u>(6,348,149)</u>
Total equity		<u><u>44,855,998</u></u>	<u><u>49,321,911</u></u>
Total equity and liabilities		<u><u>66,470,219</u></u>	<u><u>71,171,831</u></u>
Contingent Liabilities	18	370,441	370,441

**Condensed consolidated interim statements of comprehensive loss
For the three months ended March 31, 2014 and 2013**

**Expressed in United States Dollars
(unaudited)**

	Three months ended March 31, 2014	Three months ended March 31, 2013
Notes	_____	(Restated note 2) _____
Net loss	<u>(4,759,541)</u>	<u>(2,926,515)</u>
Other comprehensive loss		
Cumulative translation adjustment	(79,161)	96,981
Actuarial gain on employment benefit, net of tax	<u>365,361</u>	<u>145,948</u>
Comprehensive loss	<u><u>(4,473,341)</u></u>	<u><u>(2,683,586)</u></u>
Loss attributable to:		
Owners of the parent	(3,619,836)	(2,508,919)
Non-controlling interest	11 <u>(853,505)</u>	<u>(174,667)</u>
	<u><u>(4,473,341)</u></u>	<u><u>(2,683,586)</u></u>

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

Condensed consolidated interim statements of changes in equity
For the three months ended March 31, 2014 and 2013
Expressed in United States Dollars
(unaudited)

	Attributable to owners of the parent							Total equity
	Share capital	Warrant reserve	Share-based payment and other reserves	Accumulated other comprehensive income	Retained earnings (Deficit)	Total	Non-controlling interest	
Balance, January 1, 2013	52,685,500	940,276	2,760,191	603,839	(30,364,426)	26,625,380	(3,724,010)	22,901,370
Net loss for the period	-	-	-	-	(2,717,069)	(2,717,069)	(209,446)	(2,926,515)
Other comprehensive income (net of tax)	-	-	-	96,981	-	96,981	-	96,981
Actuarial gain on employment benefit, net of tax	-	-	-	-	111,169	111,169	34,779	145,948
Comprehensive income (loss) for the period	-	-	-	96,981	(2,605,900)	(2,508,919)	(174,667)	(2,683,586)
Shares issued for cash (net of share issue costs)	13,018,113	-	-	-	-	13,018,113	-	13,018,113
Share-based compensation	-	-	18,791	-	-	18,791	-	18,791
Expiration of warrants	-	(592,944)	-	-	592,944	-	-	-
Tax effect on expiry of warrants	-	-	-	-	(78,565)	(78,565)	-	(78,565)
Balance, March 31, 2013	65,703,613	347,332	2,778,982	700,820	(32,455,947)	37,074,800	(3,898,677)	33,176,123
Balance, January 1, 2014	91,420,003	36,322	2,818,984	691,473	(39,296,722)	55,670,060	(6,348,149)	49,321,911
Net loss for the period	-	-	-	-	(3,818,971)	(3,818,971)	(940,570)	(4,759,541)
Other comprehensive income (net of tax)	-	-	-	(79,161)	-	(79,161)	-	(79,161)
Actuarial gain on employment benefit, net of tax	-	-	-	-	278,295	278,295	87,065	365,360
Comprehensive income (loss) for the period	-	-	-	(79,161)	(3,540,676)	(3,619,837)	(853,505)	(4,473,342)
Share-based compensation	-	-	7,429	-	-	7,429	-	7,429
Balance, March 31, 2014	91,420,003	36,322	2,826,413	612,312	(42,837,398)	52,057,652	(7,201,654)	44,855,998

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

Condensed consolidated statements of cash flows
For the three months ended March 31, 2014 and 2013
Expressed in United States Dollars
(unaudited)

	Three months ended March 31, 2014	Three months ended March 31, 2013
Cash provided by (used for):		
Operating activities:		
Loss from operating activities	(4,759,541)	(2,926,515)
Items not affecting cash:		
Share-based compensation	7,429	18,791
Depreciation	597,898	369,776
Employee incentive liability	(184,023)	(46,754)
Fair value loss (gain) on biological assets	2,238,367	(25,403)
Deferred tax on biological asset	(783,428)	8,891
Deferred tax adjustment	(715)	(3,794)
Change in warrant liability	-	(6,277)
Debenture accretion expense	53,134	50,745
Loss on disposal of fixed assets	-	55,147
Tax effect on expiry of warrants	-	(78,565)
Actuarial gain on employment benefit, net of tax	365,361	145,948
	<u>(2,465,518)</u>	<u>(2,438,010)</u>
Changes in non-cash working capital:		
Receivables	(158,704)	(48,609)
Prepaid expenses and other current assets	161,302	(418,845)
Inventories	(1,987,797)	(414,038)
Accounts payable and accrued liabilities	679,333	(909,276)
	<u>(1,305,866)</u>	<u>(1,790,768)</u>
Cash used in operating activities	(3,771,384)	(4,228,778)
Financing activities:		
Issuance of shares & warrants for cash (net of costs)	-	13,018,113
	<u>-</u>	<u>13,018,113</u>
Cash from financing activities	-	13,018,113
Investing activities:		
Acquisition of assets	(924,093)	(2,955,706)
Proceed from disposal of assets	-	-
	<u>(924,093)</u>	<u>(2,955,706)</u>
Cash used in investing activities	(924,093)	(2,955,706)
Foreign exchange (loss) gain on currency translation	(79,161)	96,981
Increase (decrease) in cash	(4,774,638)	5,930,610
Cash, beginning of year	18,252,307	1,260,306
Cash, end of period	<u>13,477,669</u>	<u>7,190,916</u>
Cash paid for income tax	43,483	10,429
Interest paid	-	-

Feronia Inc.
Notes to the condensed consolidated interim financial statements
For the three months ended March 31, 2014 and 2013
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(Unaudited)

1. Nature of operations

Feronia Inc. (the "Company") operates through its subsidiaries in the business of agriculture, producing rice, palm oil and palm kernel oil in the Democratic Republic of Congo (the "DRC").

Feronia CI Inc. ("Feronia CI"), a wholly owned subsidiary of the Company, was incorporated under the laws of the Cayman Islands by Memorandum and Articles of Association dated July 30, 2008.

The wholly owned subsidiaries of Feronia CI, being Feronia JCA Limited ("Feronia JCA") and Feronia Incorporated Services Limited ("FISL"), were incorporated under the laws of the Cayman Islands by Memorandum and Articles of Association dated June 5, 2009 and under the laws of England and Wales by the Memorandum and Articles of Association dated March 29, 2010, respectively.

Feronia JCA acquired 76.17% of the shares of Plantations Et Huileries du Congo scarl ("PHC"), a private company incorporated under the laws of the DRC on September 3, 2009.

Feronia PEK sprl. ("Feronia PEK"), a private company incorporated under the laws of the DRC on October 1, 2010, is 80% owned by Feronia JCA.

Kimpese Agro Industrie sprl ("KAI"), a private company was incorporated under the laws of the DRC on April 4, 2011 is 99% owned by Feronia JCA and 1% owned by Feronia CI.

Bas – Congo Ferti sprl ("BCF"), a private company was incorporated under the laws of the DRC on June 16, 2011 is 99% owned by Feronia JCA and 1% owned by Feronia CI.

Collectively, the Company and its subsidiaries referred to above are known as "the Group".

The assets of the Group that are located in the DRC are subject to a number of risks, including but not limited to the risk of foreign investment, including increases in taxes and royalties, renegotiation of contracts, legislative changes (including the interpretation of existing legislation in a manner adverse to the Group's interests), political uncertainty and currency exchange fluctuations and restrictions.

The Company's registered office is 181 Bay Street, Ste 1800, Toronto, Ontario, Canada, M5J 2T9. The Company is incorporated and domiciled in Canada.

As previously reported, on December 24, 2011, the government of the DRC promulgated a new law, "Loi Portant Principes Fondamentaux Relatifs A L'Agriculture" (the "Agriculture Law"), for the stated purposes of developing and modernizing the country's agricultural sector. The Agriculture Law has garnered some controversy with respect to various provisions, including a provision which purports to limit the rights of foreign corporations to farmland in the DRC. Certain agribusinesses in the DRC have raised concerns that this provision may impede existing and new foreign investment in the agricultural sector. In particular, Article 16 of the Agriculture Law appears to impose a requirement that a holder of farmland in the DRC be either a DRC citizen or, in the case of a corporation, that such corporation be incorporated in the DRC and be majority owned by the DRC government and/or by DRC citizens. Currently, Feronia's primary operating subsidiaries, PHC and Feronia PEK are owned 23.83% by the DRC government and 20% by a private DRC corporation, respectively.

The Company has been involved in discussions with various levels of government in the DRC with respect to the proper interpretation of the Agriculture Law and its application to the Company's concessions in the DRC. If the Agriculture Law is interpreted by the DRC government to apply to the existing concession rights held by the Company and the Agriculture Law is not amended, it could have a material and substantial adverse effect on the value of the Company's business and its share price. In such case, the Company may be required to sell or otherwise dispose of a sufficient interest in its operating subsidiaries so as to ensure that it meets the local ownership requirements contained in this law. There is no assurance that such a sale or disposition would be completed at fair market value or otherwise on acceptable terms to Feronia. The Agriculture Law came into force on June 24, 2012 and, according to its terms, holders of concessions to agricultural lands had until June 24, 2013 to comply with its provisions.

Feronia Inc.
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As previously disclosed, the Company is aware of various reports suggesting that proposals to amend the Agriculture Law have been tabled to the DRC parliament. The Company is unable to verify such reports and, as a result, is continuing to monitor the situation and is reviewing various alternatives for a number of possible outcomes. At this time, management has determined that it is in the best interest of the Company to take no action in respect of the Agriculture Law.

2. Basis of presentation and significant accounting policies

A) Statement of Compliance

These condensed interim consolidated financial statements have been prepared in accordance with International Accounting Standard 34 Interim Financial Reporting ("IAS 34") as issued by the International Accounting Standards Board ("IASB"). These interim financial statements should be read in conjunction with Feronia's most recently issued financial statements for the year ended December 31, 2013 and the related management's discussion and analysis which includes information necessary or useful to understanding the Company's business and financial statement presentation. In particular, the Company's significant accounting policies were presented in Note 2 of the consolidated financial statements for the year ended December 31, 2013, and have been consistently applied in the preparation of these interim financial statements. The consolidated financial statements have been prepared in compliance with International Financial Reporting Standards as issued by the International Accounting Standards Board ("IFRS"). These financial statements were approved by the board of directors of the Company for issue on May 28, 2014.

B) Changes in Accounting Policies

As of January 1, 2014, the Company adopted the new and amended IFRS pronouncements in accordance with the transitional provisions outlined in the respective standards as listed below.

New accounting standards adopted during the year

IFRIC 21, Accounting for Levies Imposed by Government, clarifies that the obligating event giving rise to a liability to pay a levy is the activity described in the relevant legislation that triggers payment of the levy. The standard is effective for annual periods beginning on or after January 1, 2014. We performed an assessment of the impact of IFRIC 21 and concluded that it did not have a significant impact on the Company's consolidated financial statements.

IAS 36, Impairment of Assets, was amended in May 2013 to make certain changes to the disclosures required by IAS 36 when an impairment loss is recognized or reversed. The amendments require the disclosure of the recoverable amount of an asset or cash generating unit ("CGU") at the time an impairment loss has been recognized or reversed and detailed disclosure of how the associated fair value less costs of disposal ("FVLCD") has been determined. The amendments are effective for accounting periods beginning on or after January 1, 2014 with earlier adoption permitted. This amendment has no significant impact to the Company's consolidated financial statements.

Accounting standards issued but not yet adopted

Unless otherwise noted, the following revised standards and amendments are effective for annual periods beginning on or after January 1, 2015, with earlier application permitted. The Company reviewed the new and revised accounting pronouncements that have been issued but are not yet effective and determined that the following may have an impact on the Company:

IFRS 9, Financial Instruments, addresses classification, measurement and recognition of financial assets and financial liabilities. IFRS 9 was issued in November 2009 and October 2010. It replaces the parts of IAS 39 that related to the classification and measurement of financial instruments. IFRS 9 requires financial assets to be classified into two measurement categories: those measured as at fair value and those measured at amortized cost. The determination is made at initial recognition. The classification depends on the entity's business model of managing its financial instruments and the contractual cash flow characteristics of the impairment. For financial liabilities, the standard retains most of the IAS 39 requirements. The main change is that where the fair value option is taken for financial liabilities, the part of the fair value change due to an entity's own credit risk is recorded in the other comprehensive income rather than the income statement unless this creates an accounting mismatch. The IASB has deferred the mandatory effective date for annual periods beginning on or after January 1, 2015 and has left it open pending the finalisation of the impairment and classification and

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measurement requirements. The Company is currently assessing the impact of this standard on its consolidated financial statements.

C) Impact of adoption of Amended IAS 19, Employee Benefit:

The following table summarises the effects of the changes to the comparative numbers relating to the adoption of IAS 19:

	As Previously Reported	Adjustment	As restated
	\$	\$	\$
At March 31, 2013			
Consolidated statements of loss:			
Cost of sales	1,415,082	58,379	1,473,461
Gross loss	(202,932)	(58,379)	(261,311)
Selling, general and administrative	2,409,584	87,569	2,497,153
Net loss for the period	(2,780,567)	(145,948)	(2,926,515)
Loss attributable to:			
Owners of the parent	(2,605,900)	(111,169)	(2,717,069)
Non-controlling interest	(174,667)	(34,779)	(209,446)

3. Segment reporting and economic dependence

Management has determined the operating segments based on the information reviewed by the Group's chief operating decision-maker. With the commencement of commercial sales of rice during Q2 2013, for management purposes, the Group's operations have been split into two segments:

- Oil Palm Plantations (Palm Oil) – large scale oil palm plantations;
- Arable – arable farming operations.

Each segment is considered to be a distinct strategic operating unit and the segments are organised and managed separately. Performance is evaluated based on revenue and operating income. Corporate costs represent primarily professional and legal fees, board of directors' expenses and securities regulatory and stock exchange filing and listing fees that are not allocated to the operations. During the three months to March 2014, Palm Oil had sales to two customers representing 99% of total sales within the segment, with sales to Marsavco, the Company's biggest customer, representing 82% of total sales. Arable sales to the largest customer represented 52% of total sales within the segment.

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Three months ended 31 March 2014:	Palm Oil	Arable	Corporate	Total
Revenue	1,551,946	68,888	-	1,620,834
Operating loss	(2,000,404)	(620,076)	(402,372)	(3,022,852)
Loss on biological assets	(2,238,367)	-	-	(2,238,367)
Finance costs				(250,814)
Income tax recovery				752,492
Net loss for period				(4,759,541)

Three months ended March 31, 2013:	Palm Oil	Arable	Corporate	Total
Revenue	1,212,150	-	-	1,212,150
Operating loss	(1,229,429)	(1,054,070)	(488,117)	(2,771,616)
Gain on biological assets	25,403	-	-	25,403
Finance costs				(239,179)
Income tax expense				58,877
Net loss for period				(2,926,515)

As at March 31, 2014:	Palm Oil	Arable	Corporate	Total
Total assets	44,028,871	9,282,306	13,159,042	66,470,219
Total liabilities	(16,467,706)	(427,463)	(4,719,052)	(21,614,221)

As at December 31, 2013:	Palm Oil	Arable	Corporate	Total
Total assets	44,119,658	9,146,929	17,905,244	71,171,831
Total liabilities	(16,510,480)	(358,629)	(4,980,811)	(21,849,920)

Feronia Inc.
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4. Property, plant and equipment

	Land	Buildings	Materials, furniture and equipment	Motor vehicles	Assets under construction	Total
At December 31, 2013						
Cost	2,894,616	5,277,307	18,364,289	1,311,369	3,416,579	31,264,160
Accumulated depreciation	-	(409,187)	(2,847,159)	(910,936)	-	(4,167,282)
Net book value	2,894,616	4,868,120	15,517,130	400,433	3,416,579	27,096,878
Quarter ended March 31, 2014						
At January 1, 2014	2,894,616	4,868,120	15,517,130	400,433	3,416,579	27,096,878
Additions	-	1,902	5,678	-	916,513	924,093
Disposals	-	-	-	-	-	-
Transfers	-	-	321,642	-	(1,233,577)	(911,935)
Depreciation	-	(70,781)	(452,272)	(74,845)	-	(597,898)
At March 31, 2014	2,894,616	4,799,241	15,392,178	325,588	3,099,515	26,511,138
At March 31, 2014						
Cost	2,894,616	5,279,209	18,691,609	1,311,369	3,099,515	31,276,318
Accumulated depreciation	-	(479,968)	(3,299,431)	(985,781)	-	(4,765,180)
Net book value	2,894,616	4,799,241	15,392,178	325,588	3,099,515	26,511,138

During the three months ended March 31, 2014, nursery costs and costs incurred in the replanting and maintenance of immature trees amounting to \$911,935 (2013: \$768,706) were transferred from assets under construction to non-current biological assets.

5. Biological assets

Non-current biological assets comprise plantation bearer assets. The Group values these plantation assets using a discounted cash flow over the expected 25-year economic life of the asset. The discount rate used in this valuation is 22% (2013 – 22%). The price of the crop (oil-palm FFB) is taken to be the 3-year average based on historic selling prices.

Assumptions

The long-term average prices used in determining the calculations were as follows:

	March 31, 2014	December 31, 2013
Price of crude palm oil (\$/t)	965	994
Price of palm kernel (\$/t)	1,146	1,218
Direct selling costs (\$/t)	150	150

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Total FFB harvested in Q1 2014 was 15,406 tonnes (Q1 2013: 9,550 tonnes).

Non-current Biological assets	March 31, 2014	December 31, 2013
Current period (loss) gain on biological assets	(2,238,367)	3,514,223
Cost of immature plants	911,935	3,818,763
Total change in value	(1,326,432)	7,332,986
Beginning balance	20,170,686	12,837,700
Ending balance	18,844,254	20,170,686

(Loss) gain on Biological assets	Three months ended March 31, 2014	Three months ended March 31, 2013
Fair value (loss) gain on non-current bearer assets	(2,238,367)	25,403
(Loss) gain on Biological assets	(2,238,367)	25,403

6. Share capital

	Shares #	Shares \$
Balance, December 31, 2013	552,050,512	91,420,003
Balance, March 31, 2014	552,050,512	91,420,003

7. Share-based payment, other and warrant reserves

Share-based payment and other reserves

Balance, December 31, 2013	2,818,984
Employee share-based compensation	7,429
Balance, March 31, 2014	<u>2,826,413</u>

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A continuity of the Company's stock options issued and outstanding is as follows:

	Number of Options#	Weighted Average Exercise Price \$
Balance, December 31, 2013	10,009,962	0.31
Forfeited	(223,679)	0.36
Balance, March 31, 2014	9,786,283	0.29

As at March 31, 2014, the Company had the following outstanding options to purchase common shares:

Date of Grant	Remaining Contractual Life (Years)	Expiry Date	Number of Stock Options Outstanding	Number of Stock Options Exercisable	Weighted Average Exercise Price \$	Grant date fair value of Options Outstanding \$
September 9, 2010	5.95	March 10, 2020 (1)	1,930,000	1,930,000	0.10	424,730
September 9, 2010	5.95	March 10, 2020 (1)	1,955,000	1,955,000	0.25	352,721
September 9, 2010	5.95	March 10, 2020 (1)	2,160,000	2,160,000	0.50	351,326
September 9, 2010	1.95	March 10, 2016 (2)	165,000	165,000	0.10	34,650
September 9, 2010	1.95	March 10, 2016 (2)	165,000	165,000	0.25	20,700
September 9, 2010	1.95	March 10, 2016 (2)	170,000	170,000	0.50	25,670
September 9, 2010	6.45	September 9, 2020 (3)	500,000	500,000	0.39	113,000
September 23, 2010	6.49	September 23, 2020 (4)	651,283	749,962	0.58	202,312
November 30, 2011	7.67	November 30, 2021 (5)	1,590,000	1,715,000	0.24	390,394
June 17, 2013	9.22	June 17, 2023 (6)	500,000	166,667	0.12	34,398
Unamortized portion of options						47,236
Total Options			9,786,283		0.29	1,997,137
Convertible debt - equity component						829,276
Total						2,826,413

The fair value of these options at the date of grant was estimated using Black-Scholes option pricing model based on the following assumptions:

- (1) expected dividend yield of 0%; risk-free interest rate of 3.51%; expected life of 10 years; and expected volatility of 60.84%.
- (2) expected dividend yield of 0%; risk-free interest rate of 3.51%; expected life of 6 years; and expected volatility of 60.84%.
- (3) expected dividend yield of 0%; risk-free interest rate of 2.80%; expected life of 10 years; and expected volatility of 58.36%.
- (4) expected dividend yield of 0%; risk-free interest rate of 2.87%; expected life of 10 years; and expected volatility of 58.33%.
- (5) expected dividend yield of 0%; risk-free interest rate of 2.15%; expected life of 10 years; and expected volatility of 85.02%.

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(6) expected dividend yield of 0%; risk-free interest rate of 2.32%; expected life of 10 years; and expected volatility of 63.88%.

The Company has used historical and index volatility to estimate the volatility of the share price.

Warrant reserve

	Warrants	Amount
	#	\$
Balance, December 31, 2013	2,729,785	36,322
Balance, March 31, 2014	2,729,785	36,322

8. Accounts payable and accrued liabilities

	March 31,	December 31,
	2014	2013
Trade payables	2,255,743	2,386,686
Accrued expenses	2,146,383	1,842,629
Other payables	891,858	385,336
Trade and other payables	5,293,984	4,614,651

9. Borrowings

	March 31,	December 31,
	2014	2013
Debentures, beginning of period (1) (2) (3)	4,122,277	3,920,475
Debenture accretion expense	53,134	201,802
Debentures, end of period	4,175,411	4,122,277

(1) As part of the first tranche of a brokered private placement (the "2012 Offering") completed on July 24, 2012, the Company received gross proceeds of CDN\$3,679,000 pursuant to the issuance of 3,679 units (each, a "Debenture Unit"), with each Debenture Unit consisting of one CDN\$1,000 principal amount 12.0% convertible unsecured subordinated debenture (a "Debenture") and 1,667 common share purchase warrants (each, a "Warrant"). The purchase price for each Debenture Unit was CDN\$1,000.

(2) As part of the second tranche of the 2012 Offering completed on August 8, 2012, the Company received gross proceeds of CDN\$1,684,000 pursuant to the issuance of 1,684 Debenture Units.

(3) The Debentures bear interest from July 24, 2012 at 12.0% per annum, payable commencing on December 31, 2012, and are due and payable on July 24, 2017 (the "Maturity Date"). The principal amount of the Debentures is convertible at the holder's option into common shares at any time prior to the close of business on the Maturity Date, at a conversion price of CDN\$0.175 per share, being a ratio of 5,714 common shares per CDN\$1,000 principal amount. The Debentures are governed by a trust indenture which includes customary adjustment

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provisions to the conversion price.

Each whole Warrant entitles the holder thereof to purchase one common share at a price of CDN \$0.30 per share until July 24, 2014.

On the date of issuance, the gross proceeds in the amount of CDN\$3,679,000 for the first tranche and CDN\$1,684,000 for the second tranche were first allocated to the Debentures (CDN\$3,647,059 for the first tranche and CDN\$1,671,557 for the second tranche) and the Warrants (CDN\$31,941 for the first tranche and CDN\$12,443 for the second tranche). The value of the Debentures was then allocated between the convertible debt (CDN\$2,994,876 for the first tranche and CDN\$1,379,268 for the second tranche) and the holders' option to convert the principal balance into common shares (CDN\$652,183 for the first tranche and CDN\$292,289 for the second tranche) (the "Conversion Option").

The value of the Debentures is classified as a liability, and will be accreted to the face value through a periodic charge to accretion expense, with a corresponding credit to the liability component over the five-year term. This accretion is based on the effective interest method. As of March 31, 2014, the carrying value of the Debentures (including foreign currency and accretion) was \$4,175,411. The fair value of the Warrant component is also classified as a liability given certain anti-dilution clauses exist in the contract which resulted in the instrument being classified as a derivative which is fair valued at each reporting date. The amount allocated to the Conversion Option is classified as a separate component within shareholders' equity. The Company incurred transaction costs of \$655,494 specifically allocated to the issuance of the Debenture Units. These costs were allocated among debenture issuance costs, warrant issuance costs and equity issuance costs, based on the values of the debt and equity components at the date of issuance. The portion of transaction costs allocated to the convertible debt has been set off against the initial value of the convertible debt and the transaction costs allocated to the conversion option has been set off within equity as part of the initial value allocation. The transaction costs allocated to the warrant liability have been expensed to the statement of income (loss).

10. Other financial liabilities

	March 31,	December 31,
	2014	2013
Employee incentive liability	6,140,521	6,406,324
	<hr/>	<hr/>
	6,140,521	6,406,324

Employee Incentive Liability

Through its acquisition of PHC in the year ended December 31, 2009, the Company assumed PHC's employee incentive plan. The liability associated with the plan is based on a function of compensation levels, benefit formulas and years of service. The measurement dates used for the accounting valuation for the defined benefit plan were March 31, 2014 and December 31, 2013. Information about the employee incentive plan for the three months ended March 31, 2014 and the three months ended December 31, 2013 are as follows:

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Benefit liability	March 31, 2014 \$	December 31, 2013 \$
Accrued benefit obligation, beginning of period	6,990,532	7,190,719
Current service cost	57,092	237,600
Interest cost	268,603	1,095,474
Benefit paid during the period	(17,803)	(977,814)
Effect of foreign exchange	(126,554)	(31,264)
Actuarial gains	(365,361)	(524,183)
Accrued benefit obligation, end of period	6,806,509	6,990,532

The weighted average assumptions in measuring the accrued employee incentive liability for the three months ended March 31, 2014 and March 31, 2013 uses the Canadian 3 to 10 year bond yield rate of 1.3%.

	March 31, 2014	March 31, 2013
Discount rates	16.3%	16.3%
Salary increase rate (administrative)	17.0%	15.0%
Salary increase rate (operation)	12.0%	15.0%

The employee incentive liability is categorised as current and non-current portion as below:

	March 31, 2014	December 31, 2013
Current portion	665,988	584,208
Non-current portion	6,140,521	6,406,324
Accrued benefit obligation, end of year	6,806,509	6,990,532

Warrant liability

	Warrants #	Amount \$
Balance, December 31, 2013	8,940,121	-
Balance, March 31, 2014	8,940,121	-

- (i) The fair value of the warrants was estimated using the Black-Scholes option pricing model based on the following assumptions as at March 31, 2014: expected dividend yield of 0%; risk-free interest rate of 1.00%; expected life of two years; and expected volatility of 58.81%.

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These warrants are considered to be financial instruments that are recorded at fair value at each reporting period with gains and losses being accounted for in the consolidated statements of loss.

Feronia Inc. entered into a convertible loan with CDC Group plc ("CDC"), pursuant to which CDC will make available an unsecured non-revolving term loan in the maximum amount of \$3.6 million at an interest rate of 12% for a term of five years. As at March 31, 2014, none of the loan had been drawn down.

11. Non-controlling interest

Non-controlling interest includes the DRC government's 23.83% interest in PHC and Plantations Elevages Kitomesa sarl's 20% interest in Feronia PEK.

Percentage of profit on each component of other comprehensive income is attributed to the owners of the non-controlling interests.

	March 31, 2014	December 31, 2013
Non-controlling interest, beginning of period	6,348,149	3,724,010
Share of loss	853,505	2,624,139
Non-controlling interest, end of period	7,201,654	6,348,149

12. Selling, General and Administration costs

	Three months ended March 31, 2014	Three months ended March 31, 2013
Professional fees	368,228	463,063
Consultancy fees	92,906	95,374
Share based payment	7,429	18,791
Amortisation	6,343	14,742
Employee Incentive Liability	184,161	78,828
Other general and administrative	2,126,336	1,826,355
	2,785,403	2,497,153

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13. Cost of sales

	Three months ended March 31, 2014	Three months ended March 31, 2013
Direct operating costs	1,057,237	1,066,838
Employee incentive liability	123,731	51,589
Amortisation	591,555	355,034
	1,772,523	1,473,461

14. Finance cost

	Three months ended March 31, 2014	Three months ended March 31, 2013
Interest and bank charges	199,690	196,269
Accretion expense	53,134	50,745
Interest receivable	(2,010)	(1,558)
Change in warrant liability fair value	-	(6,277)
	250,814	239,179

15. Income Taxes

Income tax expense is recognized based on management's best estimate of the weighted annual income tax rate expected for the full financial year. The estimated average annual rate used for the year ended December 31, 2013 and the three months ended March 31, 2014 was 35%.

16. Financial instruments

Details of the significant accounting policies and methods adopted (including the criteria for recognition, the bases of measurement, and the bases for recognition of income and expenses) for each class of financial asset and financial liability are disclosed in note 2 of the annual financial statements of the Company for the year ended December 31, 2013.

Financial assets and financial liabilities as at March 31, 2014 and December 31, 2013 were as follows:

	March 31, 2014	December 31, 2013
Assets		
Cash	13,477,668	18,252,307
Trade receivables	267,403	108,699
	13,745,071	18,361,006

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Liabilities

Trade payables	2,255,743	2,386,686
Debenture	4,175,411	4,122,277
	6,431,154	6,508,963

The carrying values of cash, trade receivables and trade payables approximate their fair value.

The Company measures certain of its financial assets and liabilities at fair value on a recurring basis and these are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. Certain non-financial assets and liabilities may also be measured at fair value on a non-recurring basis. There are three levels of the fair value hierarchy that prioritize the inputs to valuation techniques used to measure fair value, with Level 1 inputs having the highest priority. The three levels of the fair value hierarchy are: Level 1, which are inputs that are unadjusted quoted prices in active markets for identical assets or liabilities; Level 2, which are inputs other than Level 1 quoted prices that are observable for the asset or liability, either directly or indirectly; and Level 3, which are inputs for the asset or liability that are not based on observable market data.

Fair value hierarchy:

The financial assets and liabilities that are recognized on the consolidated statements of financial position at fair value in a hierarchy that is based on significance of the inputs used in making the measurements. The levels in the hierarchy are:

- Level 1 - Quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2 - Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices)
- Level 3 - Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs).

Financial risk factors:

The Company's activities expose it to a variety of financial risks: market risk (including currency risk, interest rate risk, and other price risk), credit risk and liquidity risk. The Company's overall risk management program seeks to minimize potential adverse effects on the Company's financial performance.

(a) Market risk

(i) Foreign exchange risk

The Company's presentation currency is the U.S. dollar and major purchases are transacted in United States dollars. The Company funds certain operations using the Congolese Franc currency from its bank accounts held in the DRC. Management closely monitors the foreign exchange risk derived from currency conversions but does not hedge its foreign exchange risk. Foreign exchange risk arises on recognized assets and liabilities, principally trade payables, cash and investments in foreign operations.

Foreign exchange risk arises when future recognized assets or liabilities are denominated in a currency that is not the subsidiary's functional currency.

(ii) Interest rate risk

The Group's interest rate risk arises from the debentures. Changes in interest rates related to fixed debentures would not have impacted net earnings or comprehensive income in the current year. Cash has limited interest rate risk due to its short-term nature

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(b) Credit risk

The Company's credit risk is primarily attributable to receivables. Two customers purchase 99% of the Company's crude palm oil production, with a refining factory owned by Marsavco currently purchasing the majority of such production. The Company does not have a written agreement with either customer and relies upon the terms of verbal arrangements. Although the Company has a good business relationship with both of the customers, there is no guarantee that the Company will be able to continue these relationships or enter into written agreements on terms acceptable to the Company or at all.

Financial instruments included in receivables consist of receivables from unrelated companies.

Management believes that the credit risk concentration with respect to financial instruments included in accounts receivable is remote.

(c) Liquidity risk

Cash flow forecasting is performed in the operating entities of the Company and aggregated in head office which monitors rolling forecasts of the Company's liquidity requirements to ensure it has sufficient cash to meet operational needs at all times.

The Company's approach to managing liquidity risk is to ensure that there is expected to be sufficient liquidity to meet liabilities when due. As at March 31, 2014, the Company had net working capital of \$14,784,414 including a cash balance of \$13,477,668. The majority of the Company's financial liabilities have contractual maturities of less than 30 days and are subject to normal trade terms. An exception to this is the employee incentive liability that falls due over the anticipated qualifying leaving date, which will frequently be the retirement date. As a guide to liquidity requirements, management considers that less than 10% of the liability will fall due within five years.

The table below analyses the Group's non-derivative financial liabilities into relevant maturity groupings based on the remaining period from the date of the consolidated statements of financial position to the contractual maturity date.

	March 31, 2014			
	Less than 3 Months	3 months to 1 year	1-5 years	Over 5 years
Trade payables	2,255,743	-	-	-
Accrued expenses	2,146,383	-	-	-
Other payables	891,858	-	-	-
Debt	162,223	486,670	5,341,414	-
	December 31, 2013			
	Less than 3 Months	3 months to 1 year	1-5 years	Over 5 years
Trade payables	2,386,686	-	-	-
Accrued expenses	1,842,629	-	-	-
Other payables	385,336	-	-	-
Debt	159,578	478,735	5,500,583	-

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Capital management

The Company considers its capital structure to consist of shares, stock options, warrants and convertible debt. The Company manages its capital structure and makes adjustments to it, based on the funds available to the Company, in order to support its ongoing operations.

The Company's objectives when managing capital are to maintain financial flexibility in order to preserve its ability to meet financial obligations, including potential obligations arising from additional acquisitions, maintain a capital structure that allows the Company to favor the financing of its growth strategy using internally generated cash flows and optimize the use of capital to provide an appropriate investment return to its shareholders. In order to maintain or adjust its capital structure, the Company may raise new debt or issue new shares.

There were no changes to the Group's capital management approach during the three months ended March 31, 2014. The Group entered into a debt arrangement during 2012 as detailed in note 10.

17. Related party disclosures

The following transactions were carried out with related parties in Q1 2014:

Purchase of services from key management personnel	Three months ended March 31, 2014	Three months ended March 31, 2013
Purchase of services:		
<u>Board fees</u>		
Barnabe Kikaya-Bin-Karubi	5,000	5,000
David White	11,875	5,000
Nigel Gourlay	12,500	12,500
Joel Strickland	16,250	11,319
Philip Condon	-	5,000
Anders Einarsson	-	10,556
Vincent McAleer	4,640	-
Keith Alexander	5,985	-
	56,250	49,375

Purchase of consultancy services, and property rental payments

	Three months ended March 31, 2014	Three months ended March 31, 2013
Barnabe Kikaya-Bin-Karubi (1)	37,500	37,500
Raymond Batanga (2)	-	10,000
Danesh Varma (3)	-	10,715
	37,500	58,215

Notes:

(1) In relation to rental payment for use of a building owned by Mr. Bin Karubi for office space and accommodation

(2) In relation to Mr. Batanga's service as Chief Operating Officer

(3) In relation to services provided by Mr. Varma, the Company's former Chief Financial Officer

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Key management compensation

Key management includes members of the board of directors and officers of the Company. The compensation paid or payable to key management for employee services is shown below:

	Three months ended March 31, 2014	Three months ended March 31, 2013
Salaries and short-term employee benefits	231,936	140,705

Change in fair value of share-based payments

	Three months ended March 31, 2014	Three months ended March 31, 2013
Change in fair value of share-based payments	6,760	54,266

Payables to related parties

	March 31, 2014	December 31, 2013
Board of Directors fees	51,250	60,005
Other Consultancy fees	-	25,000
	51,250	85,005

The payables to related parties relate mainly to normal course expenses incurred on behalf of the Company.

18. Contingent liabilities

The Company is, from time to time, involved in various claims, legal proceedings and complaints arising in the ordinary course of business. The Company cannot reasonably predict the likelihood or outcome of these actions. The board of directors of the Company does not believe that adverse decisions in any other pending or threatened proceedings related to any matter, or any amount which may be required to be paid by reason thereof, will have a material effect on the financial condition or future results of operations. As at March 31, 2014, provisions related to such matters totalled \$370,441 (December 31, 2013: \$370,441).