**FERONIA INC.**
**MANAGEMENT'S DISCUSSION AND ANALYSIS**
**FOR THE THREE MONTHS AND YEAR ENDED DECEMBER 31, 2014**

**April 27, 2015**

*This Management's Discussion and Analysis ("MD&A") should be read in conjunction with the audited consolidated financial statements and accompanying notes for the year ended December 31, 2014 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. Throughout this MD&A, references are made to "gross margin". A description of this non-GAAP financial measure and its limitations are discussed below under "Non-GAAP Financial Measures".*

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

*The Company began segmental reporting in Q2 2013 following the commencement of rice sales by its arable farming operation in the period.*

## *BUSINESS OVERVIEW*

Feronia operates large-scale commercial oil palm plantations and is developing an arable farming operation in the Democratic Republic of the Congo (the "DRC").

The Company, through its subsidiaries, holds concessions on land which is owned by the DRC government and on which its oil palm plantation and farming operations take place. The Company uses modern agricultural practices to operate and develop its oil palm plantations and arable farming.

Feronia believes in the immense agricultural potential of the DRC for high-quality edible oils, oil derivatives and foodstuffs given the suitability of its climate and soil and the availability of a skilled workforce. The Company's management team is comprised of experienced business administrators and senior agriculturalists with extensive experience in managing both plantations and large-scale mechanized farming operations in emerging markets.

Feronia is committed to sustainable agriculture, environmental protection and providing jobs and economic growth for local communities. On its oil palm plantations, through replanting old palms with new, Feronia is able to increase its productive areas at far lower costs than through greenfield planting and with zero deforestation or displacement of local communities. Feronia does not rely on deforestation for growth.

***BUSINESS PERFORMANCE: Oil Palm Plantations***

Feronia currently operates oil palm plantations in the DRC, having acquired 76.17% of the shares of Plantations et Huileries du Congo S.c.A.R.L ("PHC"), a company incorporated under the laws of the DRC, from subsidiaries of Unilever plc on September 3, 2009.

Since its acquisition of PHC, Feronia has embarked on a program of rehabilitating its oil palm mills, rehabilitating the internal road systems and implementing a substantial replanting program replacing less productive palm trees over 25 years old with new trees. The palm oil mills at the Lokutu and the Boteka plantations have been rehabilitated and a new palm oil mill at the Yaligimba plantation commenced production in October 2013.

As at December 31, 2014, PHC, being the main operating unit of Feronia, had concessions of 107,892 ha located in the provinces of Equateur and Orientale in the DRC.

PHC accounted for 98% of Feronia's revenues in Q4 2014 (Q4 2013: 98%) and 95% for the year ended December 31, 2014 (year ended December 31, 2013: 93%).

The following table shows key data relating to PHC's operations as at and for the years ended December 31, 2014, 2013 and 2012:

| | **Year ended December 31, 2014** | | | **Total (as at and for the year ended December 31)** | | |
|---|---|---|---|---|---|---|
| | **Lokutu** | **Yaligimba** | **Boteka** | **2014** | **2013**(1) | **2012**(1) |
| **Production** | | | | | | |
| Fresh Fruit Bunch ('FFB') production (tonnes) | 40,002 | 23,911 | 6,974 | **70,887** | 45,015 | 38,596 |
| Crude Palm Oil ('CPO') produced (tonnes) | 7,270 | 4,431 | 1,309 | **13,010** | 8,269 | 7,044 |
| Oil Extraction Rate ('OER') (%) | 18.2 | 18.5 | 18.8 | **18.4** | 18.4 | 18.3 |
| FFB Yield/Hectare (tonnes) | 8.85 | 7.10 | 4.05 | **7.4** | 7.1 | 6.1 |
| CPO Yield/Hectare (tonnes) | 1.61 | 1.32 | 0.76 | **1.4** | 1.3 | 1.1 |
| Palm Kernel Oil ('PKO') Produced (tonnes) | 498 | 340 | - | **838** | 357 | 440 |

**Note:**

(1) Yaligimba did not contribute to FFB or CPO production in the year ended December 31, 2013 and 2012.

During Q4 2014, the Company produced 18,673 tonnes of FFB and 3,431 tonnes of CPO, representing increases on Q4 2013 production levels of 75% and 81% respectively. For the year ended December 31, 2014, the Company produced 70,887 tonnes of FFB and 13,010 tonnes of CPO, representing increases on the prior year of 57% and 57% respectively.

The majority of the increases relate to Yaligimba which was not in production for the majority of 2013 until the new Yaligimba mill became operational in October 2013.

FFB yield per hectare for the year ended December 31, 2014 was 7.4 tonnes/ha compared to 7.1 tonnes/ha in 2013. Rehabilitation work undertaken at Yaligimba, which included extensive weeding of mature hectares, began to be reflected in an improvement in operational performance in Q4 2014. FFB yields per hectare at Yaligimba are now broadly in line with those at Lokutu.

The following three factors currently have an impact on overall performance of the plantations:

i) Young age profile of plantation
The large percentage of immature palms in our plantations will continue to negatively impact our average yield for the next several years. Normal course maturation of our plantations will result in substantially improving yields over time.

ii) Processing capacity limitations at the Lokutu mill
The installation of a new boiler at Lokutu in 2015 will facilitate greater throughput at the mill due to higher steam pressure reducing sterilisation times.

iii) Nutrient deficiencies at Boteka Plantation
Fertilizer, ground limestone, and guano have been applied to correct the deficiencies which, combined with a normal course fertilizer and soil maintenance regime, we anticipate will result in yield improvements in in 2016.

The Company realised an Oil Extraction Rate ("OER") for the year ended December 31, 2014 of 18.4% (year ended December 31, 2013: 18.4%) but believes that the installation of the new boiler at Lokutu in 2015 and ongoing improvements in its operational practices will be reflected in an increase in OER during 2015. The Company remains confident that an OER similar to those achieved in Southeast Asia is realistic in the medium term.

The quality of the CPO sold in Q4 2014 remained high with an average Free Fatty Acid ("FFA") content of oil sold in the three months ended December 31, 2014 of 2.49% (Q4 2013: 2.47%) and 2.34% in the year ended December 31, 2014 (2013: 2.47%). CPO with a FFA level of less than 5% is considered of a premium quality and can be used in food production. Low FFA levels are achieved through good harvesting and fruit evacuation practices.

The following table shows PHC's plantation profile as at December 31, 2014:

| Plantations (Hectares) | As at December 31, 2014 Lokutu | Yaligimba | Boteka | Total as at December 31 2014 | 2013 | 2012 |
|---|---|---|---|---|---|---|
| Immature | | | | | | |
| Year 0 | 2,400 | 1,802 | 437 | **4,639** | 5,007 | 3,924 |
| Year 1 | 2,200 | 2,132 | 675 | **5,007** | 3,924 | 2,110 |
| Year 2 | 1,707 | 1,447 | 770 | **3,924** | 2,110 | 1,027 |
| Year 3 | 1,065 | 545 | 500 | **2,110** | 1,027 | 713 |
| | 7,372 | 5,926 | 2,382 | **15,680** | 12,068 | 7,774 |
| Producing | | | | | | |
| 4 - 7 Years | 1,538 | 1,595 | 808 | **3,941** | 3,149 | 2,469 |
| 8 – 18 Years | 233 | 361 | 604 | **1,198** | 1,515 | 2,273 |
| 19 – 25 Years | 2,747 | 1,412 | 310 | **4,469** | 5,045 | 5,471 |
| | 4,518 | 3,368 | 1,722 | **9,608** | 9,709 | 10,213 |
| Total Planted | 11,890 | 9,294 | 4,104 | **25,288** | 21,777 | 17,987 |

The total number of producing hectares at December 31, 2014 was 9,608 ha (December 31, 2013: 9,709 ha). The net year-on-year decrease of 101 ha is a result of 1,027 ha of young palms coming into production in Q1 2014 and 1,128 ha of old palms being removed during the period.

Replanting of oil palms commenced in March 2014 in line with rainfall patterns, with 1,265 ha planted in Q4 2014 (Q4 2013: 559 ha) and 4,639 ha replanted as at December 31, 2014 (December 31, 2013: 5,007 ha). The Company has replanted in excess of 16,700 ha since it acquired PHC in 2009. All of the replanting the Company has undertaken has been brownfield in nature, where old palm trees are replaced with new. Feronia has no reliance on deforestation for the future growth of its three plantations and is able to increase its future producing hectares at far lower cost than if it were a greenfield operation.

As at the date of this MD&A, Feronia's oil palm nurseries were sufficiently stocked to replant up to 3,500 hectares. Until the Company secures additional financing, its replanting programme has been put on hold and nursery stocks are being utilized to replace any young palms from prior years' plantings which are underperforming or have been lost.

When Feronia acquired PHC in 2009, approximately 47% of planted hectares were over 19 years old and past their peak producing age. In addition, few trees in the optimal producing age range of eight to 18 years had ever received fertilizer. Both of these factors contribute to the current average yield per hectare, which is lower than industry standards.

The extensive replanting programme over the last five years is beginning to reduce the average age of planted hectares and the Company believes that, with best practice planting and fertilizer regimes and a normalized plantation age profile, it will be able to achieve FFB yields in the longer term closer to those achieved in Southeast Asia.

Feronia is committed to achieving environmental and social good practice international standards across its operations, including achieving Roundtable of Sustainable Palm Oil ("RSPO") certification.

Since Feronia acquired PHC, its priority has been to maximize production from existing plantings, rehabilitate processing operations, replant at scale and create a platform on which to rebuild the business. Having made considerable progress in these areas, the Company is implementing good practice international standards across its operations and is working with CDC Group plc ("CDC"), the UK Government's Development Finance Institution, to achieve this objective.

Supported by the $3.6 million ESG Facility (as described below under "Liquidity and Capital Resources"), the Company has an extensive Environmental and Social Action Plan in place which covers areas including workers' housing, sanitation, schools, medical facilities, health and safety and environmental good practices. Whilst there is still considerable work required in order to bring the 104 year old business up to modern standards, the process to achieve this objective is well underway.

The following table shows PHC's operational and social infrastructure as at December 31, 2014:

| | **As at December 31, 2014** | | | | **Total as at December 31** | |
|---|---|---|---|---|---|---|
| | **Lokutu** | **Yaligimba** | **Boteka** | **Total** | **2013** | **2012** |
| **Palm Nurseries** | | | | | | |
| Total Hectares | 24 | 20 | 6 | ***50*** | 50 | 40 |
| Seedlings | 349,504 | 287,252 | 3,806 | ***640,562*** | 844,235 | 998,637 |
| Hectares plantable from seedlings | 1,747 | 1,436 | 19 | ***3,202*** | 4,221 | 4,993 |
| **Palm Oil Mills** | | | | | | |
| Palm Oil Mills / Oil Produced | 1 / CPO & PKO | 1 / CPO & PKO | 1 / CPO | *3* | 3 | 2 |
| Palm Oil Mill Capacity (tonnes/hour) | 15 | 23 | 10 | *48* | 48 | 25 |
| **Infrastructure** | | | | | | |
| Operational Roads (Km) | 747 | 632 | 355 | ***1,734*** | 1,670 | 1,428 |
| Employees | - | - | - | ***3,713*** | 3,474 | 3,503 |
| Houses | 1,985 | 1,095 | 640 | ***3,720*** | 3,730 | 3,725 |
| Schools | 60 | 21 | 10 | ***91*** | 90 | 86 |
| Hospitals | 2 | 1 | 1 | ***4*** | 4 | 4 |
| Dispensaries | 8 | 3 | 4 | ***15*** | 14 | 14 |
| Health Centres | 2 | 1 | 1 | ***4*** | 4 | 4 |

As at December 31, 2014, the Company employed 3,713 permanent staff in its palm oil operations (December 31, 2013: 3,474). A key asset for the Company is its experienced and knowledgeable workforce. It is proving a significant advantage in the rehabilitation process and in the operation of its three plantations and is a major factor in the Company's ability to replant in a cost effective manner.

On November 14, 2014, the Company announced that a new collective agreement (the "Collective Agreement") had been signed with the six unions that represent more than 3,600 employees of its palm oil business.

The formal negotiation commenced in October and was the culmination of several months of preparation, consultation, and preliminary discussions amongst the Company, the representatives of the six unions and their members. The negotiation process focused on achieving common ground on pay, benefits and general terms of employment for both the immediate future and longer term and a number of revisions to the Collective Agreement were agreed upon, including increases in pay commencing on January 1, 2015.

In a joint statement, the Company and the unions highlighted that the negotiations had been characterized by a strong sense of common purpose and that all parties acknowledge the progress the business has made since Feronia acquired PHC in 2009 and the extensive rehabilitation of the Company’s operations.

The willingness of all parties to work together has been a critical factor in the progress up to this point and will continue to be an important factor in the building of a sustainable business.

When Feronia acquired the business from Unilever in 2009, the plantations and their infrastructure were in a state of distress after years of underinvestment and disruption caused by war. Feronia made a commitment then to honour the existing workforce’s contracts, pay all retirement benefits, and make the necessary long-term investments to return the business to profitability. In return, its employees, and the six unions that represent them, have shown great loyalty and together the Company and its employees have made considerable progress in establishing a commercially viable business that is able to provide secure employment, provide benefits to its communities, and help improve the food security of the DRC.

Feronia is committed to improving pay, benefits and living and working conditions as its operational performance improves and, to this end, announced on November 20, 2014, that it has engaged MASS Design Group (“MASS”), a pioneering design company, to conduct a comprehensive assessment of the plantations’ existing social infrastructure and to engage with local communities in the development of new facilities to meet their needs. MASS has a proven track record of innovative design as well as considerable experience in Africa, including in the DRC. Its approach is to maximize the use of locally available materials and to develop skills amongst local people, encouraging community engagement and helping develop long-term employment prospects. This project will run alongside an extensive and ongoing maintenance and repair program the Company already has in place.

On December 2, 2014 the Company announced the commencement of an Environmental and Social Assessment (“ESA”) of its palm oil operations as part of its commitment to reaching and maintaining the highest standards in sustainability and community inclusion.

The ESA is being undertaken by Digby Wells Environmental (“Digby Wells”), an international environmental and social consultancy with extensive experience throughout Africa and, in particular, the DRC. The ESA is expected to take up to six months to complete, following which the Company will report on its findings. As at the date of this MD&A, all site visits by Digby Wells have been completed and the Company is awaiting Digby Wells’ report, which is expected in mid-2015.

The ESA will analyse the positive and negative environmental, cultural and socio-economic impacts and risks associated with the Company's rehabilitation of its 104-year old palm oil business in the DRC, helping guide the implementation of measures to enhance, avoid and minimize such impacts.

The ESA forms an important part of Feronia's Environmental and Social Action Plan ("ESAP") which has been developed as a roadmap to embed community and sustainability at the heart of Feronia's business. This objective is underpinned by an intention to attain RSPO certification and to operate at ISO 14001 Environmental Management standards across all three of the Company's palm oil plantations.

The Company also has in place a Management Training Programme to develop management capabilities and skills across four areas - agronomy, finance, technical (engineering) and personnel. The predecessor of this programme produced many of the Company's senior executives and many other talented managers working throughout the DRC and overseas. The Company believes this is essential to ensure the development of skills through the organisation and is a key part of the Company's succession planning. The two year programme is open to Congolese nationals under 33 years of age with relevant qualifications and experience. Successful applicants are required to pass a technical examination and interview and are subject to ongoing assessment during the training programme. The 2014 recruitment and selection process commenced in May 2014 and eleven successful candidates commenced the training programme in August 2014.

The Company owns the Yaligimba Research Station, one of Africa's pre-eminent oil palm seed research and breeding operations. The Yaligimba Research Station supplies PHC with all of the oil palm seeds required for its replanting programme and undertakes research into increasing oil palm yields and optimal fertilizer regimes. The seeds provided by the Yaligimba Research Station are resistant to fusarium wilt, a soil-born fungal disease that is prevalent in Africa. The Yaligimba Research Station also sells both fusarium wilt resistant and non-resistant seed varieties to third party customers.

During Q2 2014, the Company commenced a programme to install fibre boilers at all three of its plantations. The first new boiler, for Lokutu, has now been manufactured and is currently being shipped to the DRC. It is expected to be operational in 2015 and will facilitate a greater throughput at the mill due to higher steam pressure reducing sterilisation times. The new boilers use the fibre by-product of the palm oil production process as fuel. The energy produced will power turbines that will generate enough electricity to power the mills and, as production levels increase, other parts of the plantations including hospitals. The installation of fibre boilers is expected to greatly reduce the Company's reliance on expensive and imported fossil fuels. As the Company's production levels increase, it will produce more fibre which will contribute to the Company's ability to meet its power requirements.

Through the savings generated by reducing the Company's dependence on fossil fuels, the Company expects to recoup its investment on new boilers in one to two years. Additionally, moving from fossil fuel to a free, sustainable, fuel source such as fibre contributes to the Company's commitment towards environmental and sustainability good practice.

***BUSINESS PERFORMANCE: Arable Farming***

The Company's objective for its arable operation is to supply the growing demand for food in the DRC by producing staple crops locally on an economically compelling basis.

Feronia commenced arable farming operations in the DRC in late 2010 through its subsidiary Feronia PEK sprl ("Feronia Arable"). The Company owns 80% of Feronia Arable, with the remaining 20% held by Plantations et Elevages de Kitomesa sarl ("PEK sarl"), a private DRC company that transferred the concession rights to a 10,000 hectare Bas Congo property to Feronia Arable in exchange for its 20% interest on the basis that the Company would provide the capital investment and services required to farm the concession area. The associated agro-processing is operated through Kimpese Agro Industrie sarl ("KAI"), which is owned 100% by the Company.

The Company has a five tonne per hour rice mill and associated drying facilities which is the only industrial-scale rice mill in the region. These facilities allow the Company to process its own crop and that produced by other local small-holder farmers. Storage of dried paddy rice is currently undertaken using a grain bag storage system which is an acceptable interim solution for storing current volumes and allows the Company to continue to dry and mill crop.

Feronia Arable receives 65% of the retail sales price with KAI receiving the balance for processing, storage, transport and sale of the crops.

Since 2011, the Company has been undertaking a program of trial plantings of rice and bean crops in order to establish which seed varieties, nutrients and planting/harvesting regimes will be best suited for large scale, mechanized agriculture in the Bas Congo region of the DRC. The trials have also allowed the Company to identify and address issues with seed stock, nutrients, machinery and the scheduling of planting and harvesting. The Company demonstrated commercial yields from its mechanized harvesting during both the Q1 2013 and Q1 2014 harvests and believes that the land in the region will support rice crops with yields at commercial levels.

The Company sells its rice to Bralima, Heineken's wholly-owned DRC subsidiary, food wholesalers and a number of counterparties involved in the domestic food market with a pricing structure whereby the price it charges for rice is determined by the quality of the product sold, specifically, the percentage of broken grains. The prices that the Company is achieving are at a significant premium to global rice prices.

Since it commenced the sale of its rice, the Company has experienced considerable interest in its produce and has received order enquiries far in excess of the production levels it can achieve under its current trial planting program.

Management believes that the market for domestically produced rice in and around the Bas Congo region of the DRC is considerable and the Company continues to believe in the immense agricultural potential of the DRC. The Company continues to seek a strategic partner with whom to develop the business.

During the year, the Company reduced the carrying value of land within its Arable Farming operation to reflect its realisable value. This land was not used within the rice operation.

### *SELECTED ANNUAL INFORMATION*

The following selected financial information has been derived from the audited consolidated financial statements for the years ended December 31, 2014, 2013 and 2012:

| **Years ended December 31,** | **2014 ($)** | **2013 ($)** | **2012 ($)** |
|---|---|---|---|
| **Operating Results** | | | |
| Revenue | 10,829,515 | 6,687,872 | 7,129,748 |
| Net loss from continuing operations attributable to owners of the parent(1) | (15,650,937) | (10,115,746) | (6,661,426) |
| Loss per share from continuing operations attributable to owners of the parent(1) | | | |
| Basic | (0.37) | (0.41) | (0.60) |
| Diluted | (0.37) | (0.41) | (0.60) |
| **Financial Position** | | | |
| Total assets | 55,723,106 | 71,171,831 | 44,711,685 |
| Total non-current financial liabilities | 16,028,869 | 16,280,620 | 14,033,750 |
| Cash dividends declared per share | - | - | - |
| Common shares outstanding | 55,231,085 | 55,205,051 | 16,950,220 |

**Notes:**

Information for all periods is presented in accordance with IFRS and in U.S. dollars

(1) The Company does not have any discontinued operations

## *DISCUSSION OF OPERATIONS – Three months and year ended December 31, 2014*

### *Revenue and Gross Margin*

| *(Expressed in thousands of US dollars)* | Three months ended December 31 | | | Year ended December 31 | | |
|---|---|---|---|---|---|---|
| | **2014** | 2013 | % Change | **2014** | 2013 | % Change |
| **Revenues** | | | | | | |
| Oil Palm Plantations | **2,265** | 990 | 129% | **10,284** | 6,251 | 65% |
| Arable Farming | **39** | 22 | 77% | **546** | 437 | 25% |
| | **2,304** | 1,012 | 128% | **10,830** | 6,688 | 62% |
| **Cost of sales** | | | | | | |
| Oil Palm Plantations | **2,831** | 1,998 | 42% | **13,017** | 6,919 | 88% |
| Arable Farming | **918** | 792 | 16% | **2,593** | 2,664 | (3%) |
| | **3,749** | 2,790 | 34% | **15,610** | 9,583 | 63% |
| **Gross Profit (Loss)** | | | | | | |
| Oil Palm Plantations | **(566)** | (1,008) | (44%) | **(2,733)** | (668) | 309% |
| Arable Farming | **(879)** | (770) | 14% | **(2,047)** | (2,227) | (8%) |
| | **(1,445)** | (1,778) | (19%) | **(4,780)** | (2,895) | 65% |
| **Gross Margin[(1)]** | | | | | | |
| Oil Palm Plantations | **(25%)** | (102%) | | **(27%)** | (11%) | |

**Note:**

(1) Gross margin is a non-GAAP financial measure. See "Non-GAAP Financial Measures" below.

The Company's Arable Farming division is still in a development phase. The Company is undertaking trial plantings to identify and address issues with seed stock, nutrients, machinery and the scheduling of planting and harvesting. The revenues and cost of sales for Arable Farming reflect the current stage of development.

Total revenues for Q4 2014 were $2,304,000, 128% higher than Q4 2013 revenues of $1,012,000. The increase in revenue can be attributed to:

- CPO sales of $1,859,000, being 88% higher than the prior year (Q4 2013: $990,000). This was a result of the volume of CPO sold in Q4 2014 of 2,496 tonnes being 128% higher than in the same period last year (Q4 2013: 1,095 tonnes), offset by an 18% reduction in the average CPO price achieved of $745 per tonne compared to $904 per tonne in Q4 2013;

- PKO sales of $190,000 in Q4 2014 (Q4 2013: nil) which represent 8% of the total revenue for the quarter (Q4 2013: nil); and

- Arable sales of $39,000 in Q4 2014 (Q4 2013: $22,000).

Total revenues for the year ended December 31, 2014 were $10,830,000, 62% higher than the same period in 2013 (year ended December 31, 2013: $6,688,000). This was due to:

- CPO sales of $9,213,000 being 47% higher than the prior year (year ended December 31, 2013: $6,251,000). This was primarily a result of the volume of CPO sold in the year of 11,535 tonnes being 56% higher than in 2013 (year ended December 31, 2013: 7,404 tonnes), offset by the average CPO price achieved during the year of

$799 per tonne being $45 less than in 2013 (year ended December 31, 2013: $844 per tonne);

- PKO sales of $870,000 for year ended December 31, 2014 (year ended December 31, 2013: $274,000) which contributed 8% of the total revenue for the year (year ended December 31, 2013: 4%); and

- Arable sales of $546,000 (year ended December 31, 2013: $437,000).

Cost of sales for Q4 2014 was $3,749,000 (Q4 2013: $2,790,000), an increase of 34%. This was due to:

- a 129% increase in the volume of CPO sold in the quarter of 2,496 tonnes (Q4 2013: 1,095 tonnes);

- a reduction in the carrying value of land within the Arable operation to reflect its realisable value, resulting in an impairment charge of $497,000; and

- offset by a $568,000 write-back on the net realisable inventory provision in Q4 2014.

Cost of sales for the year ended December 31, 2014 was $15,610,000 (year ended December 31, 2013: $9,583,000), an increase of 63%. The increase of $6,027,000 was due to:

- a 59% increase in the volume of CPO sold in the year ended December 31, 2014 to 11,535 tonnes (year ended December 31, 2013: 7,404 tonnes);

- an impairment charge on Arable land of $497,000; and

- an increase in fertilizer costs of $606,000.

Gross loss in Q4 2014 was $1,445,000, a reduction of $333,000 or 19%, compared to the same period in 2013 (Q4 2013 gross loss: $1,778,000), a result of a write-back relating to the net-realisable inventory provision of $568,000 and a reduction in activity in the Company's arable farming division, offset by a one-off adjustments relating to the impairment of arable land fair value of $497,000.

Gross loss for the year ended December 31, 2014 was $4,780,000, an increase of $1,885,000, or 65%, compared to the prior year (2013: $2,895,000). This is largely due to a one-off adjustment relating to the impairment of arable land fair value of $497,000, additional fertilizer costs of $606,000 and additional costs relating to the use of heavy fuel in the boiler at Yaligimba of $500,000.

Net loss for the year ended December 31, 2014 of $20,267,000, an increase of $7,402,000, or 58%, compared to the prior year (2013: $12,865,000). Of this, $5,202,000 was due to the movement on the gain/(loss) on the biological assets, which in turn was largely driven by the fall in the three year average price of CPO used in the valuation model. The remainder was mainly due to an increased cost of sales of $6,027,000 offset by a $4,142,000 increase in revenues, both driven by a 59% increase in amount of CPO sold in the year, and the arable land impairment of $497,000.

The higher production levels in 2014 were largely a result of the commissioning of the Yaligimba mill and resumption of production at Yaligimba plantation.

Since 2010 the Company has replanted 16,707 ha of new trees of which 1,027 ha, or 6%, were producing in 2014. As a result of the high percentage of immature and young palms in the Company's plantation, the average yield per hectare is low. This impacts all key operating metrics including cost of goods sold and gross margin. The portfolio of immature and young palms is the Company's core asset. Young plants have a negative contribution to operating results and are a key factor in current gross losses. These losses, which are in line with Company expectations, are expected to reverse as the trees mature and more hectares come into production.

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

### *Selling, General and Administrative Costs*

| (*Expressed in thousands of US dollars*) | Three months ended December 31 | | | Year ended December 31 | | |
|---|---|---|---|---|---|---|
| | **2014** | 2013 | *% Change* | **2014** | 2013 | *% Change* |
| Selling, general and admin | **3,146** | 3,216 | *(2%)* | *11,724* | *10,649* | *10%* |
| Other losses (gains) | **246** | (48) | *617%* | *439* | *47* | *834%* |
| | **3,392** | 3,168 | *7%* | *12,163* | *10,696* | *14%* |

Selling, General and Administrative Costs (SG&A) for Q4 2014 of $3,146,000 were in line with the same period in 2013 (Q4 2013: $3,216,000).

SG&A costs for the year ended December 31, 2014 were $11,724,000 (year ended December 31, 2013: $10,649,000). The increase of $1,075,000 was largely as a result of:

- a $550,000 increase in employee retirement benefit charges during the year; and
- an increase in professional fees of $342,000 relating to the implementation of the company's ESAP plan, the transition to OHADA ("Organisation pour l'Harmonisation en Afrique du Droit des Affaires") in the DRC and legal costs relating to the successful defence of a tax claim.

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

| *(Expressed in thousands of US dollars)* | Three months ended December 31 | | | Year ended December 31 | | |
|---|---|---|---|---|---|---|
| | **2014** | 2013 | % change | **2014** | 2013 | % change |
| Gain/(loss) on Biological Assets | **4,271** | 3,614 | 18% | **(1,688)** | 3,514 | (148%) |

Under IFRS, the oil palm trees are classified as non-current biological assets and are valued on the basis of discounted cash flows taking into account the assets' expected 25-year economic life, the mature and immature hectares in production, the three-year rolling average price of CPO and a discount rate of 22% (2013: 22%). The Company reviews the discount rate, mature and immature hectares annually. The variable element in the computation at each quarter end is the price of CPO. If the price of CPO increases, the value of the biological asset will increase and if the price of CPO decreases, the value of the biological asset will decrease. At the end of each year, the valuation of trees classed as moving into production changes from one based on capitalized costs to a valuation based on the future productivity of those trees. This results in an increase in the value of biological assets in the final quarter of each year.

The three-year rolling average price of CPO used at December 31, 2014 was $892 per metric tonne, a decrease from $994 per metric tonne as at December 31, 2013.

In 2014, the loss on biological assets was $1,688,000 compared to a gain of $3,514,000 in 2013. This reflects a decrease in the rolling average price of CPO of $102 per metric tonne during 2013 offset by a net increase of 3,924 ha of producing trees.

During the year ended December 31, 2014, $3,641,000 of nursery costs and costs incurred in the replanting and maintenance of immature trees were transferred from 'Assets Under Construction' to 'Non-current Biological Assets'. For the year ended December 31, 2013, these costs were $3,819,000.

### *Income Taxes Under IFRS*

Under IFRS the Company has a fair value gain on non-current biological assets of $1,237,000 for the year ended December 31, 2014 and $5,620,000 for the year ended December 31, 2013. As a result of the valuation there is a net provision for deferred tax of $433,000 for the year ended December 31, 2014 compared to $1,967,000 for the year ended December 31, 2013. Deferred tax is calculated at a rate of 35% on the biological gain or loss.

### *Net Loss*

| *(Expressed in thousands of US dollars)* | Three months ended December 31 | | | Year ended December 31 | | |
|---|---|---|---|---|---|---|
| | **2014** | 2013 | % change | **2014** | 2013 | % change |
| Net loss | **2,620** | 2,551 | 3% | **15,651** | 10,116 | 55% |

The net loss attributable to Feronia for Q4 2014 was $2,620,000 (Q4 2013: $2,551,000) which is equivalent to $0.05 per share (Q4 2013: $0.05). The net loss attributable to Feronia for the year ended December 31, 2014 was $15,651,000 (year ended December 31, 2013: $10,116,000), which is equivalent to $0.28 per share (year ended December 31, 2013: $0.33).

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

The net loss attributable to non-controlling interests for Q4 2014 was $718,000 (Q4 2013: $951,000) which represents the share of losses attributable to the 23.83% and 20% holdings in PHC and Feronia Arable respectively. The net loss attributable to non-controlling interests for the year ended December 31, 2014 was $4,616,000 (year ended December 31, 2013: $2,749,000).

## *COMPARISON OF FINANCIAL CONDITION*

The following table provides a comparison of the Company's financial condition as at December 31, 2014 compared to December 31, 2013:

| *(Expressed in thousands of US dollars)* | **December 31 2014** | December 31 2013 | % Change |
|---|---|---|---|
| Total current assets | **8,675** | 23,904 | (64%) |
| Total current liabilities | **7,769** | 5,569 | 40% |
| Net current assets | **906** | 18,335 | (95%) |
| Total shareholder's equity | **31,925** | 49,322 | (35%) |

## *SUMMARY OF QUARTERLY RESULTS*

The following table provides summary financial data for the Company's last eight quarters ended December 31, 2014:

| *(Expressed in thousands of US dollars, except per share amounts)* | **Dec 31 2014** | **Sep 30 2014** | **Jun 30 2014** | **Mar 31 2014** |
|---|---|---|---|---|
| Revenues | 2,304 | 2,928 | 3,977 | 1,621 |
| Net Income (loss) attributable to owners of the parent | (2,656) | (5,604) | (3,608) | (3,819) |
| Net Income (loss) per share attributable to owners of the parent – Basic | (0.05) | (0.13) | (0.07) | (0.07) |
| Net Income (loss) per share attributable to owners of the parent – Diluted | (0.05) | (0.13) | (0.07) | (0.07) |
| | **Dec 31 2013** | **Sep 30 2013** | **Jun 30 2013** | **Mar 31 2013** |
| Revenues | 1,012 | 2,282 | 2,182 | 1,212 |
| Net Income (loss) attributable to owners of the parent | (2,551) | (2,970) | (1,988) | (2,606) |
| Net Income (loss) per share attributable to owners of the parent – Basic | (0.05) | (0.05) | (0.08) | (0.09) |
| Net Income (loss) per share attributable to owners of the parent – Diluted | (0.05) | (0.05) | (0.08) | (0.09) |

**Notes:**

Information in the above table is presented in accordance with IFRS and in U.S. dollars.

(1) The Company does not have any discontinued operations.

The variations in the Company's quarterly results were driven largely by fluctuations in the price of CPO, which impacts revenue, the valuation of the Company's biological assets and net losses. In October 2013, Yaligimba commenced production which increased revenues and costs. There is also seasonality in fruit production, with peak crop production occurring in the second quarter of the year.

### *CASHFLOWS AND LIQUIDITY*

The cash balance at December 31, 2014 was $793,000 compared to $18,252,000 as at December 31, 2013. The decrease in the cash balance of $17,459,000 was a result of a net cash loss from operations (excluding non-cash items) of $13,971,000, capital expenditures of $4,588,000 and an increase in working capital of $192,000.

The cash outflow attributable to the increase in non-cash working capital during the year ended December 31, 2014 of $192,000 (year ended December 31, 2013: $2,011,000) is comprised of an increase in accounts receivable of $577,000, an increase in inventory of $1,689,000, offset by an increase in accounts payable of $2,037,000 and a decrease in prepayments of $36,000.

Cash inflows from financing activities during 2014 were $1,143,000 (2013: $38,735,000). 2014 financing activities relate to funds advanced under the ESG Facility (see below under "Liquidity And Capital Resources").

Investing activities in 2014 mainly relate to replanting costs and resulted in cash outflows of $4,588,000. Cash outflows for investing activities in 2013 were $7,849,000 which included a similar level of replanting costs and capital expenditure on the new Yaligimba mill.

### *LIQUIDITY AND CAPITAL RESOURCES*

The Company recorded net cash outflows in operations and investing activities for the year ended December 31, 2014 and it is probable that this will continue for an additional few years as the Company continues to make significant investments in equipment and infrastructure activities necessary to commercialize its products. Feronia's actual funding requirements will vary based on the factors noted above and its relationships with lead customers and strategic partners.

On November 8, 2013, the Company entered into a convertible loan facility with CDC, pursuant to which CDC has made available an unsecured non-revolving term loan (the "ESG Facility") in the maximum amount of US$3.6 million at an annual interest rate of 12% for a term of five years. The funds available under the ESG Facility are required to be used by the Company to support the implementation of an Environmental and Social Action Plan developed jointly with CDC. The principal under the ESG Facility will be either repaid or converted into common shares on the maturity date and in certain other circumstances at a rate of CDN$2.40 per common share (subject to customary adjustment provisions). Subject to the approval of the TSX Venture Exchange (the "TSXV"), the interest payable under the ESG Facility will be convertible into common shares at a rate equal to the greater of CDN$2.40 and the Discounted Market Price (as defined by the policies of the TSXV) at the time of conversion. As of the date of this MD&A, advances and accrued interest under the ESG Facility total $1,157,364 and, as a result, 602,050 common shares are issuable thereunder at current exchange rates and assuming a conversion rate of CDN$2.40.

On January 22, 2015, the Company entered into subscription agreements for a private placement of up to $16.325 million of secured convertible debentures (the "Debentures") led by CDC. On January 22, 2015, a first tranche of US$7.15 million has closed and subsequent tranches of the offering will close at the option of the majority holders of the Debentures and upon the meeting of certain conditions.

Each of the subscribers of the Debentures received a 2% placement fee on the amount of Debentures purchased. Mr. Sood elected that the placement fee of $1,430 relating to his subscription be used to purchase educational supplies for schools on the Company's plantations.

The Canadian dollar equivalent of the principal amount of the Debentures is convertible into units of the Company (the "Units") at a rate of Cdn.$0.80 per Unit. Each Unit consists of one common share and one transferable common share purchase warrant. Each Warrant shall be exercisable into one common share at an exercise price of Cdn.$0.80 per share for a period of five years from the closing date of the first tranche. If the Company does not complete a Qualifying Debt Financing (as such term is defined in the Debentures) prior to September 30, 2015, the conversion price of the Debentures shall be reduced to Cdn.$0.45 per Unit and the exercise price of the Warrants shall be reduced to Cdn.$0.45 per share.

Interest on the Debentures is 12% per annum, compounded semi-annually, and shall accrue and be payable upon maturity, unless converted earlier. A minimum of one year's interest will accrue on the first tranche of the Debentures, regardless of when such Debentures are repaid or converted. The interest payable on a subsequent closing of Debentures will be a minimum of the interest for the portion of the fiscal quarter up to the date that such subsequent Debentures are repaid or converted plus interest for one additional fiscal quarter. Notwithstanding the foregoing, the guaranteed interest provisions above shall not apply if the Qualifying Debt Financing is not completed by September 30, 2015. Upon conversion, the Canadian dollar equivalent of the accrued interest on the Debentures shall, subject to the approval of the TSXV, be convertible into common shares at a per share price equal to the greater of Cdn.$0.80 and the Discounted Market Price (as defined in the policies of the TSXV) at the time of conversion. If the Qualifying Debt Financing is not completed by September 30, 2015, the interest on the Debentures shall convert at a price equal to the greater of Cdn$0.45 and the Discounted Market Price of the Common Shares at the time of conversion.

The Debentures will mature and convert on January 22, 2016, being one year from the closing of the first tranche of the Offering. At any time prior to maturity, the Debentures may be converted at the option of the holder. The Debentures shall automatically convert in the event that the Company draws down on a Qualifying Debt Financing. The Debentures have been secured by way of a pledge by the Company of the outstanding shares of its wholly-owned Cayman Islands subsidiary, Feronia CI Inc.

Proceeds from the sale of the first tranche of the Debentures were used for working capital purposes and, in particular, to provide expansion capital for the Company's subsidiaries in the DRC.

In addition to the potential proceeds from the remaining tranches of Debentures, the Company is optimistic that it will be able to secure financing for its longer term requirements. Continuing operations of Feronia are dependent upon its ability to continue to raise adequate financing and to commence profitable operations in the future. There can be no assurance that the Company will be able to continue raising adequate financing or commence profitable operations in the future. See "Risks and Uncertainties" below.

## *OUTLOOK*

The Company's strategy for its palm oil division is to continue to drive value creation through new plantings and increasing yields through the utilisation of best practices, improved harvesting and evacuation, and the application of fertilizer. The Company will also make improvements to its processing capacity and efficiency through further investment in its mills.

In its arable farming division, having demonstrated the demand for its products and having established an effective pricing structure, the Company is seeking a strategic partner with whom to further develop the business.

With the new Yaligimba palm oil mill now operational, the Company has access to an additional 3,368 hectares of mature oil palms for the production of CPO. The Yaligimba mill allows the Company to maximize production from legacy plantings and provides substantial excess processing capacity and expansion potential to accommodate anticipated production from its current replanting programme.

In summary, the key objectives of the Company for 2015 are to:

(i) secure future funding to support the ongoing redevelopment of its palm oil business;

(ii) install the new Lokutu boiler;

(iii) secure a suitable partner to further develop the arable farming business; and

(iv) improve operational performance and realize efficiencies in the palm oil business through the continued implementation of best practices.

## *KEY FACTORS AFFECTING THE COMPANY'S BUSINESS*

The results of operations of the Company are, and will continue to be, affected by the cyclical nature of agricultural commodity markets. Prices and demand for agricultural commodities have been, and in the future are expected to be, subject to cyclical fluctuations.

The pricing of agricultural commodities is set by global markets which are affected by supply, demand and prevailing global stock levels. The increasing use of vegetable oils for biofuels is also developing a linkage between the price of agricultural products and the price of petroleum. These markets are, in turn, subject to fluctuations due to, among other factors:

- changes in domestic and international economic conditions;
- changes in market prices of commodities;
- interest rates;
- government regulations and policies;
- population growth and changing demographics; and

- seasonal weather cycles (e.g. dry or hot summers, wet or cold winters).

The profitability of the business depends upon the productivity of the oil palm plantations and arable farms, and the ability to realize expected yields while managing costs. Oil palm plantation and arable farm yields depend on a number of factors, many of which are beyond the Company's control. These include weather conditions, damage by disease, pests and other natural disasters, climate and soil conditions. The Company's ability to improve and maintain the yields will depend on these factors, among others, as well as the ability to improve the agronomy. If the Company cannot achieve yields at expected levels, the business, financial condition and results of operations could be materially and adversely affected. See also "Risks and Uncertainties" below for a discussion of the factors which could impact the Company's operations.

The local DRC palm oil market consists of a small number of refining factories located in Kinshasa. A refining factory owned by Marsavco currently purchases the majority of the Company's crude oil production. The Company and its predecessors have been selling crude palm oil and palm kernel oil to the refinery operated by Marsavco and its predecessors for over 20 years. Pursuant to the terms of a verbal arrangement between the Company and Marsavco, Feronia notifies Marsavco on a monthly basis regarding the product tonnage that will be made available for sale and the applicable price of the product based on the international CIF Rotterdam prices for crude palm oil and palm kernel oil. The value of the cargo is calculated based on the product tonnage and price. Although the Company has a good business relationship with Marsavco, there are risks associated with the existing arrangement. See below under "Risks and Uncertainties".

To the Company's knowledge, there has never been a large scale commercial rice planting program in the DRC. While the Company's objective is to establish a large scale arable farming operation in the DRC, with a particular focus on its commercial rice planting program, the Company may be unable to achieve its growth objectives with respect to the arable farming operations.

The Company relies on relationships with national and local governments in the DRC, local land owners, key customers, suppliers and third party service providers for the plantation, farming and trading activities. Feronia relies to a significant extent on third party service providers for day-to-day transport on the Congo River to and from the Company's oil palm plantations.

The Company is heavily dependent on the expertise of senior management in the agricultural sector, research and development in oil palm plantation and farm management practice, agricultural products manufacturing production processes, and the relationships cultivated by them with major customers and others.

The Company is subject to regulations under a variety of national and local laws and regulations in the DRC. Violations of DRC laws or regulations could result in civil and criminal penalties.

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 Arable 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, Feronia 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. See also below under "Forward Looking Statements" and "Risks and Uncertainties" for further information regarding the Agriculture Law. 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.

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.

## *RELATED PARTY DISCLOSURES*

The following transactions were carried out with related parties in Q4 2014:

| **Purchase of services from key management personnel**<br>**Purchase of services:** | **Year ended December 31,**<br>**2014** | **2013** |
|---|---|---|
| Board fees *(1)* | 230,912 | 211,594 |
| Purchase of consultancy services, and property rental payments *(2)* | 100,000 | 194,718 |
| | **330,912** | **406,312** |

**Notes:**
(1) Board fees paid to non-executive directors
(2) In relation to services provided by Mr. Varma, the Company's former Chief Financial Officer and in relation to rental payment for use of a building owned by Mr. Bin Karubi for office space

**Key management compensation**
Key management includes the Chief Executive Officer, the Chief Financial Officer, the Chief Operating Officer and the directors of the Company. The compensation paid or payable to key management for employee services is as follows:

| | Year ended December 31, 2014 | 2013 |
|---|---|---|
| Salaries and short-term employee benefits | 746,952 | 840,913 |

**Change in fair value of share-based payments**

| | 2014 | 2013 |
|---|---|---|
| Change in fair value of share-based payments | 21,376 | 93,135 |

**Payables to related parties**

| | December 31, 2014 | December 31, 2013 |
|---|---|---|
| Board of Directors fees | 125,136 | 60,005 |
| Other Consultancy fees | - | 25,000 |
| Key management compensation | 91,458 | - |
| | 216,594 | 85,005 |

The payables to related parties relate to normal course expenses incurred on behalf of the Company. The amount owing to officers and directors is unsecured, non-interest bearing and has been paid subsequent to the year end.

## *SUMMARY OF OUTSTANDING SHARE DATA*

Effective June 23, 2014, the Company completed the consolidation of its issued and outstanding common shares on the basis of ten pre-consolidation common shares for one post-consolidation common share. All information in this MD&A with respect to the number of common shares and issuance prices is presented on a post-consolidation basis. The Company’s outstanding options, warrants to purchase common shares and listed convertible debentures were adjusted on the same basis.

As at the date of this MD&A, the authorized share capital of the Company consists of an unlimited number of common shares, of which 55,231,085 common shares are issued and outstanding. In addition, the Company has CDN$5,363,000 principal amount of Debentures which are convertible into 3,064,571 common shares and options outstanding to purchase up to 943,761 common shares. As of the date of this MD&A, advances and accrued interest under the ESG Facility total $1,157,364 and, as a result, 590,188 common shares are issuable thereunder at current exchange rates and assuming a conversion rate of CDN$2.40.

As a result of the closing of the first tranche of Debentures in January 2015, the Company has $7,150,000 principal amount of debentures which are convertible into 10,938,250 common shares and warrants to purchase up to 10,938,250 common shares at a fixed exchange rate, assuming a conversion rate of CDN$0.80.

Assuming the exercise or conversion of all of the outstanding Debentures, options, warrants and principal amount and interest under the ESG Facility, an aggregate of 79,798,898 common shares will be issued and outstanding on a fully diluted basis.

## *CHANGES IN ACCOUNTING POLICIES*

The Company has adopted a number of new and revised standards, along with consequential amendments, effective January 1, 2014. These changes were made in accordance with the applicable transitional provisions. Information on all new, revised and amended standards can be found at Note 2 in the Company's audited consolidated financial statements and accompanying notes for the year ended December 31, 2014.

## *NON-GAAP FINANCIAL MEASURES*

Gross margin is not a financial measure recognized by IFRS and does not have a standardized meaning prescribed by IFRS. The Company's method of calculating gross margin may differ from other methods used. Gross margin is presented in this MD&A as additional information regarding the Company's financial performance. Gross margin has been calculated by deducting cost of sales from revenue.

## *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.

### *Risks Related to the Business*

*Foreign operations are subject to various political, economic and other risks and uncertainties*

All of the Company's operations are currently conducted in the DRC and, as a result, the operations are vulnerable to various levels of political, economic and other risks and uncertainties associated with operating in a foreign jurisdiction. Such risks and uncertainties include, but are not limited to: high rates of inflation; currency exchange rates; labour unrest; deprivation of contract rights or the taking of property by nationalization or expropriation without fair compensation; renegotiation, nullification, termination or rescission of existing concessions, licenses, permits and contracts; changes in taxation policies; restrictions on foreign exchange; changing political conditions; and currency controls.

Any changes in investment policies or changes in political attitude in the DRC may adversely affect the Company's operations. Operations may also be affected by government regulations relating to, but not limited to, restrictions on production, price controls, import and export controls, currency remittance, income taxes, foreign investment, environmental legislation and land use. The Company is currently defending certain lawsuits where the actual outcome may vary from the amount recognized in the financial statements.
The occurrence of any of these risks and uncertainties may have an adverse effect on the Company's operations.

*The Company's concessions may be terminated in certain circumstances*

The plantations and arable farmland on which the Company operates are not owned by the Company but rather owned by the DRC government. The Company has concessions on such plantations and arable farmland pursuant to revolving 25-year leases which provide the Company with the right to occupy and develop the land. The concessions held by the Company may be terminated under certain circumstances, including if development obligations are not met by the Company or if certain fees are not paid. There is also no certainty that the leases will be renewed by the DRC government at the end of their respective terms. The termination or non-renewal of any one or more of the Company's concessions could have a material adverse effect on the Company's financial condition or results of operations.

As discussed above under "Key Factors Affecting the Company's Business", 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 of the Agriculture Law may impede existing and new foreign investment in the agricultural sector. Feronia will continue to seek clarification on the implications of this legislation from local counsel and government in the DRC. If the Agriculture Law is interpreted by the DRC government to apply to the existing concession rights held by the Company, it could deprive the Company of its ability to conduct its operations in the DRC as currently conducted, hinder the Company's anticipated growth objectives in the DRC and affect the ability to attract capital if required. As a result, such occurrences could have a material and substantial adverse effect on the value of its business and its share price

*Political instability may adversely affect the business of the Company*

The operations of the Company in the DRC may be subject to the effects of political changes, civil conflict and war, changes in governmental policy, the uncertainty of the DRC legal system, lack of law enforcement and labour unrest. The DRC is an impoverished country with physical and institutional infrastructure which is in a debilitated condition. The eastern regions of the DRC (particularly in the Kivu region) have undergone civil unrest and instability that may have an impact on political, social or economic conditions in the DRC generally and there is a potential for this civil unrest to escalate. Any such changes are beyond the control of the Company and may adversely affect its business. The plantations operated by the Company are a minimum distance of 1,000 km away from the Kivu region.

In addition, any change in the governing party may create instability that may also impact the political, social or economic conditions in the DRC generally.
Given the frequency of cabinet reshuffling in the DRC, the Company may also encounter difficulties maintaining consistent relationships with applicable ministries. With its potential involvement with state-run agricultural programs such as the National Rice Program in the DRC, the Company may be exposed to political pressures in the form of expected consultation and ministerial influence over certain of the Company's operations. Furthermore, in the event of a change in government, the current trend towards privatization may revert back to state-owned operations and consequential rescinding of agreements.

*Political bureaucracy may impede the progress of the business*

The lengthy political process of local, regional and national bureaucracy in the DRC may hinder the Company's goal of rapidly expanding its business. For example, local level political bureaucracy may impede the progress of entering into land leasing agreements with local landowners. In addition, non-governmental organization ("NGO") pressure and influence over government decisions and initiatives may have a detrimental impact on the operations of the Company.

*A lack of infrastructure in the DRC may adversely affect the business of the Company*

Certain areas of the DRC and across Africa lack basic infrastructure, including transport and communications. As a consequence, the Company will need to invest in building and maintaining its own network of roads and satellite-based communications systems, which may require significant financing and obtaining any necessary governmental approvals, neither of which can be assured. The inability to build such roads and establish appropriate communications systems may have an adverse effect on the operations of the Company and prevent the Company from achieving its stated business objectives.

*The Company has a limited operating history*

Although PHC has been in operations since 1911, the Company only acquired the shares of PHC in September 2009 and is a relatively new company with a limited operating history. The Company is subject to all of the business risks and uncertainties associated with any new business enterprise, including the risk that it will not achieve its growth objectives.

To the Company's knowledge, there has never been a large scale commercial rice planting program in the DRC. The Company commenced its arable farming operations in Q1 2011 and may be unable to achieve its growth objectives with respect to the arable farming operations. For example, the Company was unable to meet its objectives in 2011 for its arable farming operations due to adverse weather conditions. Feronia Arable is subject to certain operational risks discussed herein, including the risk of decreased productivity and those risks set out below under "Risks Relating to the Industry".

The expansion of the Company's operations may place a significant strain on its managerial, operational and financial resources. The ability to manage future growth will depend on the Company's ability to continue to implement and improve operational, financial and management information systems on a timely basis and to train, motivate and manage an enlarged workforce and its ability to integrate its existing workforce with that of any business that the Company may acquire.

The Company will also need to strengthen its internal controls as it continues to expand its business. Should it fail to take the above-noted measures, the Company may not be able to implement its strategies or to manage its growth effectively, and the business, financial condition and results of operations could be materially and adversely affected.

*The Company has a lack of profitability; access to capital may be limited*

PHC has generated operating losses for the past several years. The Company has not earned any profits to date and has reported negative operating cash flow in its most recently completed financial year. There is no assurance that the Company will earn any profits in the future or generate positive cash flow, or that profitability, if achieved, will be sustained. If the Company is not able to achieve profitability or generate positive cash flow, it will require additional capital in the future and no assurance can be given that such capital will be available at all or available on terms acceptable to the Company. Furthermore, if the Agriculture Law is interpreted by the DRC government to apply to the existing concession rights held by the Company, it could affect the ability of the Company to attract capital if required.

Failure to obtain such capital could affect the Company's plans for growth, or result in it being unable to satisfy its obligations as they become due, either of which could have a material adverse effect on the Company's business and financial condition. If the Company is unable to obtain additional financing as needed, it may be required to reduce the scope of its operations or anticipated expansion, and pursue only those development plans that can be funded through cash flows generated from its existing operations. If the Company is unable to achieve profitability and have sustainable positive cash flows, prospective investors could experience a decrease in the value of their investment.

*There is a limited availability of debt financing in the DRC*

The financial sector within the DRC is relatively weak, with the primary lending facilities being offered by international banks such as Standard Bank of South Africa. As a result, there is limited availability of debt financing in the DRC, which may materially affect the financial condition of the Company. In order to meet future funding requirements, the Company may be required to undertake additional equity financing, which would be dilutive to shareholders. There is no assurance that additional financing will be available on terms acceptable to the Company or at all. If the Company is unable to obtain additional financing as needed, it may be required to reduce the scope of its operations or anticipated expansion, and pursue only those development plans that can be funded through cash flows generated from its existing operations.

*Fluctuations in currency exchange rates may adversely affect the financial condition of the Company*

The Company's operating expenses are incurred in U.S. dollars, Congolese francs, GBP and Euros. From time to time, the Company may borrow funds and incur capital expenditures that are denominated in foreign currency. In addition, any revenue generated from operations may be in currencies other than U.S. dollars. Accordingly, foreign currency fluctuations may adversely affect the Company's financial position and results of operations.

*Competition from other businesses may adversely affect the business of the Company*

The Company will face competition from well-established and politically-aligned merchants and importers, who may oppose the import-substitution business model of the Company. In addition, the Company expects to face competition from other international businesses with political connections. With respect to the palm oil business specifically, the Company will be competing with Malaysian, Indonesian and Chinese companies in terms of imports and the development of new plantations within the DRC and Republic of the Congo. Some of these competitors have greater financial resources than the Company and, accordingly, may be in a better position to compete for future business opportunities. There can be no assurance that the Company will be able to compete effectively with these companies.

*If the Company loses any of its key personnel, the operations and business may suffer*

The Company will be heavily dependent upon its management team in relation to their expertise in the agricultural industry and the relationships cultivated by them with major customers and others. The departure, or otherwise loss of service, of any of the Company's senior management may materially and adversely affect its business, financial condition and results of operations.

*The Company relies heavily on local labour in the DRC*

The Company's heavy reliance on local labour in the PHC operations will provide the trade unions with strong bargaining positions. While the Company has good relations with its employees, these relations could be impacted by any changes in the scheme of labour relations. Adverse changes in such legislation may have a material adverse effect on the Company's business, results of operations and financial condition. Any prolonged labour disruption could also have an adverse effect on the Company's ability to achieve its objectives.

*Reliance on one major customer makes the Company vulnerable*

A refining factory owned by Marsavco currently purchases the majority of the Company�much crude palm oil production. Reliance by the Company on one primary refining factory makes it vulnerable to aggressive price negotiations and potential altercations regarding contractual obligations. The Company does not have a written agreement with Marsavco and relies upon the terms of the verbal arrangement summarized above under "Key Factors Affecting the Company's Business". As a result, the Company is also vulnerable to the termination or amendment of this arrangement by Marsavco with little or no advance notice. Although the Company has a good business relationship with Marsavco, there is no guarantee that the Company will be able to continue this relationship or enter into a written agreement with Marsavco on terms acceptable to the Company or at all. The loss of this customer could have a detrimental impact on the Company‛s business, financial condition and results of operations.

*The Company relies on the importation of machinery and other key items*

The Company relies on the importation of machinery and other key items which are required for production, without the ability to substitute such imported items, if required, with locally-produced goods. As a result, in the event that the machinery or other key items cannot be imported into the DRC or be imported on a timely basis, there may be a detrimental impact on the business and operations of the Company.

*If the Company is unable to protect its business relationships, the operations and business may suffer*

The Company relies significantly on good relationships with regulatory or other governmental departments and NGOs. There can be no assurance that any existing relationships will continue to be maintained or new ones will be successfully formed and the Company may be adversely affected by changes to such relationships or difficulties in forming new ones.

*The operations of the Company may be subject to environmental risks and hazards*

The operations of the Company may be subject to certain environmental risks and hazards. For example, with respect to the arable farmland operations, there may be a risk of chemical spills which are harmful to the workforce and the environment. In addition, there may be a risk of injury or damage from the mishandling of hazardous inputs, such as ammonium nitrate fertilizer. There is no assurance that future changes in environmental regulation, if any, will not adversely affect the Company's operations.

*The Company may not be able to meets its expectations for the yields of the plantations and arable farming operations*

The success of the Company's business depends on the productivity of its plantations and arable farming operations, and its ability to realize yields at estimated levels. Yields depend on a number of factors, many of which may be beyond the control of the Company, including weather, climate and soil conditions, as well as damage by disease, pests and other natural disasters. The ability of the Company to maintain its yields will depend on these factors, and in particular the weather, climate and soil conditions for additional plantations that the Company may obtain in the future. If the Company cannot achieve yields at expected levels, the business, financial condition and results of operations may be materially and adversely affected. See also below under "Risks Relating to the Industry" regarding risks applicable to the agricultural industry in general.

*Any outbreak of severe communicable diseases may materially affect the Company's operations and business*

An outbreak of a communicable disease such as influenza A, severe acute respiratory syndrome or avian flu, may potentially result in a quarantine of infected employees and related persons, and if uncontrolled, may affect the operations and business of the Company. In addition, HIV/AIDS, malaria and other diseases are a major healthcare challenge in the DRC. There can be no assurance that the Company will not lose workforce hours or incur increased medical costs, which may have an adverse effect on the operations of the Company.

***Risks Relating to the Industry***

*Agricultural production by its nature contains elements of risks and uncertainties*

As an agriculture company, adverse weather conditions represent a significant operating and financial risk to the Company, affecting the quality and quantity of production and the levels of farm inputs. See above under "Key Factors Affecting the Company's Business" for additional details regarding the significance of weather conditions to the Company.

Agricultural production is also subject to other significant operational risks and uncertainties which may adversely affect the business and operations of the Company, including but not limited to the following: (i) any future climate change with a potential shift in weather patterns leading to droughts and associated crop losses; (ii) potential insect, fungal and weed infestations resulting in crop failure and reduced yields; and (iii) wild and domestic animal conflicts and crop-raiding. To date, the Company has not achieved its growth objectives relating to its arable farming operations and there is no assurance that the

Company will be able to realize commercially viable yields in its arable farming operations or maintain such commercially viable yields from season to season.

The Company may also encounter difficulties with the importation of agro-inputs and securing a supply of spares and maintenance items. In the event of a delay in the delivery from suppliers of agro-inputs and machinery, the Company may be unable to achieve its production targets.

*A shift in commodity trends and demands will result in an associated change in prices*

The price for products being produced by the Company, including the products produced by Feronia Arable, will depend on available markets at acceptable prices and distribution costs. Any substantial decline in the price of the products being produced by the Company, or any increase in the agricultural production costs, processing, transportation or distribution costs may have an adverse effect on the business of the Company.

*PHC is vulnerable to fluctuations in the world market*

Fluctuations in the world market for vegetable oils is driven either by consumer demand or changes in biofuel directives from foreign central governments. Any decline in consumer demand or negative change in biofuel directives may have a material adverse effect on the operations of PHC.

### ***Additional Risk Factors***

*Dividends*

To date, the Company has not paid any dividends on its outstanding shares. The Company does not currently intend to pay any cash dividends on its common shares in the foreseeable future and therefore its shareholders may not be able to receive a return on their shares unless they sell them. The Company's current policy is to retain earnings to reinvest in the Company. Therefore, the Company does not anticipate paying cash dividends in the foreseeable future. The Company's dividend policy will be reviewed from time to time by the board of directors of the Company in the context of its earnings, financial condition and other relevant factors. Until the Company pays dividends, which it may never do, its shareholders will not be able to receive a return on its common shares unless they sell them.

## ***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 one major customer, lower productivity at the Company's plantations and arable farming operations, 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.