

FERONIA INC.

CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2017 and 2016

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

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April 30, 2018

Independent Auditor's Report

To the Shareholders of Feronia Inc.

We have audited the accompanying consolidated financial statements of Feronia Inc. and its subsidiaries, which comprise the consolidated statements of financial position as at December 31, 2017 and December 31, 2016 and the consolidated statements of loss, comprehensive loss, changes in equity, and cash flows for the years then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

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Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Feronia Inc. and its subsidiaries as at December 31, 2017 and December 31, 2016 and their financial performance and their cash flows for the years then ended in accordance with International Financial Reporting Standards.

Emphasis of matter

Without qualifying our opinion, we draw attention to note 2 in the consolidated financial statements which describes matters and conditions that indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern.

(Signed) "PricewaterhouseCoopers LLP"

Chartered Professional Accountants, Licensed Public Accountants

Consolidated statements of financial position
As at December 31, 2017 and December 31, 2016
Expressed in United States Dollars

	Notes	December 31, 2017	December 31, 2016
Assets			
Current assets			
Cash	6	17,141,398	1,202,112
Receivables		1,335,709	802,025
Inventories	9	6,062,156	7,299,700
Prepaid expenses and other current assets		1,317,203	983,351
Biological asset	5	319,078	-
		<u>26,175,544</u>	<u>10,287,188</u>
Non-current assets			
Property, plant and equipment	4	76,425,738	62,947,040
Other receivables		-	1,455,583
		<u>76,425,738</u>	<u>64,402,623</u>
Total assets		<u><u>102,601,282</u></u>	<u><u>74,689,811</u></u>
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities	10	11,410,494	11,729,332
Provisions	23	561,455	493,032
Borrowings	11	52,335,577	18,185,168
Other financial liabilities	13	753,427	1,186,149
		<u>65,060,953</u>	<u>31,593,681</u>
Long-term Liabilities			
Borrowings	11	2,083,957	4,349,996
Derivative liability	12	4,466,380	-
Other long-term financial liabilities	13	2,993,940	3,633,920
Deferred tax liabilities		933,119	821,352
		<u>10,477,396</u>	<u>8,805,268</u>
Total liabilities		<u><u>75,538,349</u></u>	<u><u>40,398,949</u></u>
Shareholders' equity			
Share capital	7	124,383,443	116,133,463
Share-based payment and other reserves	8	3,941,537	2,855,769
Accumulated other comprehensive income (loss)		1,221,906	(464,063)
Deficit		(99,632,550)	(83,882,490)
Owners of the parent		29,914,336	34,642,679
Non-controlling interest	14	(2,851,403)	(351,817)
Total equity		<u><u>27,062,933</u></u>	<u><u>34,290,862</u></u>
Total equity and liabilities		<u><u>102,601,282</u></u>	<u><u>74,689,811</u></u>
Going concern	2		
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The accompanying notes are an integral part of these consolidated financial statements.

On behalf of the Board:

"Paul Wythe", Director

"Xavier de Carniere", Director

Consolidated statements of loss
For the years ended December 31, 2017 and 2016
Expressed in United States Dollars

	Notes	2017	2016
Revenue		21,109,178	17,217,210
Cost of sales	15	<u>(20,536,687)</u>	<u>(20,266,892)</u>
Gross income (loss)		572,491	(3,049,682)
Expenses			
Selling, general and administrative	16	(11,628,574)	(10,894,787)
Other income		<u>93,089</u>	<u>4,603,736</u>
Operating loss		(10,962,994)	(9,340,733)
Gain on biological assets		<u>319,078</u>	-
		(10,643,916)	(9,340,733)
Finance costs	17	(7,462,936)	(3,556,024)
Finance Income	18	<u>1,752,345</u>	<u>3,220,003</u>
Loss before income tax		(16,354,507)	(9,676,754)
Income tax expense	19	<u>(364,291)</u>	<u>(202,295)</u>
Net loss from continuing operations		<u>(16,718,798)</u>	<u>(9,879,049)</u>
Loss from discontinued operations	20	<u>(608,341)</u>	<u>(1,963,036)</u>
Net loss for the year		<u>(17,327,139)</u>	<u>(11,842,085)</u>
Loss attributable to:			
Owners of the parent		(14,961,776)	(9,304,265)
Non-controlling interest		<u>(2,365,363)</u>	<u>(2,537,820)</u>
Net loss for the year		<u>(17,327,139)</u>	<u>(11,842,085)</u>
Loss per share			
Basic & Diluted (dollars per share): continuing operations		(0.040)	(0.035)
Basic & Diluted (dollars per share): discontinued operations		<u>(0.006)</u>	<u>(0.010)</u>
		<u>(0.046)</u>	<u>(0.045)</u>
Weighted average number of shares outstanding:			
Basic		<u>374,769,136</u>	<u>265,404,380</u>
Diluted		<u>374,769,136</u>	<u>265,404,380</u>

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

Consolidated statements of comprehensive loss
For the years ended December 31, 2017 and 2016
Expressed in United States Dollars

	Notes	<u>2017</u>	<u>2016</u>
Net loss for the year		<u>(17,327,139)</u>	<u>(11,842,085)</u>
Other comprehensive income (loss)			
Cumulative translation adjustment - Continuing operations		1,365,425	(1,173,403)
Cumulative translation adjustment - Discontinued operations		343,561	(40,937)
Actuarial loss on employment benefit, net of tax		<u>(945,525)</u>	<u>94,859</u>
Total comprehensive loss for the year		<u><u>(16,563,678)</u></u>	<u><u>(12,961,566)</u></u>
Total comprehensive income (loss) attributable to:			
Owners of the parent		(14,064,092)	(10,438,793)
Non-controlling interest	14	<u>(2,499,586)</u>	<u>(2,522,773)</u>
		<u><u>(16,563,678)</u></u>	<u><u>(12,961,566)</u></u>

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

Consolidated statements of changes in equity
For the years ended December 31, 2017 and 2016
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	Attributable to owners of the parent						Total equity
	Share capital	Share-based payment and other reserves	Accumulated other comprehensive income (loss)	Retained earnings (deficit)	Total	Non-controlling interest	
Balance, January 1, 2016	91,606,948	7,108,402	749,548	(74,657,308)	24,807,590	(13,966,331)	10,841,259
Net loss for the year	-	-	-	(9,304,265)	(9,304,265)	(2,537,820)	(11,842,085)
Other comprehensive loss (net of tax)	-	-	(1,213,611)	-	(1,213,611)	(729)	(1,214,340)
Actuarial gain on employment benefit, net of tax	-	-	-	79,083	79,083	15,776	94,859
Comprehensive loss for the year	-	-	(1,213,611)	(9,225,182)	(10,438,793)	(2,522,773)	(12,961,566)
Convertible debt - Equity component	-	(77,413)	-	-	(77,413)	-	(77,413)
Shares issued pursuant to conversion debentures into shares	38,208,231	(4,177,287)	-	-	34,030,944	-	34,030,944
Shares issued for cash (net of share issue costs)	2,455,571	-	-	-	2,455,571	-	2,455,571
Transactions with non-controlling interest	(16,137,287)	-	-	-	(16,137,287)	16,137,287	-
Share-based compensation	-	2,067	-	-	2,067	-	2,067
Balance, December 31, 2016	116,133,463	2,855,769	(464,063)	(83,882,490)	34,642,679	(351,817)	34,290,862
Balance, January 1, 2017	116,133,463	2,855,769	(464,063)	(83,882,490)	34,642,679	(351,817)	34,290,862
Net loss for the year	-	-	-	(14,961,776)	(14,961,776)	(2,365,363)	(17,327,139)
Other comprehensive income (net of tax)	-	-	1,685,969	-	1,685,969	23,018	1,708,987
Actuarial loss on employment benefit, net of tax	-	-	-	(788,284)	(788,284)	(157,241)	(945,525)
Comprehensive gain (loss) for the year	-	-	1,685,969	(15,750,060)	(14,064,091)	(2,499,586)	(16,563,677)
Shares issued for cash (net of share issue costs)	8,249,980	-	-	-	8,249,980	-	8,249,980
Share-based compensation	-	1,085,768	-	-	1,085,768	-	1,085,768
Balance, December 31, 2017	124,383,443	3,941,537	1,221,906	(99,632,550)	29,914,336	(2,851,403)	27,062,933

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

Consolidated statements of cash flows
For the years ended December 31, 2017 and 2016
Expressed in United States Dollars

	Notes	2017	2016
Cash (used for):			
Operating activities:			
Loss from operating activities		(17,327,139)	(11,842,085)
Items not affecting cash:			
Share-based compensation		1,085,768	2,067
Amortisation		2,133,583	1,844,697
Impairment of arable assets		-	1,251,663
Employee incentive liability		(1,072,703)	(1,489,431)
Fair value gain on biological assets		(319,078)	-
Deferred tax on biological asset		111,677	-
Deferred tax adjustment		90	(152)
Gain upon extinguishment of financial instrument	11	(1,752,345)	-
Change in derivative liability		3,368,853	(3,219,982)
Debenture accretion expense		402,826	822,641
Debenture issuance expense		197,954	-
Interest on convertible loan and debentures		521,999	1,566,591
Unrealised foreign exchange loss/(gain)		1,376,804	(1,269,111)
Loss on disposal of fixed assets		35,117	8,827
Actuarial loss on employment benefit, net of tax		(945,525)	94,859
		<u>(12,182,119)</u>	<u>(12,229,416)</u>
Changes in non-cash working capital:			
Receivables		921,899	(115,464)
Prepaid expenses and other current assets		(333,852)	1,939,397
Inventories		1,237,545	(1,014,921)
Accounts payable and accrued liabilities		(1,758,565)	602,781
		<u>67,027</u>	<u>1,411,793</u>
Cash used in operating activities		(12,115,092)	(10,817,623)
Financing activities:			
Issuance of shares (net of costs)		8,249,980	2,455,571
Issuance of debentures for cash (net of costs)		-	3,083,554
Proceeds from DFI Debt Facility (net of costs)		34,000,000	13,179,394
Cash from financing activities		<u>42,249,980</u>	<u>18,718,519</u>
Investing activities:			
Acquisition of assets		(15,647,398)	(13,419,247)
Cash used in investing activities		<u>(15,647,398)</u>	<u>(13,419,247)</u>
Foreign exchange gain (loss) on currency translation		(56,354)	54,773
Increase in cash		14,431,136	(5,463,578)
Cash, beginning of year		1,202,112	5,235,624
Cash, end of the year	6	<u>15,633,248</u>	<u>(227,954)</u>
Cash paid for income tax		140,160	143,772
Interest paid		2,683,475	1,224,313

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

Feronia Inc.
Notes to the consolidated financial statements
For the years ended December 31, 2017 and 2016
Expressed in United States Dollars, except where otherwise noted

1. Nature of operations

Feronia Inc. ("Feronia" or the "Company"), incorporated under the laws of British Columbia, Canada, operates through its subsidiaries in the business of agriculture, producing palm oil and palm kernel oil in the Democratic Republic of Congo (the "DRC").

Feronia Maia sprl. ("Feronia Maia"), a wholly owned subsidiary of the Company, was incorporated under the laws of the Belgium by Memorandum and Articles of Association dated December 3, 2015, is 100% owned by the Company.

Feronia Incorporated Services Limited ("FISL"), a private company incorporated under the laws of England and Wales by the Memorandum and Articles of Association dated March 29, 2010, is 100% owned by Feronia Maia.

Plantations Et Huileries du Congo S.A ("PHC"), a private company incorporated under the laws of the DRC, is 83.37% owned and controlled by the Company.

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

Kimpese Agro Industrie sarl, a private company incorporated under the laws of the DRC on April 4, 2011, is 100% owned by Feronia Maia.

Feronia RDC sarl, a private company incorporated under the laws of the DRC on February 5, 2014, is 100% owned by Feronia Maia.

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 1000 – 595 Burrard Street, Vancouver, British Columbia, Canada, V7X 1S8. The Company is governed by the law of the Province of British Columbia, 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 16.63% by the DRC government and 20% by a private DRC corporation, respectively.

The Group 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 Group'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 Group and the Agriculture Law is not amended, it could have a material and substantial adverse effect on the value of the Group's business and its share price. In such case, the Group 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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The Group is continuing to monitor the status of the Agricultural Law 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 Group to take no action in respect of the Agriculture Law.

2. Basis of presentation and going concern

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standard (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) on a going concern basis, which assume that the Group will be able to realize its assets and discharge its liabilities in the normal course of operation as they come due for the foreseeable future.

Certain reclassifications have been made to the prior year’s consolidated financial statements to conform to the current year’s presentation.

At December 31, 2017 the Group had a term facility (the “DFI Debt Facility”) of \$47,463,582 (December 31, 2016 – \$13,315,855) classified as current liabilities, as a result of the breach of the equity solvency ratio (refer to Note 11 (c)). On September 25, 2017, the Company entered into a subscription agreement for the private placement (the “Private Placement”) of \$17.5 million of common shares by Straight KKM2 Limited (“KKM”) at a price of Cdn\$0.18 per common share in the capital of the Company (“Common Share”). The Company closed the first \$9 million tranche of the Private Placement on October 16, 2017, based on a fixed exchange rate of Cdn\$1.253 per \$1.00 as set out in the applicable subscription agreement. The second tranche of the Private Placement of \$8.5 million closed on January 19, 2018.

It is management’s view that the funds drawn down from DFI Debt Facility and secured through Private Placement will be sufficient to see the Company through to profitability. However, the Group currently does not have funds to repay the DFI Debt Facility. The Group’s ability to continue as a going concern, therefore, is dependent on its ability to obtain written confirmation from the DFI Debt Facility lenders that they will not accelerate repayment on the funds drawn down. To improve the Group’s working capital position, management has ongoing discussions with its major shareholders and debt providers. Management also continues to pursue financing alternatives to fund the Group’s activities through 2018 and beyond.

Although the Group has been successful in the past in obtaining waivers for the breach of covenant and the Company has not received any written confirmation from the DFI Debt Facility lenders that they will not accelerate repayment on the funds drawn down, there is no assurance that the funds drawn down from DFI Debt facility won’t become due in 2018 as a result of the covenant breach.

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

These consolidated financial statements do not reflect the adjustments to the carrying values of assets and liabilities and the reported expenses and balance sheet classifications that would be necessary if the Group were unable to realize the assets to settle its liabilities as a going concern in the normal course of operations. Such adjustments could be material.

3. Summary of significant accounting policies

These consolidated financial statements have been prepared in accordance with IFRS as issued by the IASB. These financial statements were approved by the board of directors of the Company for issue on April 30, 2018.

The significant accounting policies used in the preparation of these consolidated financial statements are as follows:

Basis of measurement

The consolidated financial statements have been prepared under the historical cost convention, except for items which are measured at fair value as indicated in our accounting policies.

Consolidation

The Group financial statements consolidate the financial statements of the Company and all of its subsidiaries. Subsidiaries are all entities over which the Group has the power to control the financial and operating policies. Subsidiaries are fully consolidated from the date on which control is obtained by Feronia and deconsolidated from the date that control ceases.

Feronia Inc.
Notes to the consolidated financial statements
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All transactions and balances between Group companies are eliminated on consolidation, including unrealized gains and losses on transactions between Group companies. Amounts reported in the financial statements of the subsidiaries have been adjusted where necessary to ensure consistency with the accounting policies adopted by the Group.

Non-controlling interests, presented as part of equity, represent the portion of a subsidiary's profit or loss and net assets that is not held by the Group. The Group attributes total comprehensive income or loss of subsidiaries between the owners of the parent and the non-controlling interests based on their respective ownership interests.

Foreign currency translation

The consolidated financial statements are presented in United States Dollars (\$), which is the functional currency of some of the subsidiaries. The functional currency of each entity within the group is the currency of the primary economic environment in which it operates

Foreign currency transactions are translated into the functional currency of the respective Group entity, using the exchange rates prevailing at the dates of the transactions (spot exchange rate). Foreign exchange gains and losses resulting from the settlement of such transactions and from the re-measurement of monetary items at period-end exchange rates are recognized in the consolidated statement of loss.

Non-monetary items measured at historical cost are translated using the exchange rates at the date of the transaction (not retranslated). Non-monetary items measured at fair value are translated using the exchange rates at the date when fair value was determined.

In the Group's financial statements, all assets, liabilities and transactions of Group entities with a functional currency other than the Group's presentation currency are translated into USD upon consolidation. The functional currency of the entities in the Group has remained unchanged during the reporting period.

On consolidation, assets and liabilities have been translated into USD at the closing rate at the reporting date. Income and expenses have been translated into the Group's presentation currency at the average rate over the reporting period (as this is considered a reasonable approximation of the actual rates prevailing at the transaction dates). Exchange differences are recognized in other comprehensive income (loss) as cumulative translation adjustments. On disposal of a foreign operation the cumulative translation differences recognized in equity are reclassified to the statement of comprehensive income (loss) and recognized as part of the gain or loss on disposal.

Segment reporting

During 2016, the Group decided to discontinue the arable farming operations, which have accordingly been classified as discontinued operations.

The Group currently has one operating segment, which is the palm oil and kernel oil operations in the DRC. The DRC operation is principally engaged in producing and processing palm oil and kernel oil. Revenue from the oil palm plantations accounted for 100% of the Group's revenue in 2017. 97% of the Group's crude palm oil production was sold to its two biggest customers.

The Group's discontinued operations are located in the DRC. Corporate activities located at the corporate offices in Europe are not significant and are not considered a separate reporting segment.

Revenue

Revenue represents the invoiced value of crops and produce sold during the period, excluding sales taxes.

Revenue is measured by reference to the fair value of consideration received or receivable by the Group for goods supplied, excluding sales tax, rebates, and trade discounts.

Sale of goods are recognized when the Group has transferred to the buyer the significant risks and rewards of ownership of the goods transferred which occurs when the palm oil is weighed and quality tested. The Group retains no continuing managerial involvement associated with the ownership or effective control over the goods, the amount can be measured reliably, it is probable that the economic benefits with the transaction will flow to the Group and the costs incurred in respect of the transaction can be measured reliably. Significant risks and rewards are generally considered to be transferred to the buyer when the customer has taken delivery of the goods.

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Palm oil is shipped by barge from the plantation to the customer's factories. The lead time that is required for the delivery of goods to customers is between two to three weeks from the point of the barge leaving the Group's plantation to delivery at the customer's factory. As at December 31, 2017, the amount of oil in transit amounted to \$1,708,456.

After arriving at the factory the customer weighs the goods, takes ownership, assumes the risk of loss and is invoiced by the Group. At this point, revenue is recognized by the Group.

Loss per share

Basic loss per common share is calculated based on the weighted average number of Common Shares issued and outstanding during the year. Basic and diluted losses per share are the same for the years ended December 31, 2017 and 2016, as the effect of potential issuances of shares from exercises of stock options, convertible debentures and warrants would be anti-dilutive.

Borrowing costs

General borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset are capitalized during the period of time that is necessary to complete and prepare the asset for its intended use or sale. All other borrowing costs are expensed in the period in which they are incurred and reported in 'finance costs'.

Property, plant and equipment

Buildings, furniture and other equipment (comprising fittings and furniture) are carried at acquisition cost or manufacturing cost less subsequent depreciation and impairment losses. Bearer assets comprise palm trees which are measured at cost less depreciation and impairment. The cost comprises pre-cropping expenditure incurred from land clearing to the point of maturity.

Leased buildings and equipment are included in property, plant and equipment if the entity is expected to consume substantially all of the risks and rewards of ownership of the asset. Finance leases are capitalized at the lease's commencement at the lower of the fair value of the leased asset and the present value of the minimum lease payments.

Such assets are depreciated over their expected useful lives (determined by reference to comparable owned assets) or over the term of the lease, if shorter.

All other leases are treated as operating leases. Payments on operating lease agreements are recognized as an expense on a straight-line basis over the lease term. Associated costs, such as maintenance and insurance, are expensed as incurred.

Depreciation is recognized on a straight-line basis on cost less the estimated residual value of plant and equipment as follows:

- Buildings: straight line basis over 33 years
- Materials, furniture and equipment: straight line basis over 3 to 10 years
- Motor vehicles: straight line basis over 4 years

Bearer assets are depreciated based on the yield profile of the trees over their lives.

The Group allocates the amount initially recognized in respect of an item of property, plant and equipment to its significant parts and depreciates separately each such part. The carrying amount of the replaced part is derecognized when replaced.

Residual value, methods of depreciation and estimates of useful life are reviewed at least annually and adjusted if appropriate.

Gains or losses arising on the disposal of property, plant and equipment are determined as the difference between the disposal proceeds and the carrying amount of the assets and are recognized in profit or loss within 'other income' or 'other expenses'.

Assets under construction represent property and equipment under construction and immature trees and are measured at cost. Cost comprises directly attributable costs of acquisition or construction. Assets under construction are not depreciated. Completed items are transferred from assets under construction to appropriate categories of property and equipment when they are ready for their intended use.

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Biological assets

Under the revised IAS 41 "Agriculture", biological assets are measured at fair value less costs to sell. Fruit on trees is considered to be a biological asset.

Impairment testing of property, plant and equipment

For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are largely independent cash inflows (cash-generating units).

Individual assets or cash-generating units are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognized for the amount by which the asset's or cash-generating unit's carrying amount exceeds its recoverable amount, which is the higher of fair value less costs to sell and value-in-use.

Impairment losses are charged on a pro rata basis to the long-lived assets (excluding biological assets) in the cash-generating unit. All assets are subsequently reassessed for indications that an impairment loss previously recognized may no longer exist. An impairment charge is reversed if the cash-generating unit's recoverable amount exceeds its carrying amount.

Financial instruments

Financial assets and financial liabilities are recognized when the Group becomes a party to the contractual provisions of the financial instrument. Financial assets are derecognized when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and all substantial risks and rewards are transferred.

A financial liability is derecognized when it is extinguished, discharged, cancelled or expires.

Financial assets and financial liabilities are measured initially at fair value plus transactions costs, except for financial assets and financial liabilities carried at fair value through profit or loss, which are measured initially at fair value.

Financial assets and financial liabilities are measured subsequently as described below.

Financial assets

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial recognition these are measured at amortised cost using the effective interest method, less provision for impairment. Discounting is omitted where the effect of discounting is immaterial. The Group's cash and cash equivalents, trade and most other receivables fall into this category of financial instruments.

Loans and receivables are reviewed for impairment at least each reporting date and are impaired when there is any objective evidence that a financial asset or a group of financial assets is impaired.

Individually significant receivables are considered for impairment when they are past due or when other objective evidence is received that a specific counterparty will default. Receivables that are not considered to be individually impaired are reviewed for impairment in groups, which are determined by reference to the industry and region of a counterparty and other shared credit risk characteristics. The impairment loss estimate is then based on recent historical counterparty default rates for each identified group.

All income and expenses relating to financial assets that are recognized in profit or loss are presented within 'finance costs', 'finance income' or 'other financial items', except for impairment of trade receivables which is presented within 'other income and losses'.

Financial liabilities

Financial liabilities are initially recorded at fair value and designated upon inception as fair value through profit or loss ("FVTPL") or other financial liabilities, which are not classified as FVTPL.

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Financial liabilities classified as other financial liabilities are initially recognized at the amount to be paid, less a discount (when material) to reduce financial liabilities to fair value. Other financial liabilities are measured subsequently at amortised cost using the effective interest method. The Group's other financial liabilities include accounts payable, accrued liabilities, borrowings and debentures. Other financial liabilities are non-derivative financial liabilities.

Financial liabilities classified as FVTPL are measured initially and subsequently at fair. Transaction costs on financial liabilities classified as FVTPL are expensed as incurred. Fair value changes on financial liabilities classified as FVTPL are recognized through the statement of loss.

Derivatives are also classified as FVTPL unless they are designated as effective hedging instruments. Derivatives are valued with the main inputs to the valuation being the underlying stock price and conversion price, credit spread of the Company, volatility of the underlying stock price, and discount factor curve. The Group's financial liabilities at FVTPL include derivative liability.

All interest-related charges and, if applicable, changes in an instrument's fair value that are reported in the statement of loss are included within finance costs or finance income.

Lease costs

The Group has concession on the plantations pursuant to revolving 25 year leases which provide the Group with the right to occupy and develop the land. Accordingly, the Group includes the annual cost of the lease in cost of sales.

Inventories

Inventories are stated at the lower of cost and net realizable value. Cost includes the fair value of harvested FFB (as defined below), all expenses directly attributable to the manufacturing process as well as suitable portions of related production overheads, based on normal operating capacity. Costs of ordinarily interchangeable items are assigned using the first in, first out cost formula. Net realizable value is the estimated selling price in the ordinary course of business less any applicable selling expenses.

Income taxes

Tax expense recognized in profit or loss comprises the sum of deferred tax and current tax not recognized in other comprehensive income or directly in equity.

Current income tax assets and/or liabilities comprise those obligations to, or claims from, fiscal authorities relating to the current or prior reporting periods, that are unpaid at the reporting date. Current tax is payable on taxable profit, which differs from profit or loss in the financial statements. Calculation of current tax is based on tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period.

Deferred income taxes

Deferred income taxes are calculated using the liability method on temporary differences between the carrying amounts of assets and liabilities and their tax bases. However, deferred tax is not provided on the initial recognition of an asset or liability unless the related transaction is a business combination or affects tax or accounting profit. Deferred tax on temporary differences associated with investments in subsidiaries and joint ventures is not provided if reversal of these temporary differences can be controlled by the Group and it is probable that reversal will not occur in the foreseeable future.

Deferred tax assets and liabilities are calculated, without discounting, at tax rates that are expected to apply to their respective period of realization, provided they are enacted or substantively enacted by the end of the reporting period. Deferred tax liabilities are always provided for in full.

Deferred tax assets are recognized to the extent that it is probable that they will be able to be utilized against future taxable income. For management's assessment of the probability of future taxable income to utilize against deferred tax assets, see the judgments and estimates policy below.

Deferred tax assets and liabilities are offset only when the Group has a right and intention to set off current tax assets and liabilities from the same taxation authority.

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Changes in deferred tax assets or liabilities are recognized as a component of tax income or expense in profit or loss, except where they relate to items that are recognized in other comprehensive income or directly in equity, in which case the related deferred tax is also recognized in other comprehensive income or equity, respectively.

Cash

Cash includes cash on hand and demand deposits held with banks.

Equity and reserves

Incremental costs directly attributable to the issuance of shares are recognized as a deduction from share capital.

Deficit includes all current and prior period retained losses.

All transactions with owners of the Company are recorded separately within equity.

The share-based payment reserve represents equity-settled share-based employee remuneration until such stock options are exercised, forfeited, lapse or expire and warrant reserve includes broker warrants issued in connection with share offerings.

Share-based employee remuneration

The Group operates equity-settled share-based remuneration plans for its employees. None of the Group's plans feature any options for cash settlement.

All services received in exchange for the grant of any share-based payment are measured at their grant date fair values. Where employees are rewarded using share-based payments, the fair values of employees' services are determined indirectly by reference to the fair value of the equity instruments granted. This fair value is measured at the grant date and excludes the impact of non-market vesting conditions (for example profitability and sales growth targets and performance conditions).

All share-based remuneration is ultimately recognized as an expense in profit or loss with a corresponding credit to share based payment reserves.

If vesting periods or other vesting conditions apply, the expense is allocated over the vesting period, based on the best available estimate of the number of stock options expected to vest. Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. Estimates are subsequently revised, if there is any indication that the number of stock options expected to vest differs from previous estimates. Any cumulative adjustment prior to vesting is recognized in the current period. No adjustment is made to any expense recognized in prior periods if stock options ultimately exercised are different to that estimated on vesting.

The share purchase plan ("SPP") introduced in 2011 is an equity settled share option plan accounted for under IFRS 2. The SPP share options are Zero Exercise Price Options and the fair value is the share price at the date options are granted. The charge is accrued evenly over the life of the SPP share options.

Employee incentive liability

The Group has an employee incentive plan covering substantially all of its employees in the DRC whereby the Group will pay a terminal bonus to all employees on reaching the age of 65, on retirement or on death. The employee incentive plan is unfunded. Employee incentive obligations are determined using the projected benefit method prorated on services and management's best estimate of assumptions as future salary levels or cost escalation will affect the amount of employee future benefits. Net periodic benefit cost, which is included in cost of sales and general and operating expenses in the consolidated statements of loss, represents the cost of benefits earned by employees as services are rendered. The cost reflects management's best estimates of the plan's wage and salary escalation, and the ages at which members will retire. Changes in these assumptions could impact future employee incentive expense and such changes could be material.

Management estimates the employee incentive liability annually with the assistance of independent actuaries. The estimate of its employee incentive liability is based on future salary levels, completed years of service and ages at which members will retire. Discount factors are determined close to each period-end by reference to government bonds that are denominated in

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the currency in which the benefits will be paid and that have terms to maturity approximating to the terms of the related pension liability.

Short-term employee benefits, including holiday entitlement, are current liabilities measured at the undiscounted amount that the Group expects to pay as a result of the unused entitlement.

Provisions, contingent liabilities and contingent assets

Provisions are recognized when present obligations as a result of a past event that will more likely than not lead to an outflow of economic resources from the Group and amounts can be estimated reliably. Timing or amount of the outflow may still be uncertain. A present obligation arises from the presence of a legal or constructive commitment that has resulted from past events, for example, legal disputes or onerous contracts.

Provisions are measured at the estimated expenditure required to settle the present obligation, based on the most reliable evidence available at the reporting date, including the risks and uncertainties associated with the present obligation. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. Provisions are discounted to their present values, where the time value of money is material.

Any reimbursement that the Group can be virtually certain to collect from a third party with respect to the obligation is recognized as a separate asset. However, this asset may not exceed the amount of the related provision.

All provisions are reviewed quarterly and adjusted to reflect the current best estimate.

In those cases where the possible outflow of economic resources as a result of present obligations is considered improbable or remote, no liability is recognized, unless it was assumed in the course of a business combination. In a business combination, contingent liabilities are recognized on the acquisition date when there is a present obligation that arises from past events and the fair value can be measured reliably, even if the outflow of economic resources is not probable. They are subsequently measured at the higher amount of a comparable provision as described above and the amount initially recognized, less any amortisation.

Critical accounting judgements and key sources of estimation

The preparation of consolidated financial statements under IFRS requires the Group to make estimates and assumptions that affect the application of policies and reported amounts. Estimates and judgments are continually evaluated and are based on historical experience and other factors including expectations of future events that are believed to be reasonable under the circumstances. Actual results may differ from these estimates. The estimates and assumptions which have the most significant impact on the carrying amount of assets and liabilities are discussed below.

Critical accounting judgements

Going concern

Going concern presentation of the financial statements assumes that the Group will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of operations as they come due. Refer to note 2.

Functional Currency

The functional currency of each of the Group's subsidiaries is the currency of the primary economic environment in which the entity operates. Determination of functional currency may involve certain judgements to determine the primary economic environment and the Group reconsiders the functional currencies of its entities if there is a change in events and conditions which determined the primary economic environment.

Key sources of estimation

Valuation of biological assets

The key assumptions underlying the valuation of the biological assets are set out in note 5.

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Impairment of assets

When there are indications that an asset may be impaired, the Group is required to estimate the asset's recoverable amount. The recoverable amount is the greater of value-in-use and fair value less costs of disposal. During the years ended December 31, 2017 and 2016, the estimates of the recoverable amount for the arable cash generating unit were determined based on management's assessment of its recoverable fair value less costs to dispose using a market-based approach. In estimating fair value less costs of disposal, management's judgement was involved in interpreting third-party information to arrive at a measurement of the recoverable amount of the cash generating unit. The assessment of impairment is based, in part, on certain factors that may be outside of the Group's control, and requires the use of estimates and assumptions related to future cash flows, such as commodity prices, foreign exchange rates, and operating and capital costs. These significant estimates and assumptions require management to make decisions based on the best available information at each reporting period. It is possible that the actual recoverable amount could be significantly different than those estimates.

Derivative liability

The Group has used an option pricing model to estimate the fair value of derivative liabilities. The Group has estimated the fair value of the conversion features of the debentures issued.

Employee incentive liability

Management estimates the defined benefit liability annually with the assistance of independent actuaries; however, the actual outcome may vary due to estimation uncertainties. The defined benefit liability is based on future salary levels, completed years of service and ages at which members will retire. Discount factors are determined close to each year-end by reference to government bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating to the terms of the related pension liability.

New Accounting standards adopted during the year

Amendments to IAS 7, Statements of Cash Flows ("IAS 7")

The amendments require disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flow and non-cash changes. The amendments apply prospectively for annual periods beginning on or after January 1, 2017, with earlier application permitted. The Company adopted the amendments to IAS 7 in its financial statements for the annual period beginning on January 1, 2017. The Company has determined that there is no significant impact from adopting the amendments to IAS 7 on its 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, 2017, 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.

The final version of IFRS 9, 'Financial Instruments' ("IFRS 9"), was issued by the IASB in July 2014 and will replace IAS 39, 'Financial Instruments: Recognition and Measurement'. IFRS 9 introduces a model for classification and measurement, a single, forward looking "expected loss" impairment model and a substantially reformed approach to hedge accounting. The new single, principle based approach for determining the classification of financial assets is driven by cash flow characteristics and the business model in which an asset is held. The new model also results in a single impairment model being applied to all financial instruments, which will require more timely recognition of expected credit losses. It also includes changes in respect of own credit risk in measuring liabilities elected to be measured at fair value, so that gains caused by the deterioration of an entity's own credit risk on such liabilities are no longer recognized in profit and loss. IFRS 9 is effective for annual periods beginning on or after January 1, 2018, however it is available for early adoption. In addition, the own credit changes can be adopted early in isolation without otherwise changing the accounting for financial instruments. The Company has yet to assess the full impact of IFRS 9.

In May 2014, the IASB issued IFRS 15, 'Revenue from Contracts with Customers' ("IFRS 15"), which supersedes IAS 18, 'Revenue', IAS 11, 'Construction Contracts' and other interpretive guidance associated with revenue recognition. IFRS 15 provides a single model to determine how and when an entity should recognize revenue, as well as requiring entities to provide more informative, relevant disclosures in respect of its revenue recognition criteria. IFRS 15 is to be applied prospectively and is effective for annual periods beginning on or after January 1, 2018, with earlier application permitted. The Corporation is in the process of evaluating the impact that IFRS 15, may have on the Corporation's consolidated financial statements.

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In January 2016, the IASB issued IFRS 16, 'Leases' ("IFRS 16") which established the principles that an entity should use to determine the recognition, measurement, presentation and disclosure of leases for both parties to a contract, i.e. the customer ('lessee') and the supplier ('lessor'). IFRS 16 replaces that previous leases standard, IAS 17, 'Leases', and related interpretations. IFRS 16 is effective from January 1, 2019 though a company can choose to apply IFRS 16 before that date but only in conjunction with IFRS 15. The Company is currently assessing the impact of this standard.

4. Property, plant and equipment

	Land	Buildings	Plant and equipment	Motor vehicles	Bearer assets	Assets under construction	Total
Year ended December 31, 2016							
At January 1, 2016	2,397,904	4,000,217	11,856,815	46,506	10,442,498	23,889,039	52,632,979
Additions	-	-	4,042	-	-	13,415,205	13,419,247
Disposals	-	-	-	-	-	(8,827)	(8,827)
Transfers	-	45,988	1,115,531	262,520	7,418,422	(8,842,461)	-
Impairment	(303,315)	(328,100)	(620,247)	-	-	-	(1,251,663)
Depreciation	-	(134,840)	(1,295,395)	(44,830)	(369,631)	-	(1,844,696)
At December 31, 2016	2,094,589	3,583,265	11,060,746	264,196	17,491,289	28,452,955	62,947,040
At December 31, 2016							
Cost	2,397,904	4,892,063	19,438,510	1,574,067	18,382,994	28,452,955	75,138,493
Accumulated depreciation	-	(980,698)	(7,757,517)	(1,309,871)	(891,705)	-	(10,939,791)
Impairment	(303,315)	(328,100)	(620,247)	-	-	-	(1,251,663)
Net book value	2,094,589	3,583,265	11,060,746	264,196	17,491,289	28,452,955	62,947,040
Year ended December 31, 2017							
At January 1, 2017	2,094,589	3,583,265	11,060,746	264,196	17,491,289	28,452,955	62,947,040
Additions	-	-	1,925	-	-	15,645,473	15,647,398
Disposals	-	-	(35,117)	-	-	-	(35,117)
Transfers	-	2,052,849	7,123,673	401,044	14,125,689	(23,703,255)	-
Depreciation	-	(145,648)	(1,325,405)	(110,882)	(551,648)	-	(2,133,583)
At December 31, 2017	2,094,589	5,490,466	16,825,822	554,358	31,065,330	20,395,173	76,425,738
At December 31, 2017							
Cost	2,094,589	6,616,812	25,908,744	1,975,111	32,508,683	20,395,173	89,499,112
Accumulated depreciation	-	(1,126,346)	(9,082,922)	(1,420,753)	(1,443,353)	-	(13,073,374)
Net book value	2,094,589	5,490,466	16,825,822	554,358	31,065,330	20,395,173	76,425,738

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During the year ended December 31, 2017, the Group capitalized borrowing costs amounting \$1,016,954 (2016: \$891,787) on qualifying assets. Borrowing costs were capitalized at the weighted average of the Company's general borrowings at below rates:

Period	Interest rate (%)
up to April 13, 2016	12
From April 13, 2016 to September 14, 2016	7.8964
From September 15, 2016 to March 14, 2017	8.24894
From March 15, 2017 to September 14, 2017	8.43211
From September 15, 2017 to March 14, 2018	8.45583

5. Biological assets

The figures in respect of fresh fruit bunches ("FFB") prior to harvest are based on the average selling price of the oil for the year ended December 31, 2017 less the cost of harvesting and evacuation of FFB. The market price is applied to a weight of crude palm oil ("CPO") which is calculated on the estimated weight of FFB on the trees using the average oil extraction rate achieved for the period. The weight derives from the assumption that the maximum amount of ripe fruit on trees can be no more than the amount of production that would normally be achievable in the period between harvest rounds. Based on this, the Group estimates the amount of fruit on the trees to be used in the calculation of this value is one week's average harvest based on the actual harvest for first week of the following month.

Accordingly, the value attributable to fruit on the trees as at December 31, 2017 was \$319,078 and December 31, 2016 was nil.

6. Reconciliation to cash flow statement

During the year ended December 31, 2017, the Group was over drawn by \$1,508,150 from the overdraft facility available with the Trust Merchant Bank.

	December 31, 2017
Cash balance as per Statement of Financial Position	17,141,398
Bank overdraft	<u>(1,508,150)</u>
Cash balance as per statement of cash flow	<u>15,633,248</u>

7. Share capital

	Shares #	Shares dollars
Balance, December 31, 2016	361,894,437	116,133,463
Shares issued for cash(net of share issue costs) (i)	62,650,000	8,249,980
Shares issued pursuant to the SPP June 15 (ii)	<u>2,588</u>	<u>-</u>
	<u>424,547,025</u>	<u>124,383,443</u>

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- (i) September 25, 2017, the Company entered into a subscription agreement for the Private Placement of \$17.5 million of Common Shares by Straight KKM2 Limited ("KKM") at a price of Cdn\$0.18 per Common Share. The Company closed the first \$9 million tranche of the Private Placement on October 16, 2017, based on a fixed exchange rate of Cdn\$1.253 per \$1.00 as set out in the applicable subscription agreement, and the second tranche of the Private Placement of \$8.5 million on January 19, 2018. The Company issued 62,650,000 Common Shares to KKM at Cdn\$0.18 per common share. The cost of issue of such Common Shares was \$750,020.
- (ii) On June 15, 2017, the Company issued 2,588 deferred matching shares under the employee stock purchase plan ("ESPP") to certain officers, directors, and employees who acquired qualifying shares under the ESPP in June 2014.

8. Share-based payment and other reserves

	December 31, 2017
Balance, December 31, 2016	2,855,769
Employee share-based compensation	(221)
Deferred share units ("DSUs") (i)	<u>1,085,989</u>
Balance, December 31, 2017	<u>3,941,537</u>

- (i) The Company granted 1,104,400 Deferred Shared Units (DSUs) on January 1, 2015 and 13,877,600 DSUs on April 28, 2017 to the officers under the provisions of the Deferred Share Unit Plan of the Company.

The Company's stock options issued and outstanding is as follows:

	Number of Options	Weighted Average Exercise Price
	#	\$
Balance, December 31, 2016	531,761	2.64
Issued/Forfeited	-	-
Balance, December 31, 2017	<u>531,761</u>	<u>2.67</u>

As at December 31, 2017, 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	2.19	March 10, 2020 (1)	99,000	99,000	1.00	424,730
September 9, 2010	2.19	March 10, 2020 (1)	99,000	99,000	2.50	352,721
September 9, 2010	2.19	March 10, 2020 (1)	102,000	102,000	5.00	351,326
September 23, 2010	2.73	September 23, 2020 (2)	55,261	55,261	4.78	202,312
November 30, 2011	3.92	November 30, 2021 (3)	126,500	126,500	1.99	390,394
June 17, 2013	5.46	June 17, 2023 (4)	50,000	50,000	0.96	34,398
Unamortised portion of options						270,260
Total Options			<u>531,761</u>		<u>2.67</u>	<u>2,026,141</u>

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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 2.87%; expected life of 10 years; and expected volatility of 58.33%.
- (3) expected dividend yield of 0%; risk-free interest rate of 2.15%; expected life of 10 years; and expected volatility of 85.02%.
- (4) 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.

The following table summarizes the deferred shared units issued during year ended December 31, 2017.

	Number of DSUs	Weighted Average Exercise Price
	#	\$
Balance, December 31, 2016	-	-
Issued	14,982,000	0.20
Balance, December 31, 2017	14,982,000	0.20

As at December 31, 2017, the Company had the following outstanding DSUs:

Date of Grant	Remaining Contractual Life (Years)	Expiry Date	Number of DSUs Outstanding #	Number of DSUs Exercisable #	Weighted Average Exercise Price \$	Grant date fair value of Options Outstanding \$
April 28, 2017	4.67	September 1, 2022	13,877,600	1,387,760	0.19	819,054
Total DSUs			14,982,000	1,525,810	0.20	1,085,989

9. Inventory

	December 31, 2017	December 31, 2016
Crude Palm Oil, Palm Kernel Oil, Seeds and other consumables	2,392,911	1,109,327
Materials and supplies	3,669,245	6,190,373
	6,062,156	7,299,700

The cost of inventories for the years ended December 31, 2017 and 2016 includes \$583,359 and \$2,314,253 respectively, of inventory write-downs to bring the crude palm oil, palm kernel oil, seeds and other consumables to their net realizable value.

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10. Accounts payable and accrued liabilities

	December 31, 2017	December 31, 2016
Trade payables	2,769,453	2,985,145
Accrued expenses	4,491,996	5,027,026
Advance received from customers	277,039	349,312
Interest payables	1,190,393	442,839
Overdraft facility in PHC	1,508,150	1,430,066
Other payables	1,173,463	1,494,944
	<u>11,410,494</u>	<u>11,729,332</u>

11. Borrowings

The Company has the following borrowing as of December 31, 2017 and December 31, 2016.

	December 31, 2017	December 31, 2016
Debentures (a)	2,083,957	4,869,313
Convertible Loan agreement (b)	4,871,995	4,349,996
DFI Debt Facility (c)	47,463,582	13,315,855
	<u>54,419,534</u>	<u>22,535,164</u>
	December 31, 2017	December 31, 2016
Current portion	52,335,577	18,185,168
Non-current portion	2,083,957	4,349,996
Borrowings, as at December 31, 2017	<u>54,419,534</u>	<u>22,535,164</u>

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(a) Debentures

	December 31, 2017	December 31, 2016
2012 Debentures, beginning of year	4,869,313	4,577,573
2012 Debenture accretion expense	201,504	291,740
Debenture value as of July 24, 2017, before extinguishment	<u>5,070,817</u>	<u>4,869,313</u>
Extinguishment of 2012 Debentures	(4,286,285)	-
Gain on extinguishment of 2012 Debenture	<u>(784,532)</u>	-
2012 Debentures as at July 24, 2017	<u>-</u>	<u>4,869,313</u>
Debentures issued during 2017	2,232,908	-
Transaction cost associated with extension of debentures	(197,954)	-
Debenture accretion expense	53,594	-
Exchange gain or loss on Debentures	<u>(4,591)</u>	-
	<u><u>2,083,957</u></u>	<u><u>4,869,313</u></u>

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 "2012 Debenture") and certain common share purchase warrants, which expired on July 24, 2014 (each, a "Warrant"). The purchase price for each Debenture Unit was CDN\$1,000. Also 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. The 2012 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 2012 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\$1.75 (post-consolidation) per share, being a ratio of 571 common shares (post-consolidation) per CDN\$1,000 principal amount. The 2012 Debentures are governed by a trust indenture which includes customary adjustment provisions to the conversion price.

On July 19, 2017, the Company obtained the consent by extraordinary resolution of the holder of its 2012 Debentures for certain amendment to the trust indenture entered into between the Company and TSX Trust Company dated July 24, 2012, as amended and supplemented from time to time. The amendments include a reduction in the conversion price of the 2012 Debentures to CDN\$0.275 per share and an extension of the maturity date until July 24, 2022.

As per IAS 30 para 40, a substantial modification of the terms of an existing financial liability shall be accounted for as an extinguishment of the original financial liability and recognition of a new financial liability. On July 24, 2017, the 2012 Debenture were derecognised and a new financial liability was measured and recognised base on the new terms in the amended agreement. The new debentures were recognised at initial inception at fair value net of transaction costs. The equity component recognised for the 2012 conversion option on the 2012 Debentures of \$829,276 was reclassified to paid-in capital on the statement of changes in equity.

A gain on extinguishment of \$1,752,346 was recorded, which is equal to the difference between the carrying value of the 2012 debentures and the aggregate fair value of the 2012 amended debentures ("2017 Debentures"). This gain was recorded through the consolidated statement of loss and summarised as follows:

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Extinguishment of 2012 Debentures	(5,070,817)
Recognition of 2017 convertible debt (before deduction of transaction costs)	2,232,908
Recognition of the derivative liability on the conversion feature	<u>1,085,563</u>
Gain upon extinguishment of financial instrument	<u>1,752,346</u>

The carrying value of the amended 2017 convertible debt is subsequently measured at amortised cost 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 remaining life of the debt. This accretion is based on the effective interest method. As of December 31, 2017, the carrying value of the 2017 Debentures (including foreign currency and accretion) was \$2,083,957. The Company incurred transaction costs of \$197,954 in July 2017 associated with the amendment to trust indenture. The transaction costs were netted against the fair value of the convertible debt.

As the conversion feature on the 2017 Debentures are denominated in CDN, the amended agreement contains an embedded derivative related this conversion feature. The embedded derivative liability was initial measured at fair value and will subsequently be measured at fair value, with gains and losses recorded on the consolidated statement of loss.

(b) Convertible loan agreement

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Convertible Loan agreement – Debt	3,593,938	3,593,938
Convertible Loan agreement - Embedded Derivatives	1	1
Convertible Loan agreement – Interest	<u>1,278,056</u>	<u>756,057</u>
Loan as at December 31, 2017	<u>4,871,995</u>	<u>4,349,996</u>

On November 7, 2013, the Company entered into a convertible loan agreement with 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% per annum for a term of five years. As at December 31, 2017, \$3,593,939 of the loan had been drawn down and the interest accrued on the loan is \$1,278,056. The loan includes an option at the maturity date and in certain other circumstances to convert the principal amount outstanding into Common Shares at CDN\$2.40 per share (post-consolidation) and the accrued and unpaid interest outstanding into common shares at the greater of CDN\$2.40 per share (post-consolidation) and the discounted market price (as determined pursuant to the policies of the TSX Venture Exchange).

The convertible loan agreement contains an embedded derivative related to foreign currency. This derivative is marked to its market value at each reporting date and adjustments to the fair value are included in the consolidated statements of loss within finance costs.

(c) DFI Debt Facility

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
DFI Debt Facility drawn	49,000,000	15,000,000
Transaction cost for the DFI Facility	(1,820,606)	(1,820,606)
Accretion interest	<u>284,188</u>	<u>136,461</u>
	<u>47,463,582</u>	<u>13,315,855</u>

On December 21, 2015, the Group entered into the DFI Debt Facility for up to \$49 million with a syndicate of European lenders consisting of four development finance institutions (“DFIs”). The amount advanced under the DFI Debt Facility will be repaid

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semi-annually over a six year period commencing September 2019. The first drawdown on the DFI Debt Facility of \$15 million occurred on April 13, 2016, the second drawdown on the DFI Debt Facility of \$10 million occurred on February 13, 2017, the third drawdown of the DFI Debt Facility of \$10 million occurred on June 9, 2017 and the last drawdown of the DFI Debt Facility of \$14 million occurred on November 3, 2017. The transaction cost of the borrowing is \$1,820,606. The transaction cost will be amortised over the period of the loan.

The purpose of the DFI Debt Facility is to finance investment into equipment, replanting, fertilizer and environmental and social governance expenditures required as part of the rehabilitation of PHC's three palm oil plantations in the DRC. The rate of interest on each loan for the each interest period is percentage rate per annum, which is aggregate of the applicable (a) Margin; and (b) LIBOR. The interests and any fees on the DFI Debt Facility is payable on March 15th and September 15th of each year ending on September 15, 2024.

The DFI Debt Facility is subject to covenants, pledges and charges typical of a loan facility of this nature and is secured by way of a first ranking security against the assets of PHC and by way of a pledge of the shares of PHC by a Belgian subsidiary of Feronia.

The Group is in breach of the DFI Debt Facility's equity solvency ratio as at December 31, 2017. The Group has received waivers in the past and has not received written notice from the lenders that they will accelerate repayment of the DFI Debt Facility, however; as a result of the covenant breach, the balance outstanding on the DFI Debt Facility has been reclassified as current.

12. Derivative liabilities

	December 31, 2017	December 31, 2016
Convertible debt (options) - Embedded Derivatives, July 24, 2017	1,085,563	-
Change in fair value	3,368,853	-
Exchange loss on Embedded Derivatives	11,964	-
Derivative Liability as at December 31, 2017	<u>4,466,380</u>	<u>-</u>

The embedded derivative relating to the conversion feature on the 2017 Debentures was recognised at its fair value upon initial measurement, which is equal to the present value of the future cash flows, discounted using the prevailing market rate for a similar instrument with similar credit risk. Changes in fair value are recorded in the consolidated statement of loss.

13. Other financial liabilities

Through its acquisition of PHC in 2009, the Group 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 as at December 31, 2017 and December 31, 2016. Information about the employee incentive plan for the year ended December 31, 2017 and December 31, 2016 is as follows:

Benefit liability	December 31, 2017	December 31, 2016
Accrued benefit obligation, beginning of year	4,820,069	6,309,500
Current service cost	111,690	131,172
Interest cost	661,709	957,753
Benefit paid during the year	(1,580,655)	(901,442)
Effect of foreign exchange	(1,210,971)	(1,582,054)
Actuarial (gains)/losses	945,525	(94,860)
Accrued benefit obligation, end of year	<u>3,747,367</u>	<u>4,820,069</u>

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The weighted average assumptions in measuring the accrued employee incentive liability for the year ended December 31, 2017 and December 31, 2016 use the Canadian 3 to 10 year bond yield rate of 1.3%.

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

	December 31, 2017	December 31, 2016
Current portion	753,427	1,186,149
Non-current portion	2,993,940	3,633,920
Accrued benefit obligation, end of year	<u>3,747,367</u>	<u>4,820,069</u>

14. Non-controlling interest

Non-controlling interest includes the DRC government's 16.63% interest in PHC and Plantations Elevages Kitomesa sarl's 20% interest in Feronia PEK. Percentage of profit or loss on each component of other comprehensive income is attributed to the owners of the non-controlling interests.

	December 31, 2017	December 31, 2016
Non-controlling interest, beginning of year	351,817	13,966,331
Share of loss	2,499,586	2,522,773
Transaction with non-controlling interest	-	<u>(16,137,287)</u>
Non-controlling interest, end of year	<u>2,851,403</u>	<u>351,817</u>

15. Cost of sales

	December 31, 2017	December 31, 2016
Direct operating costs	19,362,607	18,909,265
Employee incentive liability (credit)/charge	(397,592)	92,340
Amortisation	<u>1,571,672</u>	<u>1,265,287</u>
	<u>20,536,687</u>	<u>20,266,892</u>

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16. Selling, General and Administration costs

	December 31, 2017	December 31, 2016
Professional fees	2,442,021	1,739,484
Consultancy fees	290,863	371,936
Share based payment	1,085,768	2,067
Amortisation	10,262	9,784
Employee incentive liability	(409,664)	95,143
Salaries and wages	4,968,453	4,922,676
Other general and administrative	2,584,187	3,066,028
Reallocation of overhead to bearer assets	(548,201)	(750,413)
Staff travel & subsistence	1,204,885	1,438,081
	<u>11,628,574</u>	<u>10,894,786</u>

17. Finance cost

	December 31, 2017	December 31, 2016
Interest and bank charges	4,708,189	3,625,171
Accretion expense	402,825	822,641
Change in derivative liability - fair value	3,368,853	-
	<u>8,479,867</u>	<u>4,447,812</u>
Less: amount capitalised on qualifying assets	<u>(1,016,931)</u>	<u>(891,788)</u>
	<u>7,462,936</u>	<u>3,556,024</u>

- (i) The embedded derivative relating to the conversion feature on the 2017 Debentures was recognised at its fair value upon initial measurement, which is equal to the present value of the future cash flows, discounted using the prevailing market rate for a similar instrument with similar credit risk. Changes in fair value are recorded in the consolidated statement of loss.

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18. Finance Income

	December 31, 2017	December 31, 2016
Change in derivative liability - fair value	-	3,219,982
Interest Income	-	21
Gain upon extinguishment of financial instrument (i)	1,752,345	-
	<u>1,752,345</u>	<u>3,220,003</u>

- (i) A gain on extinguishment of 2012 debentures of \$1,752,346 was recorded, which is equal to the difference between the carrying value of the 2012 debentures and the aggregate fair value of the 2017 Debentures.

19. Income Taxes

The following table shows components of current and deferred tax expenses.

	2017	2016
Current Tax :		
Current tax on profits for the year	364,291	280,365
Total current tax	<u>364,291</u>	<u>280,365</u>
Deferred tax:		
Origination and reversal of temporary differences	-	-
Impact of change in DRC tax rate	-	-
Total deferred tax	<u>-</u>	<u>-</u>
Income tax expense	<u>364,291</u>	<u>280,365</u>

The Group's income tax has been calculated on the estimated assessable taxable profit for the year at the rates prevailing in the respective foreign tax jurisdictions. The statutory tax rate in the countries where the Group operates for all the years presented are:

Jurisdiction	2017	2016
Canada	26.50%	26.50%
Democratic Republic of Congo	35.00%	35.00%
United Kingdom	19.00%	20.00%
Belgium	33.00%	33.00%

The tax on the Group's profit before tax differs from the theoretical amount that would arise using the statutory tax rate applicable to profits of the consolidated entities as follows:

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	<u>2017</u>	<u>2016</u>
Loss before tax	(16,354,507)	(11,561,720)
Tax recovery calculated at Canadian statutory rate	(4,333,944)	(3,063,856)
Tax effects of		
Difference in foreign tax rates	(989,648)	(878,760)
Non-deductible expenses	287,729	66,064
Losses not recognized	4,870,255	4,182,466
Other	529,899	(25,550)
Income tax expense	<u>364,291</u>	<u>280,364</u>

The movement in deferred income tax assets and liabilities during the year is as follows:

Deferred Tax Liabilities	<u>Acquisition of PHC</u>	<u>Fair value of biological assets</u>	<u>Total</u>
At January 1, 2011	837,835	-	837,835
Charged / (credited) to the income statement	-	-	-
Charged / (credited) to equity	-	-	-
At December 31, 2011	837,835	-	837,835
Charged / (credited) to the income statement	-	-	-
Charged / (credited) to equity	-	-	-
At December 31, 2012	837,835	-	837,835
Charged / (credited) to the income statement	-	-	-
Charged / (credited) to equity	-	-	-
At December 31, 2013	837,835	-	837,835
Charged / (credited) to the income statement	-	-	-
Charged / (credited) to equity	-	-	-
At December 31, 2014	837,835	-	837,835
Charged / (credited) to the income statement	-	-	-
Charged / (credited) to equity	-	-	-
At December 31, 2015	837,835	-	837,835
Charged / (credited) to the income statement	(16,483)	-	(16,483)
Charged / (credited) to equity	-	-	-
At December 31, 2016	821,352	-	821,352

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Charged / (credited) to the income statement	90	111,677	111,767
Charged / (credited) to equity	-	-	-
At December 31, 2017	<u>821,442</u>	<u>111,677</u>	<u>933,119</u>

Deferred income tax assets are recognized for tax loss carry-forwards to the extent that the realization of the related tax benefit through future taxable profits is probable. The Group did not recognise deferred income tax assets in respect of losses amounting to \$7,137,170 (2016: \$3,828,829) in Canada that expire in 2037, and losses amounting to \$94,300,385 (2016: \$76,442,137) in DRC that can be carried forward against future taxable income. The losses in DRC have an unlimited carry forward period, subject to an annual utilisation limitation of 60% of tax profits. Deferred tax assets were also not recognised on share issue costs amounting to \$785,027 (2016: \$128,806).

20. Discontinued operations

Following the termination of the agreement with the partner to undertake a two year feasibility study regarding the future development of the arable farming operations, the Company discontinued the arable farming operations and presented the results of the arable farming operations as discontinued operations. Analysis of the results of discontinued operations is as follows:

Consolidated statements of loss for discontinued operation
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	<u>2017</u>	<u>2016</u>
Revenue	-	-
Cost of sales	-	(199,109)
Impairment of assets	-	(1,251,663)
Gross profit (loss)	-	(1,450,772)
Expenses		
Selling, general and administrative	(593,224)	(646,868)
Other income	10,330	231,242
Operating income (loss)	(582,894)	(1,866,398)
Finance costs	(15,187)	(18,568)
Loss before income tax	(598,081)	(1,884,966)
Income tax expense	(10,260)	(78,070)
Net loss from discontinued operations	<u>(608,341)</u>	<u>(1,963,036)</u>

21. 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 3.

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The following table illustrates the classification of the Group's financial assets and financial liabilities within the fair value hierarchy as at December 31, 2017 and December 31, 2016:

	Financial Instrument Classification	Level	December 31, 2017	December 31, 2016
Financial assets				
Cash	Loans and receivables		17,141,398	1,202,112
Receivables	Loans and receivables		1,335,709	802,025
Financial liabilities				
Accounts payables and Accrued liabilities	Other financial liabilities		8,728,881	8,804,322
Bank overdraft	Other financial liabilities		1,508,150	1,430,066
Other payables	Other financial liabilities		1,173,463	1,494,944
Borrowings	Other financial liabilities	Level 2	54,419,534	22,535,164
Derivative liability	Other financial liabilities	Level 3	4,466,380	-

The fair value of cash, receivables, accounts payable and accrued liabilities, debentures and borrowings approximate their carrying values as a result of the short-term nature or the variable interest rate associated with the instruments, or the fixed interest rate of the instruments being similar to market rates.

The Group 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.

During the year ended December 31, 2017, there were no transfers between level 1, 2 and 3 and there were no changes in the valuation techniques.

Financial risk factors:

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

(a) Market risk

(i) Foreign exchange risk

The Group's presentation currency is the United States dollar and major purchases are transacted in United States dollars. The Group 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.

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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 DFI Debt Facility that is subject to a floating interest rate, which could change. Cash has limited interest rate risk due to its short-term nature.

(b) Credit risk

The Group's credit risk is primarily attributable to cash and receivables. Two customers purchase 97% of the Company's CPO production and although the Group has a good business relationship with both of the customers, there is no guarantee that the Group will be able to continue these relationships on terms acceptable to the Group.

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 low as the majority of the Group's sales are to two large long-standing customers and the Group limits cash risk by dealing with credit worthy financial institutions.

(c) Liquidity risk

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

The Group's approach to managing liquidity risk is to provide reasonable assurance that it can provide sufficient capital to meet liabilities when due. The Group remains dependent upon future liquidity from capital sources or positive cash flows from business operations. The inability to obtain additional funding on a timely basis will have a material adverse effect on the financial condition, business and operations of the Group (see Note 2).

As at December 31, 2017, the Group had net working capital deficit of \$38,885,409 including a net cash balance of \$17,141,398. The majority of the Group'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.

	December 31, 2017		
	Less than 3	3 months	
	months	to	
		1 year	1-5 years
Trade payables	2,769,453	-	-
Accrued expenses	4,491,996	-	-
Other payables	1,173,463	-	-
Bank overdraft	1,508,150	-	-
Debt	-	52,335,577	2,083,957

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	December 31, 2016		
	Less than 3 months	3 months to 1 year	1-5 years
Trade payables	2,985,145	-	-
Accrued expenses	5,027,026	-	-
Other payables	1,494,943	-	-
Bank overdraft	1,430,066	-	-
Debt	442,839	18,185,168	4,349,996

The table above 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.

Capital management

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

The Group'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 Group 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 Group may raise new debt or issue new shares.

There were no changes to the Group's capital management approach during the year ended December 31, 2017. The Group entered into debt arrangements during 2012 and 2015 as detailed in note 11.

22. Related party disclosures

The following transactions were carried out with related parties.

Purchase of services from key management personnel	December 31,	December
Purchase of services:	2017	31,
		2016
Board fees (1)	310,000	272,826
	310,000	272,826

(1) Board fees paid to non-executive directors

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:

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	December 31, 2017	December 31, 2016
Salaries and short-term employee benefits	1,433,931	981,471
Change in fair value of share-based payments	December 31, 2017	December 31, 2016
Change in fair value of share-based payments	1,126,433	2,067
Payables to related parties	December 31, 2017	December 31, 2016
Board of Directors fees	77,500	143,071
Key management compensation	-	375,000
	<u>77,500</u>	<u>518,071</u>

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

23. Contingent liabilities

The Group is, from time to time, involved in various claims, legal proceedings and complaints arising in the ordinary course of business. The Group cannot reasonably predict the likelihood or outcome of these actions. The board of directors of the Group 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 December 31, 2017, provisions related to such matters totalled \$561,455 (December 31, 2016: \$493,032). Refer to Note 1 for the uncertainty on the Loi Portant Principes Fondamentaux Relatifs A L'Agriculture".

24. Subsequent event

On January 19, 2018, the Group received \$8.5 million in connection with the second and final tranche of the Private Placement. Based on a fixed exchange rate of Cdn\$1.253 per \$1.00 as set out in the applicable subscription agreement, the Group issued 59,169,444 Common Shares to KKM pursuant to this tranche.

Concurrent with the closing the second tranche of the Private Placement, CDC Group Plc has transferred 61,337,833 Common Shares to KKM on January 24, 2018 pursuant to a private sale and purchase agreement which was entered into on September 25, 2017.